МАКРОЭКОНОМИЧЕСКИЕ ИССЛЕДОВАНИЯ

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C. A. Pissarides

SOCIALLY SUSTAINABLE ECONOMIC GROWTH

Economic growth is essential for the improvement in general living standards and elimination of poverty but it could also bring some poor outcomes. The paper addresses the issues that arise when its benefits accrue mainly to a small class of senior managers and capital owners, with the majority of the workforce experiencing no gains. It starts with a discussion of how modern labour markets deliver the benefits of growth to workers through employment and what problems might generally arise. The service economy and digital technologies are given special emphasis. Alternative policy recommendations that can improve social inclusion and make economic growth socially more sustainable are discussed. Refs 11.

Keywords: sustainable economic growth, labour market frictions, social inclusion, flexicurity, inequality.

К. А. Писсаридес

СОЦИАЛЬНО УСТОЙЧИВЫЙ ЭКОНОМИЧЕСКИЙ РОСТ

Экономический рост является неотъемлемым условием улучшения условий жизни и ликвидации нищеты, но он также может стать причиной негативных тенденций. В статье рассматриваются проблемы, возникающие в тех случаях, когда все блага от экономического роста распределяются в основном среди немногочисленного класса высшего руководства и владельцев капитала, тогда как большая часть рабочих не получает существенной прибыли. В первую очередь автор обращается к вопросу распределения благ экономического роста на современном рынке труда среди населения через рост числа рабочих мест и к тем проблемам, которые могут быть этим вызваны. В центре внимания находится рынок услуг и цифровых технологий. Обсуждаются меры альтернативной политики, которые могли бы улучшить социальную интеграцию и сделать экономический рост более социально устойчивым. Библиогр. 11 назв.

Ключевые слова: устойчивый экономический рост, отклонения рынка труда, социальные включения, баланс гарантий занятости и гибкости рынка труда, неравенство.

Introduction

The improvement in general living standards and eventual elimination of poverty require economic growth. Well-managed economic growth can make all citizens better off;

Профессор сэр Кристофер А. ПИССАРИДЕС — лауреат Нобелевской премии по экономике 2010 г., королевский профессор экономики в Лондонской школе экономики и политических наук, профессор европейских исследований в Университете Кипра; руководитель лаборатории исследования экономического роста в СПбГУ, Санкт-Петербургский государственный университет, Российская Федерация, 199034, Санкт-Петербург, Университетская набережная, 7–9; c.pissarides@lse.ac.uk

Professor Sir Christopher A. PISSARIDES — is the 2010 Nobel Laureate in Economics, the Regius Professor of Economics at the London School of Economics and Political Science, the Professor of European Studies at the University of Cyprus, the Head of the Growth Laboratory at the SPSU, St. Petersburg State University, 7–9, Universitetskaya nab., St. Petersburg, 199034, Russian Federation; c.pissarides@lse.ac.uk

but if left alone, or if badly managed by the political class, it can also create conflicts. We can identify two types of situations that lead to bad outcomes for the citizens of a country. The first is corruption in the political class, which appropriates for itself a large part of the country's new wealth creation. Most typical among these is the appropriation of the revenues from natural resource extraction. A second case arises when the benefits of economic growth accrue mainly to a small class of senior managers or capital owners, with the majority of the workforce experiencing no gains from economic growth. The latter situation is frequently referred to as the problem of inequality, one disturbing feature of which is the economic exclusion of a class of workers. The popularity of Thomas Piketty's [2014] book on the returns to labour and capital is evidence of the increased worldwide interest in inequality. Much of the recent interest is due to the special features of the digital revolution which makes it easier to sustain large inequalities in pay.

In this paper I will address the second issue but from a labour market perspective. I will assume that the political class is benevolent, to the extent that it does not disrupt the economic process through corrupt practices or undue red tape. My motivation is that even without corruption and expropriation of natural wealth, unless we manage inequality and avoid the exclusion of certain classes of citizens, economic growth is ultimately unsustainable. I call it "socially" unsustainable because the problems that eventually arise from such a situation are social. They could be in the form of small "anti-capitalism" movements, such as Occupy Wall Street, or full-blown social revolutions like those experienced in twentieth century Europe.

The main benefits of economic growth to the majority of the population come from employment. Capital owners benefit from the large stock market returns that frequently accompany economic growth, but the numbers of people directly benefiting from capital ownership is small compared to the number that benefit from higher wages. Although income redistribution through a progressive tax system is usually unavoidable, without sufficient employment to occupy all those who want to work inclusive growth will not materialize. I begin my analysis with a discussion how modern labour markets work to deliver the benefits of economic growth to workers and why they may fail to be inclusive if they are left unregulated. In Section 2 I discuss the challenges introduced by the main employment trends observed during economic growth, beginning with industrialisation when large numbers of workers move out of agriculture and ending with the post-industrial service economy. In Section 3 I describe more fully the challenges posed by the growth of the service economy and the large inequalities that might arise in the digital age. Finally, in Section 4, I discuss alternative policy recommendations that can improve social inclusion and make economic growth socially more sustainable.

1. Potential problems with modern labour markets

Modern labour markets do not clear fast like output markets. There are too many uncertainties about the quality of jobs and workers, due to the large number and varieties of technologies and skills that characterise modern societies. Idiosyncratic components of both jobs and workers that can only be known by the individuals concerned add to the uncertainties. New technologies and changes in tastes that affect the structure of demand arrive all the time and require new job structures. Adjustments to new conditions are slow, as job types change and workers need to make the transition to new jobs. Very often workers need to acquire new skills, and entrepreneurs need to adopt new technologies to increase labour productivity if they are to survive. Job churning in modern labour markets is large, much larger than required to accommodate macro events [Davis, Haltiwanger and Schuh, 1996], because of large underlying changes in the structure of demand and supply.

Because of these uncertainties and frictions, in a dynamic economy equilibrium will be characterised by monopolies, demand and supply mismatches and unemployment. Frictions enable the growth of institutions and organisations such as trade unions, employers' federations and employment policies that often work to the advantage of some groups of workers but to the disadvantage of others. The fruits of economic growth may not be shared equally and "fairly" as a result — making growth less beneficial to the population at large or even unsustainable because of social frictions. Wages do not reflect only labour productivity but also monopoly power, and many jobs that would be created in a free market are not created, excluding people from employment that could enable them to share more fully the benefits of economic growth.

As an example consider Spain after the introduction of the fixed term contract in the mid-1980s. Following the collapse of dictatorship in the 1970s, Spanish legislators under pressure from powerful new unions passed legislation that granted wage rises and security of employment to workers. The legislation improved the work conditions of those in employment, because they could not be dismissed easily even if they were not producing up to the required standards, but made it more difficult for new workers to find jobs. Employers became more cautious about opening new jobs because once opened and after a short period of time, it became very difficult for them to close them down if they were no longer required; it also became very difficult for employers to change the type of jobs that they offer and adapt quickly to new conditions. The employment protection legislation granted monopoly rights to employees and acted as an employment tax on employers, reducing the supply of employment opportunities.

In response to this problem the Spanish authorities introduced a second type of contract, the fixed-term contract that enabled employers to hire workers for a fixed period of up to four years. They could then close the job down and dismiss the employee at very little cost. This new contract by-passed the tax problem of the earlier legislation and proved very popular with employers, who adopted it to protect themselves against the locking-in effects of the first type of contract. As a result the Spanish labour market became fragmented with one class of employees located in jobs with better pay and work conditions and another with lower pay and more uncertainty about the duration of their employment. The employees in regular jobs were mainly adult male workers whereas women and younger workers were placed mainly in the jobs with fixed-term contracts. As a result the segmentation in the Spanish labour market became one of gender and age as well. Moreover, when recession came in 2008, the jobs that closed down were the fixed-term ones, because of the much lower cost of closure that characterised them. Unemployment in Spain shot up by more than anywhere else in Europe (with the exception of Greece, which received a much bigger macro shock than the other countries) and youth unemployment in particular shot up to nearly half the population of young people (see [Bentolila et al., 2012; OECD, 2013]).

The Spanish example is a good illustration of a case where poor institutions in modern labour markets, like the dual contract structure, lead to situations where groups of the population get excluded from the labour market and do not benefit fully from economic growth. Once they are in place, such institutions are very difficult to reform, because those who enjoy the benefits resist it. Even thirty years later and in the midst of a great recession, the Spanish labour market is proving very difficult to reform to make it more inclusive; even when reforms are legislated, implementation in the market place is a remaining challenge. Yet active policies are needed to make sure that groups of workers or employers do not take advantage of political or economic powers to appropriate the fruits of economic growth for themselves to the exclusion of others.

Active labour market policy has an important role to play in modern labour markets. It can reduce equilibrium unemployment by helping workers find jobs faster and by giving assistance to employers to open new jobs. One form of assistance is a wage subsidy for new job openings paid for a limited period of time, or a short-term loan at more favourable terms than can be obtained from a bank. Policy can also help workers achieve a good match, which is good for both labour productivity and for labour force retention by the firm. At a more macro level, policy addressed to the labour market can speed up the transition to an industrial society and for societies that have completed the transition and are faced with rising wage demands policy can offer incentives (through education and training) for the adoption of new technologies in areas where the country has the comparative advantage. I will take up policies more specifically in later sections.

2. Employment changes during economic growth

In order to understand the nature of employment and the policy requirements for more inclusive economic growth I outline briefly the changes that take place in labour markets during economic growth. Inclusiveness should be achieved through more widespread job creation, not through transfers and redistribution, although some indirect redistribution in order to finance policies aimed at improving the participation of excluded groups is both inevitable and desirable.

In the first stages of economic growth there is reallocation of labour from agriculture to industry and services. This reallocation follows a "green revolution" that leads to an increase in labour productivity in agriculture, more output per person and higher incomes. The green revolution releases labour from agriculture, partly because with higher output per worker fewer workers are needed to supply the market with food and partly because with rising incomes demands for manufacturing goods and services increase and more labour is needed in the cities to satisfy them. Workers move from agriculture to industry and services creating a structural transformation that characterises the first stages of economic development.

In the second stage industrial employment and output grow rapidly. But as in the case of agriculture and the green revolution, technological innovation in the "industrial revolution" is faster in industry than in services and labour productivity rises faster in goods-producing industries than in the service sector. Under very general conditions about preferences — essentially that consumers want to avoid big changes in the ratio of goods to services consumed — labour needs to reallocate from industry to services to offset the output gains in industry and restore the balance in industrial and service outputs. So industrial output falls after the initial rise and the vast majority of workers are attracted into services.

During the reallocation from agriculture to industry and services and from industry to services both agricultural and industrial value-added continue to rise, despite the employment falls, because of productivity improvements. Service employment, which is characterised more by person-to-person interaction than by material production, as in the other two sectors, rises and provides the main stimulus to service output growth. (There is a large literature describing the features of this transformation, beginning with Simon Kuznets' seminal works and summarised, e.g., in [Kuznets, 1973]; see also [Baumol, 1967; Ngai and Pissarides, 2007]).

Once industrialisation becomes established and the vast majority of workers are employed in either industry or services, growth comes from two sources; from the adoption of new technology that enhances productivity in existing establishments and from the movement of labour from less productive to more productive firms. Within narrow sectors of economic activity workers have a tendency to move to more productive firms because they can afford to pay higher wages but this process does not stop the bigger-picture movement of labour from more productive sectors like manufacturing to less productive ones like services, where the extra labour is needed to raise output. To give a simple example, consider a sector that has two firms, one more productive than the other. Labour will move from the less productive to the more productive firm because of its higher wages and growth prospects. If employment reallocates but remains stable in the sector as a whole sector output will rise. Under plausible assumptions about preferences the more productive firm will not be able to create enough jobs to employ all the workers of the less productive firm because as sector output rises sector price falls and profit-maximizing output is lower than required to keep the number of jobs in the sector fixed. The remaining workers in the less productive firm will have to migrate to other sectors to find better-paid jobs.

How can policy help make growth more inclusive in the face of such movements of labour? It is apparent from the description in this section that workers have to migrate from rural locations to urban or migrate from one employer to another in the city to take advantage of new employment opportunities. If they do not move, either because of the absence of incentives or because of physical constraints, they either remain unemployed or in low-paying jobs that miss out from economic growth. It follows that at this stage of economic development policy can help make growth more inclusive by removing barriers to mobility and making job migration easier to accomplish.

There are a number of measures that can help internal migration flows. A major barrier to mobility is education. The educational needs of different sectors and jobs are different and workers' skills need to be adaptable to be able to move quickly and take advantage of new opportunities. Usually the educational needs of industry are more demanding than those of rural labour. The absence of high educational attainment in the countryside acts as an impediment to mobility and people with less education are left behind during the structural transformation out of agriculture. The first workers to move are usually the ones with superior education and take advantage of the best opportunities offered by the new type of jobs, yielding very high returns to their education. This introduces large inequalities between those who move and those who do not. Education policy has a very important role to play in preparing all workers for manufacturing and service jobs. Caselli and Coleman [2001] show that the decline in the costs of educational attainment in the United States was instrumental in inducing more migration out of agriculture in the South and bringing about the convergence of incomes between South and North.

Given the importance of educational policy, what can one say about the best type of education that should be available in a changing society? In the early phases of transition the skills required to move from agriculture to industry and basic and general. They are acquired at elementary and early secondary education. Education at this level should be provided free by the government because of the social benefits, inclusion being one of them. A general type of education gives most flexibility for work in the new economy.

Beyond the first stage but still before industrial production is automated, specialisation is not demanding and can take place on the job, after employment commences. This could be informal learning of how the job is done or more formal training either provided by the firm or subsidised and taking place outside the firm part of the time that the worker is employed. The German apprentice system is a good example of training after general formal education that has functioned effectively in helping young people enter industrial jobs. As with earlier schooling, government should subsidise apprentice training, as is done in Germany, because although the apprentice enters a job she is not yet in a position to be productive enough for a full salary. Without government subsidisation apprentice jobs will not be attractive enough for school leavers to enter and the country will suffer from the absence of enough training qualifications in its workforce.

When countries reach the development stage of countries like Germany or other mature industrial economies apprentice training is less important for industry because most of the jobs done by apprentices are automated. But apprentice training still has an important role to play in the service sector. The large numbers of school leavers with minimum statutory qualifications who used to enter industry to work as factory workers now enter service jobs such as retailing, health care and office management. In these jobs there is still need for training that is more specialised than can be obtained in school. Subsidised apprenticeships that provide training on the job play an important role in ensuring that school leavers enter employment. Schools, however, should also adapt their curriculum to the needs of the local economy, which nowadays is mainly a service economy. Service jobs have a much bigger component of person-to-person interaction than industrial or agricultural jobs, yet as a rule curricula in schools have not changed enough to reflect that change except at an advanced level with the advent and popularity of management degrees.

The educational policies that I have outlined so far are mainly targeted to workers who might be excluded from economic growth because of their low or inappropriate skills. But economies need new technology and improvements in the organisation of production if they are to avoid stagnation and at this level of production the training needs are different. Policy makers often claim that in order to grow and achieve inclusiveness they need to provide more and more high-level technical education to all workers. This is only partly true and as a general claim about inclusiveness false. Whereas we do need R&D to invent new technology the majority of jobs that will be created in post-industrial societies will be service jobs of the kind that I described earlier in this section and their training needs can be taken care of largely on the job. Inclusiveness is achieved by providing this kind of basic training that will make it attractive for employers to open up new jobs.

Higher education and research are important because they drive growth through new technology both in industrial jobs and in the service sector. The best way to achieve results is to combine university research with industrial R&D, as is most successfully done in the United States in places like Silicon Valley which benefit from proximity to high-level universities like Stanford and Berkeley. It is not easy to achieve high standards in research in most countries, partly due to educational policies that do not give top-level researchers the incentive to work in those countries. At the level of top research workers are very mobile and they need strong incentives to stay in countries that offer less good facilities through their universities than the very top ones, which are currently dominated by the United States and Britain.

The incentives needed by top researchers are not just a high salary that rewards their input into research. In order to achieve high standards in university research universities need to be well-funded and be independent. In most countries and most universities funding is primarily provided by government so it may be difficult for politicians to accept that they should have limited say over salary levels, appointments, promotions and other types of spending when they provide the money from tax revenues. But it is necessary if research is to be free of political interference. This is why there are large advantages to obtaining funding from private industry or independent bodies, like the National Science Foundation in the United States and the European Research Council in Europe. Interference with the university administrative structures and its internal procedures is less likely when the funding bodies are independent of national politics.

In the United States university budgets are 3.3% of GDP but in Europe they are less than half, about 1.3%. Americans also give more independence to their universities and public donations are more generous. According to influential observers, this is an important reason that Europe lags behind the US in top university performance and top innovations (see [Aghion et al., 2008]). Although this issue might appear remote from the one of economic growth and inclusion that is the topic under discussion here, in fact it is not. It is because of such successes that the United States has been at the forefront of research and growth in the high-tech service field.

Other barriers to geographical mobility exist within countries. Geographical mobility is usually necessary as centres of production shift. The most noticeable is urbanisation but other shifts take place too. For example, in post-industrial United States production shifted (and it is still shifting) from the North-East to the West and South and in Britain London first declined and then rose again, as financial services became a growth industry after the opening up of financial markets in the 1980s.

One of the most limiting barriers to geographic mobility is housing. In cities with a lot of new job creation housing costs are usually higher than in declining cities or in the countryside. The reason is partly the demand for accommodation but as production shifts to new centres there is also land speculation that raises the prices in the expanding centres. Governments should help the housing market by removing excessive planning restrictions and facilitating the development of a rental market. Often rental markets are subject to restrictions that are treated as social policies by governments, such as rent controls, when in fact they do more damage to the operation of the market and hurt those unable to rent because landlords will not come into a controlled market. In the absence of a rental market and with high land prices mobility is discouraged and this distortion passes on to wages. Labour becomes scarcer in the expanding cities, wages are pushed up and many potential workers are excluded from the new centres of activity. Employers, in their turn, might move away to avoid the higher costs.

Of course, arguing in favour of free rental markets does not mean that governments have no role to play in the housing market. They need to make sure that land speculation that causes large gyrations in prices and sometimes housing crashes, like the one that triggered the 2008 recession, do not happen. It is not easy to achieve this given the complexity of the financial system that usually backs up such speculation with soft loans. But it is important to learn from previous crashes and bring in legislation that avoids a repeat of past mistakes.

Governments should also help with social housing, such as the provision of subsidised housing for less well-off immigrants to the new centres of growth. Subsidised housing is an important component of a social anti-exclusion policy provided it is well managed. In particular, for people without disabilities, it should be provided through the market and be made conditional on employment without being too punitive. Very often subsidies for housing are means-tested on income and are withdrawn as incomes rise. This implies a large shadow tax on income, which is a disincentive to work. Social housing policies would provide better incentives if the renter was able to buy the house at a price that reflects the rent subsidy or if the subsidy was given only for a limited time, rather than make it depend on income. The idea behind housing policies as *economic* (rather than just social) policies is that they should encourage people to move to new locations where there is a bigger supply of jobs and participate in economic growth. The alternative of staying behind in declining areas and living in subsidised housing, which is treated as a social transfer, is much less preferable. Usually the people in this situation are the ones excluded from economic participation.

Another barrier to mobility, both geographic and across jobs in the same location, is the scarcity of information about new jobs. In some important ways this is the easiest policy to deal with and most governments pursue policies to provide information about new job locations and new job types. According to the OECD providing information about new job opportunities is one of the least expensive and most successful policies. Information is usually provided by matching the characteristics of job seekers with the available jobs and it can be done online. But governments are not the only ones that can give useful information about job availability. Companies can play a role here as well, providing the information directly to schools or universities in job fairs. Again, this is an inexpensive way of improving job matching services and it is widely pursued.

3. The growth of the service economy

As societies develop and incomes grow there will always be an increasing demand for unskilled services. In the early stages of industrialisation large numbers of young people leave school early to join unskilled occupations in industry and related production activities, such as mining and utilities. As industry advances and gets automated the number of unskilled jobs declines and although educational attainments rise, there are still large numbers of jobs in services that do not require advanced skills, such as the use of electronic equipment or detailed knowledge of advanced subjects. These jobs will attract the school leavers that in earlier times used to go to the industrial jobs before automation.

Although not requiring advanced skills, the “unskilled” service jobs still require some skills, which are mostly related to inter-personal communication. The types of jobs that cannot be automated and which will dominate the volume of employment in future years are the ones that require personal service. Primary among these are jobs in health care. With an ageing population and increasing wealth people will demand more and better health care, not only medical care that requires advanced skills but also care during minor ailments, advanced age when mobility is restricted and post-treatment recovery. Another sector that is creating large numbers of jobs in the post-industrial society is retailing, despite the increased popularity of online shopping. Yet others are connected with travel and with the leisure industry, such as hotels, catering and transportation. These sectors attract the vast majority of workers in advanced countries such as the United States and the countries of Western Europe (as documented in the KLEMS data base, available at http://www.euklems.net/). Business services are also creating a lot of jobs in the United States but Europe is still behind the US in that field. Business services include finance, accounting services, consultancies, real estate management and the like. A lot of the business services now appearing as new job creation in specialised sectors of economic activity might actually be jobs that used to be classified under manufacturing as large firms provided their own internal services. But there is no doubt that business sectors like finance created a lot of jobs since the opening up of financial markets in the 1980s.

The jobs opening up in specialised business services are generally well paid jobs that benefit from the successes of other companies. The challenge faced by policy makers is how to make sure that the less skilled jobs in services are good and well paid jobs that will ensure that the job holders enjoy the benefits of economic growth. Designing policy that takes care of that is more difficult in the post-industrial society than in the industrial age. The reason is that in services inequalities are larger because of globalization and the nature of the new technology. Globalization itself owes a lot to the growth of sophisticated services like finance and ICT which enable international transactions from any location. Companies like Microsoft and Apple Computers dominate the market to such an extent that the majority of offices worldwide use their technologies to transact from locations that have nothing to do with the location of buyers and sellers. The downside of that flexibility is that it becomes easy to conceal earnings within large companies. As a result, whereas CEOs and shareholders can earn large amounts of money from the global companies, the vast majority of their employees earn wages which are comparable to the ones earned by other employees with lower skills in other service companies.

As an example, consider the story published in the *New York Times* on June 23, 2012, about Apple. It was reported that 30,000 of the 43,000 employees in the United States were working in Apple stores and earning about $25,000 per year. Each generated sales worth $473,000 a year, which is the biggest number for any US company per square meter. At the same time, the compensation package of the chief executive officer amounted to more than half a billion dollars, if stocks earned were valued at market prices. Apple is an attractive company for employees because of its image and growth performance so the majority of employees earning the lower packages were happy with it. This is reflected in the number of applications per job that the company receives, which is very high. But clearly, inequalities of this kind between the pay packages of senior management and lower-down employees were unknown in the industrial era.

The current situation of new technology benefiting only top incomes is potentially socially unsustainable. In the United States virtually all growth in GDP since the end of the recession went to the top 5% of wage earners, although the lowest paid employees also benefited (see e. g., [Autor, 2014]). But the middle is not benefiting at all. New technology since 1980s has been shifting the income distribution in favour of higher incomes. The expansion of trade with China and other Asian countries has also contributed to this trend, because the goods imported from them have a bigger content of low-skill and low-wage labour. This has kept low wages down in importing western countries whereas the goods that China and the others are importing have relatively more content of high-wage labour, increasing the demand for the latter and raising their pay.

It is difficult to find a good policy response to this cause of inequality because of political objections and because of the risk of introducing disincentives which stifle new ventures. When inequality and exclusion are due to corruption or some other political distortion then an obvious recommendation is correct the distortion. Such action would be supported by all those not directly benefiting from the distortion. But when inequality and exclusion are due to market forces one can always object on the grounds that markets perform best when left unencumbered. And if market forces are such that new technology is risky redistribution introduces disincentives that can hurt new ventures and future productivity growth. In the United States there has been very little action in response to the rising inequality and persistent poverty affecting many families because of the difficulty of passing anything that involves redistribution through Congress. Poverty rates in the country as a whole are still around 15%, as they have been since 1970. On the other side of the same coin, the inequality in rewards and the extreme after-tax earnings that the fiscal system permits are most likely a factor behind the success of the United States in the commercial development of the new digital service technologies.

4. What can be done to improve inclusion?

Ensuring that bigger sections of the population fully benefit from economic growth in the post-industrial society is not an easy task. But it is necessary if social and economic growth is to be sustainable and give more incentives for further innovation. The upside of the free market is that it gives the best incentives for productivity growth. This is ensured when firms can move fast to take advantage of the best available technologies and by organisational improvements that cut their costs. The incentives that drive this process are the rewards that entrepreneurs and the owners of capital have in a free market environment. The downside of the free market system in current circumstances of globalisation and digitalisation is that wages in low-skill jobs might be pushed too low and lead to too large an inequality in earnings. This is why some government action is required to ensure that there is more inclusion, which should be done without hurting the incentives for innovation and improvement.

In view of the performance of the free market with respect to productivity, restrictions on employers that do not benefit workers as a whole — and not just those working for the company — should be avoided. Of course, legislation should protect basic human rights in the place of work, at the very least as specified by the International Labour Office, but restrictions such as strict employment protection legislation, which give the impression of protecting employees, ultimately lead to the exclusion of those outside work. Similarly, excessive bureaucracy and financial cost of creating new places of work are not protecting anyone other than the incumbents, and even that is doubtful. They discourage job creation and so contribute to exclusion.

Another important restriction in the modern era is the administrative and financial cost of setting up new companies. This discourages start-ups which are the most innovative companies in the use of modern service technologies. Start-ups are more important now than in the past because in order to succeed and grow in the environment provided by digital technologies a company does not need much capital, in the way that one needed in the industrialisation era. But the capital that it needs is more risky because many fail. For this reason removing obstacles to starting up will encourage more companies to start and seek venture capital whereas with large restrictions and uncertain outcomes many will be discouraged to investing. Making it possible to restart after a failure is also an important measure to adopt. In many countries failure carries a stigma that excludes the owner from future funding, hurting further innovation.

Various other forms of obstacles in the free operation of markets are frequently present, which, although on paper designed to protect incumbents, when they succeed they do so by hurting the outsiders. An example of these is output market restrictions such as shop opening times, which restrict companies that are more successful in the organisation of time and the control of costs to operate more widely in order to protect the less efficient ones who cannot operate profitably outside normal peak hours.

But even without restrictions that encourage the development of dual structures in the labour market, government policy needs to be pro-active in order to ensure that more workers benefit from economic growth. Consider first a minimum wage policy that ensures that workers with fewer skills are not taken advantage of in markets that lack competition. Generally speaking, it is natural for profit-seeking employers to try and push wages to the lowest possible level that is consistent with recruitment and retention at their company. The protection that workers have from this tendency is provided by competition. If an employer pushes wages too low and there are competitors around who can attract the workers, the original employer fails in his recruitment objective. But if competition is not strong, or if workers are too inexperienced or unqualified to know how to handle it, wages might drop too low. A minimum wage that is set at the level that a competitive market would generate for low-skill workers is actually good for employment and for income distribution.

Choosing the right level for the minimum wage is not easy. If it is too high it will be a deterrent for job creation and if it is too low it will not be effective in providing enough income for low-wage workers. Empirical evidence is inconclusive, showing the minimum wage sometimes having negative employment effects and sometimes positive or no effects [OECD, 1998]. One reason might be that the empirical studies look for effects always in the same direction, for example how a rise in the minimum wage affects employment, whatever the base wage. But economic theory says that the impact could be different depending on the base: starting from a very low base the impact could be positive because of positive supply-of-labour effects but starting from a higher base it is more likely to be negative because of negative demand-for-labour effects.

Minimum wages that are above 60% of the median as in Colombia have harmful effects on employment and inclusion because they push workers either to illegality or to non-employment. On the other hand, minimum wages that are as low as in the United States at below 40% of the median are most likely not performing their role of reducing poverty. One approach to choosing an appropriate level for the minimum wage is the British one of having a Low Pay Commission study the impact of the minimum wage annually and publish its results and recommendations for everyone to see. Currently the minimum wage in the United Kingdom is about 47% of median earnings and has no apparent negative impact on employment.

Other support measures for low incomes and excluded individuals exist and should be used alongside the minimum wage but as far as possible they should be provided through the market. For example, it is much more effective and beneficial for society as a whole if education, training and health care are offered at zero cost or subsidized by the government than if the equivalent amount of money is given to families as a cash transfer. By offering it as a subsidized service the government creates jobs, so it ensures the inclusion of the job holder, and provides the service directly to families in need, which ensures that the recipient benefits from it. A particularly effective service that fits this model is childcare. By providing subsidized childcare through the market instead of a cash transfer to mothers the government ensures that there is job creation for child care professionals and the mother's time is released for entry into the labour market.

Of course, if a person is unemployed and unable to find work providing her with subsidised child care will not be of much use. There are situations like unemployment and disability that require cash transfers. But cash transfers should be applied only to cases where there is no market-based alternative and should be structured in such a way as to avoid the stifling of incentives for market participation. A way of achieving this is through active policies for engagement accompanied by passive support measures.

Direct redistribution would fail the test of a good policy because it takes money from high incomes and passes them on to people on low income as a cash transfer. But it cannot be avoided, the policies outlined in the preceding paragraphs require funding and this can only come from taxation. Redistribution takes place between those who pay the taxes to finance the programmes and those who participate in the programmes. A good policy that aims to increase inclusion and reduce inequality should raise the revenue from progressive taxation, so that the market-based subsidy given to poorer families is not offset by a tax that is imposed on the benefit.

There are many examples of successful policy applications that provide income security, ensure that there is inclusion and yet do not regulate the market excessively. The best overall example is the "flexicurity" system practiced in the Netherlands, Denmark and other Scandinavian countries. They combine fairly flexible labour and product markets with generous support from the state tied to market activity. With the single market in Europe and the collapse of centrally planned economic systems in the last three decades the majority of industrial countries have moved to a system of flexible markets. For example, the latest (2013) strictness of employment protection legislation index published by the OECD (http://www.oecd.org/) has very little variation amongst its members. There is still more variation in the degree of product market regulation but members are gradually opening up product markets too. But in the provision of public services and social policies towards poor families or families with unemployed heads there are still large differences, which are only partly reflected in differences in tax rates.

Other successful models that policy makers might learn from are the school education system of Finland which consistently performs highly in the international PISA tests and the university systems of the United States and United Kingdom, which excel in research performance and in attracting the best students and academics worldwide. With respect to pensions and health, a sector that will attract increasing attention from policy makers given the ageing population, the Netherlands and Denmark have well-functioning systems built on sound social principles.

It is essential that there should be trust from the public that the state will make good use of funds collected for social purposes if corruption and cheating by tax payers is to be avoided. Embezzlement does not necessarily have to be connected to political corruption but it could be the result of inefficiencies and waste in public sector employments and organisational structures. Good social policies inevitably require large tax revenues and unless tax payers see that the tax they pay is being put into effective use for the common good they will try and avoid it. This indeed seems to be a serious problem with countries that do not succeed in setting up successful social systems: tax evasion because of inefficient public sectors is common and the trust that is necessary for the operation of good quality services is absent. An essential component to a successful economic policy that brings social sustainability is a well-functioning, transparent and lean public sector run on the best principles of private enterprises that provide similar services. For many countries and because of vested interests achieving this pre-requisite is a bigger challenge than designing a good social policy.

Conclusions

Socially sustainable economic growth requires that the benefits from economic growth are shared out as widely as possible through an inclusive economic system. Redistribution alone cannot achieve growth and social cohesion because of its negative impact on incentives. Inclusion is better achieved through active support of the state for job creation, e.g., in the form of subsidies, accompanied by income support for periods of appropriate length for those unable to work. In order to fund such policies some redistribution of incomes through the tax system is inevitable and desirable but if the state sector provides services efficiently and effectively the disincentives are reduced. Designing and implementing such systems poses many challenges. There are examples of successful policies in practice which can be used as measures of comparison. Ultimately the biggest challenge to overcome might be the political will that is needed to implement successful policies.

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