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Why was the so-called "Scandinavian model" able to maintain economic growth and full employment for half a century - eliminating poverty, making peace between conflicting interests and educating the whole population in the process? For a very long time it seemed to be very successful in solving problems that are considered unsolvable all over the world - towards the end of the 20th century.

If we are able to explain how this was done, we may also be able to explain why it is in such bad shape now, and considered by most commentators to be ready for the scrap heap.

I shall not attempt to review the growing literature attempting to explain the recent increase in Scandinavian unemployment. Until the present economic upsurge - increased sales and profits with little effect on unemployment - the most commonly heard explanation focused on the *demand* side: Demand does not increase fast enough to employ workers who are made redundant through new technology. Others refer to *supply*: Labour is too highly priced, hence invest-

tors are not tempted to start up production, which they would do if wages reflected the bargaining power of the unemployed. A third school stresses the difficulties that internationalisation of markets, i. e. abolishment of borders, has implied for the feasibility of Keynesian economics, especially for countries with a history of ambitious macro-economic planning. It is probably difficult to create domestic multiplier effects cost-efficiently by government spending when increased domestic demand merely stimulates the economy of other countries.

The last explanation leads in my direction: Abolishing currency controls may be seen as one of the effects of a general *loss of faith* in the ways in which economic problems have been solved in countries like Norway. The question may be put like this: What made the social democratic establishments lose faith in their traditional way of handling the economy?

An important reason why the so-called "Scandinavian model" based on *full employment* and *government intervention* has become more difficult to implement, is said to be its tendency to create inflation, or at any rate erratic fluctuations in prices and

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wages. If everyone who wants work is fully employed, and there is an increase in demand in the export market, employers will tend to increase wages, and thereby trigger an inflationary spiral that is difficult to control. The same may happen as an effect of regional differences: Attempts to stimulate the economy in peripheral areas with some unemployment may trigger inflation in central areas with full employment.

From my point of view the problematic aspects of the "Scandinavian model" were invisible as long as there was fast growth in manufacturing industries and construction. Others may say that fast growth is the "normal" situation, and that we can go on in the old way as soon as the world economy starts to grow at the earlier rate again. *Hegemony*, in Gramsci's sense, however belongs to those who think that the old growth rates will return only if we are willing to *scrap* the "Scandinavian model", including full employment as the Number One goal and government intervention as the most important means. To them, the attraction of the European Union is that it is based upon zero inflation as goal Number One, and that most practised forms of government intervention are against the common EU policy.

My approach to the functional problems of the Scandinavian models is that in contrast to some of the complex equation systems handled by our computers, economies, like practical machinery, need *buffers* in order to run smooth, correct anomalies and do their jobs. To put it more directly: Keynesian measures designed to stimulate the economy towards full employment had to be fine-tuned beyond the capacity of any planning genius - to prevent inflation, loss of international competitiveness, devaluation and loss of confidence in financial markets.

I have not come across any reference

to economic buffers in the available non-specialist literature on economic organization, but they may be related to what Leif Johansen called "automatic stabilizers", although essentially he had the taxation system in mind (1980, 52). Another example is when, say, a demand drop in an important export industry somehow leaves the domestic economy intact, leading only to a drop in imports (Mjøset et al. 1986, 115 ff.).

What I prefer to call "buffers" *absorb* or neutralize "surplus" stimulants, instead of letting them generate unintended or unwanted dynamic effects in the system. Buffers reduce the need to fine-tune economic policy, in a sense analogous with the way in which cybernetic regulators make operating machinery easier. They also help us deal with or manage external changes, such as allowing increased foreign demand to stimulate our economy - without generating problematic inflation.

Buffers absorb shocks and save us from a surfeit when we act to remedy a situation of dearth. We also need buffers to ease or absorb unwanted effects of market fluctuations. Buffers may be consciously constructed and maintained, but they may also be (and are in fact most often) generated by historical coincidence, and just taken for granted - as long as they are effective.

To demonstrate more clearly what buffers do, and to make my exploration of this unmapped field of the socioeconomic landscape more concrete, let me present an *ad hoc* list of buffers or buffer effects that we are all familiar with, even if we don't always classify them as buffers.

A repertoire of buffers

1. *Swiss "guest-workers"*. An increase (that may be temporary) in the demand for labour is not allowed to generate inflation in the

Swiss economy: The demand is met by inviting "guests" from other countries, preferably to fill the least attractive jobs. Contracts are short-term, and the "guests" don't acquire rights otherwise granted to Swiss citizens. They go home as soon as the demand for labour decreases again. This tends to keep all economic curves representing the Swiss economy smooth, at the same time as welfare maintenance costs to the public purse are kept to a minimum.

2. *The female reserve.* At a certain stage in the development of most modern industrial nations, a fair share of the potential labour force is "employed" in the household. In principle, housewives find the available jobs outside the home less attractive, all aspects of their and their families' life considered. But a large percentage of domestically employed women will be in an indifference situation: Even a small increase in wages, availability of jobs closer to home, tax inducements or kindergartens may mobilize enough of them to meet increased demands for labour, and this helps to avoid inflationary wage developments. If the increased demand is temporary, and their jobs are marginal and unprotected by law, most of them will return to the household, maintaining the equilibrium of the labour market.

3. *Apartheid.* Like foreign "guest-workers", domestic, segregated minorities or even majorities - may serve important buffer functions in a modern economy. This is especially the case if general, national welfare guarantees do not apply to the buffer group: In the USA, Hispanics with no or insecure civil rights have taken over some of the buffer functions that black US citizens once had.

4. *"Lumpen-proletariat".* Many advanced industrial nations have a substantial *general underclass* that may act as a buffer in the economy. Depending on your definition of

poverty, the USA may have 15% "poor" during a slump, but only 11% when demand picks up. A sizable underclass thus absorbs or eliminates the very tricky planning problems generated by fluctuations in demand in a full-employment economy like the Scandinavian ones used to be. This will especially be the case when the distinction between the "employed" and the "un-employed" is unclear or blurred: in North America, many poor families have fully employed members, which may mean that an increase in demand enables some of the marginally employed (e. g. in catering or cleaning) to get manufacturing jobs. The increased demand for manufacturing workers is met without inflationary tendencies, and even the marginal service branches avoid having to increase wages, as there will always be Hispanics, recent immigrants or other unemployed available to do the jobs at the minimum wage level.

5. *A semi-rural labour force.* Small farmers, or rural people combining more or less subsistence agriculture with paid employment, have had important buffer functions in Scandinavian economies during most of the postwar period. They would take temporarily work on construction sites whenever demand picked up (and thereby help to curb inflation), and return to the farm as soon as construction activity decreased (leaving the remaining jobs for the skilled, full-time carpenters or bricklayers). Thus, even large fluctuations in the labour markets were absorbed without more serious repercussions than some increase in small-scale fisheries, some more self-employed lumbering or more time available for house repairs (Brox 1969, 1984, 1988).

There is an important difference between the rural and the underclass buffer labour force: We can safely assume *parity* between the position of the full-time urban

worker and the trade-combining small farmer, as far as the general attractiveness of the adaptation is concerned. During most of the postwar period-up to the late 1980s - there was a permanent shortage of labour in most Norwegian cities, which meant that any small farmer willing to move could become a full-time employee. Contrary to members of an underclass, trade-combining farmers had no urge to relinquish their position, and there is no need to explain this with reference to cultural differences: Half of a sibling group might choose one type of adaptation, and the other half the other. Small farmers did not hesitate to take full-time jobs permanently, if they were available within daily commuting distance, whereas others invested their construction-site earnings in new agricultural buildings, tractors, livestock or boats and fishing gear.

"Farmers" in the above text refers to rural *households*, and not necessarily to males. Even if married rural women seldom commuted for long periods, they were important breadwinners, and not only in the primary industries. Their earnings in local services, public and private, have been of increasing importance for the viability of rural households, at the same time as the role of their men as a buffer labour force has become more marginal.

The point that I hope to make by my short repertory of empirically tested buffers, is to show that they vary considerably in *form*, even if they perform the same *functions*. Obviously, as solutions to the buffer problem, they imply human conditions of which we may have very different opinions. To me, it is important to maintain that not *all* solutions to the buffer problem imply as abominable social phenomena as apartheid or a permanently marginalized, culturally separate underclass.

If I am right in assuming that buffer functions have not played a prominent part in our shared images of economic systems, we must expect them to live a precarious life among us. Social phenomena of which we have no concept may disappear with no-one noticing until *effects* of the loss become manifest.

How buffers are lost

The "*Swiss*" solution has been applied in a number of modern national economies. For obvious reasons, trade unions are inclined to consider guest-workers as either a device for reducing the market power of native workers, or as colleagues who should be organized to have their rights protected. Union leaders may form coalitions with xenophobic forces to "keep them out" or with more liberal/left humanitarian elements to grant them rights to bring their families with them, permanent residence, unemployment benefits - which tend to reduce their buffer function. We can safely say the Swiss solution is of only academic interest as a potential buffer in the present Scandinavian situation.

Much of the same applies to what I have called "*the female reserve*". I do not have to list the factors that have channelled "the other half" permanently and irreversibly into the labour force. The kitchen is no longer a place where a buffer labour force may be stored. No-one, as far as I know, wants to step back into the past in this respect, even if there is truth in the notion that two-income households have to work more to maintain the family ("reproduce labour") than the former one-income households (Harris 1987). At any rate: as a potential buffer the female reserve is as uninteresting as the guest-worker.

Apartheid, it might be thought, is merely of historical interest at the end of the

20th century, even in South Africa. But of course, if there is an ethnically distinct group within a country whose members do not enjoy full civil political and economic rights, it may function as a buffer in the economy. There are people who would like to use recent immigrant populations from poor countries for this purpose, arguing that the "correct" real wage level for immigrants should be close to the level in their home countries. Without arguing in detail, however, I will assume that "apartheid" in the strict, South African sense, would be difficult to establish, even if the populations in question are tiny minorities. Such populations would probably be over-represented in the emerging new *underclass*, to which I shall return below - the only type of buffer on my list that seems to be accompanying us into the 21st century.

As far as the role of the "Lumpenproletariat" or *underclass* as a buffer is concerned, it may be interesting to note that in classical texts, at any rate from Malthus' and Ricardo's time, an *unlimited reservoir of labour* is generally assumed. Some would say that the past half century, characterized in some countries by full employment, is an historical parenthesis between two very different situations: A past characterized by a large peasantry, partly landless, and a future characterized by a sizable urban or semiurban underclass ("2/3-society"). At any rate, the underclass seem to be expanding throughout, not only in the US but in Europe as well. There are at present 52 million people "below the poverty line" in the EU alone. This type of buffer is certainly not disappearing, but seem to take over as soon as the alternatives disappear.

In the Scandinavian cases, however, the "old" rural underclass disappeared many years before the "new" urban version started

to appear in force. After the war, and until recently, there has been no urban unemployment in Norway, which means that any poor rural family could enter the industrial labour force by moving or commuting. Many rural families, however, chose to improve their economic adaptation *in situ* by investing in the primary industries as well as in local services, but especially through *combining* self-employment and paid work.

The *main* economic change was, however, the transfer of labour from primary to secondary/tertiary industries, partly through rural-urban migration, but, as far as Norway is concerned, to a remarkable extent without much of what could be called "rural depopulation". Hence the "old" underclass was eliminated at the same time as important buffer functions were maintained, as a sizable share of the labour force could alternate between paid work and self-employment.

Most of us, almost independently of our ideologies or political preferences, do not lament the loss of buffers such as guest-workers, the female reserve or apartheid. At any rate in the Norwegian case, however, I can see nothing wrong with the buffer function provided by the trade-combining, semi-rural labour force. Because Norwegian small farmers had considerable political influence, they were not *peasants* in the strict sense of the word. (In comparative literature like Wolf 1966 and Shanin 1971, peasants are *defined* as powerless). Hence they were able, for a long time, to upgrade the attractiveness of their small-scale self-employment alternatives to paid work, maintaining a certain *balance* in their adaption. In other words: the buffer problem was solved without too much human misery and indignity. The fact that the small farmer playing this role could have obtained a full-time industrial urban job any time serves to prove the point.

Even if this buffer arrangement has been reduced almost to non-existence, and there is no way in which it can be restored, it may be of interest to list some of the factors which led to its demise. First of all, the important role played by the buffer work force was almost completely unrecognized in all contemporary attempts at analyzing the Norwegian economy. Trade-combining rural people were either considered to be "unstable industrial workers", second-rate farmers, or "part-time" fishermen, completely unreliable from a fillet-packer point of view. They were - as part-timers - disinclined to join trade unions. They tended to be the victims of labour market planners' "mobility-stimulating" policies at the same time as the agronomic and fishery establishment tried to induce them to invest and grow, or else leave the primary industries altogether. By and large, the rural labour-force fought back successfully for a long time through economic guerilla and populist politicians, and the buffer system was not destroyed until the primary trade organizations defected completely to the enemy: Not only did the farmers' organizations deal all the cards in favour of the full-time, capital-intensive farmer; even the fishermen's organizations have stopped fighting the central authorities' efforts to "get thousands of fishermen and fishworkers out of the industry", as a recent Fisheries Minister put it. But even if we had recognized the important functions filled by the trade-combining rural reserve, and done nothing to eliminate it, the increased level of skills required by many industries may have made it difficult for part-timers to continue their buffer role.

As there is no reason to cry over spilt milk, we should rather address the problem of how to develop new buffers to replace those that have been lost: Rural people are

today almost as dependent on full-time paid work as the rest of the labour force. Women can no longer be sent back to the kitchen when there is no need for them. And a self-respecting nation cannot invite foreigners into their labour force without giving them the same rights as the natives. The question is: where are new buffers to be found?

Buffers for the 90s

If our traditional buffers have been destroyed, or rendered unacceptable, how do we go about developing new ones? If we refrain, the only alternatives seem to be much faster growth than we have seen for decades - or otherwise a large and growing underclass. Even if we were able to decide upon a growth rate high enough to absorb all steering problems, including redundant labour, the global implications would probably be impossible to live with in the long run.

This leaves us with a *new and growing underclass* as the most likely product of the reorganization that OECD economies are going through at the present time. I know that there are many people who are willing to accept such a development, and that our colleagues in many disciplines in many countries justify it with reference to individual abilities, family patterns or even ethnicity. It seems to be very difficult to engage the enlightened public in a debate on a new underclass as a social time bomb, even though it is easy to show that the *employed* working class and not only the outright poor will be victims of this important change in the class structure.

At all events I assume that any policy for avoiding the growth of an underclass must aim at developing *alternative buffers* that could perform their important functions in economic processes without generating human misery - as the semi-rural buffer

labour force did at an earlier stage of economic development.

The elements of such a model may be found in more or less successful policies tried out in the Scandinavian environment:

Unemployment benefits, financed by the employed, and securing the unemployed a decent living standard, work well when 1-2% are unemployed, but probably not when 10% are. And they do not work for those not formerly employed, especially young people. Labour economists are also concerned with "dis-incentives to work" when benefits approach 100% of wages, and conservative politicians with the opportunities for "black labour".

Employment programmes (arbeidsmarkedstiltak) aim at giving the public something back for the money given to the jobless, at the same time as training is provided, especially for the young. Not only trade unions are worried about the market anomalies involved in such schemes, such as public and private employers taking advantage of subsidized labour.

Infrastructure projects such as roads, unprofitable according to the principles of transport economics, but granted money solely because of the employment involved in construction. In the 1990s several billions of Norwegian kroner a year are being spent on dubious infrastructure projects. The same may be said about very risky and loosely founded large-scale industrial adventures, unlikely to be accepted by Parliament if scarce jobs had not been involved. A pertinent example may be a new methanol plant said to cost around NOK 5 billion.

Income guarantees securing any citizen a minimum of dwelling, food and health services, have been effective in countries like Norway for a number of years. But such schemes were introduced when all able-bodied

workers had jobs, and were intended for those who had individual, and preferably temporary difficulties. Municipal welfare offices are overloaded today with cases involving unemployed, but as yet able-bodied youth. Proposals to scrap means-tested programmes in favour of automatically triggered "citizen's wage" or "negative income tax" systems come from all directions, but are as yet not being taken seriously by influential politicians in Scandinavia.

The informal sector refers to all kinds of "non-market" economic arrangements - ranging from crime to subsisting on one's parents. The exchange of services between friends and relatives is probably more important today than subsistence food production - even in rural areas. It goes without saying that in modern, high-consumption societies like the Scandinavian countries, the informal sector must have a very limited buffer-effect - compared with, say, the semi-rural Norway of the 1950s.

How can these elements be combined into a more consciously designed, efficient buffer for the next century?

As a starting-point, we may quote the chief executive of the Norwegian Employers' Association, Mr. Karl Glad: "Of course, eliminating our unemployment is a very easy thing to do. The Government could simply give the municipalities enough money to hire 200.000 workers. But that would destroy our economy". (Quote from my notes taken down during a radio debate broadcast on 16 August 1993.)

Let us try out that model: Unemployment is said to cost the public purse around 25 to 30 thousand million kroner. At any rate this rough and ready figure is used in the general political debate, and is supposed to cover not only unemployment insurance and social assistance to the unem-

ployed, but unprofitable "job-creation" and loss of taxes as well. This amount easily covers the payroll of all registered unemployed persons. Most municipalities are organizationally equipped to employ their share of them and will have unfinanced labour-intensive projects in fields like care of children and the elderly, environmental protection and listed buildings.

When Mr. Glad referred to the "destruction of the national economy" by this kind of spending, he must have assumed 1) a large increase in the budget deficit and 2) immobilization of labour otherwise available to the private sector.

I think it can be proved that an ambitious public employment programme could be carried through without increased long-term deficits. Labour-intensive care of people costs little more than unemployment benefits, and much less than road projects that are *only* justified by their employment effects. NOK 30, 000, 000, 000 implies 200, 000 jobs at NOK 150, 000 each.

The employers' second point is more tricky: People with secure, comfortable jobs in public services will not be available for new, risky but challenging jobs in the private sector. A public employment programme with this effect would have no buffer function. Jobs under the programme would necessarily have to be less secure, and generally less attractive than jobs in new, competitive industries.

My solution would be to offer the unemployed *part-time* jobs (say, 30 hours a week), but at pay rates at ordinary agreement level (which would eliminate the most important union worries about such programmes). And of course: The programme would have to be reduced when private demand for labour increases, but (in principle) at the same rate as workers voluntarily

leave for the greener grass on the private side of the fence.

It may be worth noting that a programme of this nature would imply a buffer, or "reserve army", that could be systematically *trained* for the ordinary labour market - in contrast to most other known buffer arrangements. It can be argued that an unknown share of the presently unemployed may be unemployable, and even untrainable. That may be, but we can be reasonably certain that this share will grow over time-if we allow long-term unemployment to stay at the present level (Brox 1994).

Conclusion

In this article, I have tried to demonstrate 1) that reliable buffers are necessary for all kinds of economic planning (the varieties carried out by Scandinavian governments during the postwar period as well as those practised in the EU), 2) that the loss of our traditional, hardly recognized buffers have left us with a growing underclass as a spontaneously developed alternative, and 3) that our recent experiences and resources can be combined into buffer arrangements that do not imply a new underclass, with its necessary consequences in terms of misery and insecurity to most of us.

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