Counter-intuition 101

by Juliet Schor

The economic news has not been encouraging. In Europe, the various national debt crises remain unresolved, with a continued monopoly of banker-friendly austerity programs, and their predictable consequences of rising unemployment and stagnation. Debtor countries are being forced into the same financial orthodoxies that prolonged the depression of the 1920s and 30s, so we shouldn't be surprised at the failures they will bring. More recession may also be the future of the countries enforcing these once-discredited policies, as weak demand across the region represses consumer demand, investor confidence, and government spending.

In the United States the details are different, but the main story is the same. The country is experiencing continuing mass unemployment (25 million Americans remain unemployed or underemployed), further collapse in the housing market and an extremist political movement determined to slash all government spending directed at the people who are most likely to spend: the poor, the unemployed, and the middle classes. The outlook among wealthy countries is for more economic "weakness," a conclusion supported by the plummeting stock markets.

Protecting bankers' and creditors' interests above all else is foolish economic policy. It enriches one group of people at the expense of nearly everyone else. But these days, it's hard to get a hearing for the view that the wealthy countries remain wealthy, that we can solve our economic problems without making most people worse off, and that we can also do it while addressing the much larger challenge we face: climate change and growing ecological devastation.

So what's the alternative to slashing government programs, budget cutting, and more concentrated wealth at the top? The centerpiece of a new approach is to restructure the labor market by reducing hours of work. That may seem counter-intuitive in a period when the mainstream message is that we are poorer than ever and have to work harder. But the historical record suggests it's a smart move that will create what economists call a triple dividend: three positive outcomes from one policy innovation.

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The first benefit of hours reductions is a significant reduction in unemployment. In the wealthy countries, many of the jobs lost in the 2008 downturn will not reappear. The revolution in information technology has made many jobs unnecessary, raised labor productivity, and undermined a good swathe of the labor market, as firms introduce radical technological and product innovation. (And some of the jobs are being created in low wage countries.) This is familiar territory, as it has been occurring since the 19th century. The buggy and barrel makers are long gone. Toll takers and the workers in DVD factories are on their way out. So too are household tax accountants and retail check-out clerks. Historically, market economies have absorbed this displaced labor in two ways. The first is the creation of jobs in new industries making new products. The 20th century brought automobile workers, higher education administrators and medical personnel. But new jobs, spurred on by growth in GDP, are only half the story. The other mechanism for maintaining balance in the labor market has always been reductions in hours of work. Without the advances of a shorter workweek, vacation time, earlier retirement and later labor force entrance, the economies of the OECD would never have attained the "golden age" of high employment that prevailed after the1930s depression.

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Between 1870 and 1970, hours of work fell roughly in half. These countries have re-balanced the labor market by redistributing work to make its allocation fairer. We need shorter hours because it is unrealistic to count on growth in GDP to absorb all this current and future "surplus" labor. Rich countries just never grow that rapidly. So the austerity economics that says work longer and retire later has it exactly wrong.

But even if GDP growth could solve the unemployment problem, it shouldn't, because the cost in GHG emissions is prohibitive. North America and Europe have already blown their carbon budgets and until we restructure energy systems, growth isn't reconcilable with responsible emissions levels. Here too shorter hours of work provide a dividend. They are associated with lower ecological and carbon footprints.

Countries that work more pollute more—both because their scale of production is larger (the GDP effect) and because time-stressed households and societies do things in more carbon intensive ways than societies in which time is more abundant. Longer hours of work lead people to travel, eat, and live faster-paced lives, which in turn require more energy.

The third benefit of shorter hours is the time itself. As a growing movement of "downshifters" attests, short-hour lifestyles allow people to build stronger social connections, maintain their physical and mental health, and engage in activities that are creative and meaningful. Time is especially valuable in rich countries where material needs can be met for everyone, and deprivation is caused by maldistribution of income and wealth.

So that's the triple dividend: reduce unemployment, cut carbon emissions, and give people quality of life. Austerity economics says we can't afford to work less. A serious reading of our economic history suggests we can't afford not to.

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Grameen Bank and "Microcredit:"

The "Wonderful Story" that Never Happened

by Patrick Bond

For years, the example of microcredit in Bangladesh has been touted as a model of how the rural poor can lift themselves out of poverty. This widely held perception was boosted in 2006 when Mohammad Yunus and Grameen Bank, the microfinance institution he set up, jointly received the Nobel Peace Prize. In South Asia in particular, and the world in general, microcredit has become a gospel of sorts, with Yunus as its prophet.

Consider this outlandish claim, made by Yunus as he got started in the late 1970s: "Poverty will be eradicated in a generation. Our children will have to go to a 'poverty museum' to see what all the fuss was about."

According to Milford Bateman, a senior research fellow at the Overseas Development Institute (ODI) in London, who is one of the world's experts on Grameen and microcredit, the reason this rhetoric resonated with international donors during the era of neoliberal globalization, was that "they love the non-state, self-help, fiscally responsible and individual entrepreneurship angles."

Grameen's origins are sourced to a discussion Yunus had with Sufiya Begum, a young mother who, he recalled, "was making a stool made of bamboo. She gets five taka from a business person to buy the bamboo and sells to him for five and a half taka, earning half a taka as her income for the day. She will never own five taka herself and her life will always be steeped into poverty. How about giving her a credit for five taka that she uses to buy the bamboo, sell her product in free market, earn a better profit and slowly pay back the loan?" Describing Begum and the first 42 borrowers in Jobra village in Bangladesh, Yunus waxed eloquent: "Even those who seemingly have no conceptual thought, no ability to think of yesterday or tomorrow, are in fact quite intelligent and expert at the art of survival. Credit is the key that unlocks their humanity."

But what is the current situation in Jobra? Says Bateman, "It's still trapped in deep poverty, and now debt. And what is the response from Grameen Bank? All research in the village is now banned!" As for Begum, says Bateman, "she actually died in abject poverty in 1998 after all her many tiny income-generating projects came to nothing." The reason, Bateman argues, is simple:

> It turns out that as more and more "poverty-push" micro-enterprises were crowded into the same local economic space, the returns on each micro-enterprise began to fall dramatically. Starting a new trading business or a basket-making operation or driving a rickshaw required few skills and only a tiny amount of capital, but such a project generated very little income indeed because everyone else was pretty much already doing exactly the same things in order to survive.

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Contrary to the carefully cultivated media image, Yunus is not contributing to peace or social justice. In fact, he is an extreme neoliberal ideologue. To quote his philosophy, as expressed in his 1998 autobiography, *Banker to the Poor*,

> I believe that "government," as we know it today, should pull out of most things except for law enforcement and justice, national defense and foreign policy, and let the private sector, a "Grameenized private sector," a social-consciousness-driven private sector, take over their other functions.

The financial crisis should have changed Yunus's tune. After all, the catalyzing event in 2007 was the rising default rate on a rash of "subprime