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How States in the Global South Can Create Jobs – Even If They Are Clientelistic or Broke

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The great political challenge for governments in the Global South has been increasing employment and reducing poverty. Every politician running for office promises to create jobs; yet how governments are supposed to do this remains unclear. The import substitution/state-led industrialization programs of the 70's and 80's were expensive and led to serious problems with debt. The cut-everything approach of the Washington Consensus period produced very little employment and exacerbated poverty-related social problems such as narco-traffic and ethnic warlordism. East Asian developmental statism was tremendously successful, but it depended on high levels of technocracy and a state apparatus immune to co-optation by private interests. Most governments in the Global South do not have that level of autonomy. "Just Educate the Population" works well—if a government can afford to wait until the primary school children enter the labor force ten years later; if the government wants locally produced technological innovation it may have to wait longer than that.

Labor intensive industries with low educational barriers are precisely the industries that one wants to expand if one wants to create jobs for poor people immediately.

So what is a government supposed to do if it wants to create jobs for poor people with the levels of education they already have, there is no money to subsidize big-ticket money-losing enterprises, and distortions from corruption and clientelism are a pragmatic fact of life?

Build infrastructure.

This is not an especially new idea. The "public capital" school in development economics has long praised the growth produced by infrastructure (Aschauer 2000). Revisionist-Marxist James O'Connor (1973) makes state construction of infrastructure the lynchpin of his model of advanced capitalist growth. What my own work on Brazil shows is how well infrastructure construction solves problems implicit in other models—and how dramatic the results are in producing non-construction jobs for poor people.

State construction of infrastructure is relatively cheap and easy. It costs less than running money-losing auto factories or steel mills for two decades while they learn their trade. It is easier than starting a university and hoping you can produce your own patents in electrical engineering. Paving roads and laying water pipes is pretty small scale stuff. Building an airport is a bigger expense. The airport however becomes fully functional immediately with modest operating expenses, while factory expenses will continue to mount after construction. Infrastructure projects are also relatively simple. Even allowing for the widespread graft associated with such programs, the projects usually end up getting built and being functional afterwards. This is in contrast with a state-supported auto factory or software firm that can easily fail due to the rigors of the marketplace.

But do these produce jobs—net of the obvious construction jobs that vaporize immediately after project completion?

In Brazil, I looked at regional employment in three labor intensive industries with low educational thresholds: hotel, restaurant, and barber-beauty. Labor intensive industries with low educational barriers are precisely the industries that one wants to expand if one wants to create jobs for poor people immediately. Econometric models were constructed to estimate how many jobs would have been produced anyway—even if the state did nothing. Areas with and without new infrastructure were compared after controlling for "all-purpose market effects." Looking at regions the size of counties, all of the following raised employment in labor-intensive low-education industries:

1. Airport projects
2. Water projects
3. Sewer projects
4. Road projects
5. Bus terminals

Because the Airport Project coefficients were particularly striking, we looked at the effect of airports on regional GDP overall and within sectors at the level of individual states. Airports raised GDP the very year they were built and continued to raise GDP for the years that followed. Natural experiments contrasting states with similar economies but with or without airport projects showed the states that expanded airports grew dramatically more than did "clone" states with no expansion. The effects were particularly large for agricultural GDP. In Pernambuco, the expansion of the Recife airport led to the rapid construction of refrigerated warehouses next to the airport, and the equally rapid creation of a successful export fruit business at farms that had previously only produced for limited local markets.

Significantly, reducing taxes had no effect on producing jobs in these firms. Another analysis contrasted effective tax burdens on employment in these labor intensive industries. These industries consist of micro-firms that would in theory be the most vulnerable to predatory taxation. Neither payroll taxes nor non-payroll taxes reduced employment.

So government spending on infrastructure created jobs in small business. Cutting taxes on these businesses had no employment effect. The implication for policy is that governments can increase rates of economic growth with public investment in infrastructure. Such programs are extremely cheap relative to other state-led strategies for economic growth—and can even be implemented effectively by governments with weak administrative and technological capacity.

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