How Emerging Markets Mature and Employment

Having just read the article in the latest Economist magazine on Emerging Market economies creating a welfare state I started thinking about how economies mature.
I used to think that the sign of an economy maturing was the establishing of social welfare, a safety net. I think it is still true.

With the death of communism, capitalism has been left to grow uncontested and unquestioned. Unfortunately our best available system of economics seems to increase income and wealth inequality. Under capitalism there is no attempt to reduce it at all. So the Gini coefficient rises monotonically and social problems arise. At some stage in the development of a country, unfettered capitalism increases inequality to the extent that the masses, the underclasses, revolt. Governments are eventually faced with either providing a safety net, or establishing some form of redistributive policy. It is in the interests of the rich to support such policies that keep the poor at least marginally satisfied. Even exploitation has to face questions of sustainability and repeatability.

With safety nets and social welfare come a slowing of productivity simply because people become less adaptable, less driven, less hungry. Short term gains derive from the stability that social welfare provides in the form of the ability to plan further and to invest in skills and other labour empowering policies. Eventually, safety and security are the enemies of invention, adaptability and progress.

Even in the absence of social welfare an economy evolves and matures and slows. As an economy grows, the distribution of wealth and income grows. Societies can address this in two ways, social welfare, being the collective solution, or private saving. Where social welfare is absent, uncertainty and risk encourages private saving. Safety nets whether public and collective or private and individual lead to the same loss of adaptability and flexibility, loss of drive and a growing intransigence. Eventually economies face a suboptimal labour force.

A proper model of employment takes into account the unpleasantness of the job (including such considerations as physical risk, mental stress, prestige or lack thereof), and not just the wage or marginal factor price, but the wage in relation to the stock of wealth of the individual. This may explain why some jobs are undersupplied despite reasonable wages, and others are oversupplied despite relatively low wages.