

OECD DEVELOPMENT CENTRE

POLICY BRIEF No. 7

EMPLOYMENT CREATION AND DEVELOPMENT STRATEGY

by

David Turnham

- Developing countries will account for almost all the increase in the world's labour force over the next 25 years; most countries, especially in Africa, will experience very rapid labour force growth
- Labour-intensive development has been spectacularly successful in some countries and others have begun to emulate them. Nevertheless, many countries still need to rethink policies and programmes in the light of the increasing urgency of employment creation
- The poor and the unemployed have much to gain from labour-intensive development, but fears about the short-term impact of reforms may cause them to oppose change
- Carefully targeted programmes of public works and food security measures implemented early in the reform process, plus improved incentives for farmers, may be essential for the popular support of reform

POLICY BRIEF No. 7

EMPLOYMENT CREATION AND DEVELOPMENT STRATEGY

by

David Turnham



THE OPINIONS EXPRESSED AND ARGUMENTS EMPLOYED IN THIS PUBLICATION ARE THE SOLE RESPONSIBILITY OF THE AUTHOR AND DO NOT NECESSARILY REFLECT THOSE OF THE OECD OR OF THE GOVERNMENTS OF ITS MEMBER COUNTRIES

DEVELOPMENT CENTRE POLICY BRIEFS

In its research activities, the Development Centre aims to identify and analyse problems whose implications will be of concern in the near future to both Member and non-member countries of the OECD. The conclusions represent a contribution to the search for policies to deal with the issues involved.

The *Policy Briefs* deliver the research findings in a concise and accessible way. This series, with its wide, targeted and rapid distribution, is specifically intended for policy and decision makers in the fields concerned.

Employment generation has not ranked high on the policy agendas of developing countries in the past quarter of a century. Yet the continuing rapid growth of the labour force in many countries poses an immense challenge in new job creation. For the foreseeable future, close to 90 per cent of people making an entry into the world's labour market will do so in a developing country. There are signs that the past muddling through approach to employment will fail given the increasingly limited absorptive capacity of agriculture and the modest scope for new jobs in the urban areas. Governments are less able to act as employers of last resort than in the past. Even survival employments in informal sector activities may be harder to come by. Policies exist that could help to change abundant labour from a curse into a blessing. However, their adoption will require profound changes in a wide range of current practice within the developing countries and a change of heart on the part of the industrialised countries in guaranteeing greater freedom of access to their markets through trade.

Table of contents

I. The challenge of employment creation	5
II. Understanding the employment problem: What are the relevant indicators? ..	7
Employment, earnings and unemployment	8
Youth unemployment	9
Women and unemployment	11
Employment and unemployment in rural areas	12
III. Lessons from country experience in the last quarter of a century	13
East Asia: A potent policy mix	13
Agricultural employment and rural development	17
Urban employment	22
Employment in sub-Saharan Africa	27
IV. Employment and development strategy	30
Initiatives in the 1970s	30
Employment and the structural adjustment programmes of the 1980s	31
V. Politics and employment	33
Resistance to reforms	33
Coherence in international policies	35
VI. Concluding remarks	36
Annex: Employment indicators: some measurement issues	39
Notes and references	42

I. The challenge of employment creation

Increasing productive employment is fundamental to the achievement of vital social goals such as the satisfaction of basic needs and the reduction of poverty. Barring some unforeseen and highly unlikely change in the factors governing the transfer of income from rich nations to poor ones, and in the concerns of rich people for the poor, there is no prospect of improvement for the great mass of the world's poor except through their own efforts. The exchange value of labour services is an all-powerful determinant of the living standards of poor people.

An effective use of an economy's labour resources is also a major pathway to achieving sustained progress in poor countries. Indeed, with few exceptions, labour-intensive development is the only effective and sustainable way in which basic needs and growth objectives can be pursued simultaneously. This is a recent lesson. Some of the apparently successful developers of earlier times — successful in terms of growth rather than employment — faltered in the tough, but perhaps more realistic, world of the 1980s and 1990s when cheap international capital was no longer available to sustain expanding government services, capital-intensive infrastructure, and ill-conceived private sector investments. International capital remains readily available to economies that are exceptionally well endowed with mineral and other natural resources, but such economies are few and becoming fewer as their population grows relative to the resource endowment and as their low-cost resources are depleted.

Thus far, only a few countries have managed to use labour abundance as a springboard for rapid development. Many more show symptoms of stress in balancing job creation with the numbers of new entrants to the labour market. While most countries have so far avoided an explosion of open unemployment this is mainly because new labour market entrants were able to crowd into low productivity survival employments. A certain complacency about employment is still in evidence among many governments, but if muddling through with respect to employment worked in the past there is no guarantee of a similar result in the future. Today, a bigger proportion of the population is urbanised and the urban informal sector has already been stretched to accommodate very large numbers of workers in survival employments. The governments themselves are less and less able to handle the financial burdens of employer of last resort and cannot any longer be counted upon to absorb educated labour market entrants as they were able to do in the past. In the rural areas, despite migration, the workforce has continued to grow along with an intensive and extensive exploitation of agricultural resources. The carrying capacity of land in many parts of the world is stretched thin, much cultivated land cannot long sustain the stresses to which it is being put and it should be under trees and grass rather than under labour-intensive crops. Finally, if governments were to look more closely at what is happening to the incomes of those in the survival employments — the small farmers and casual workers in agriculture the unskilled self-employed and wage workers in the informal sector — they might find evidence of deteriorating conditions that is not shown by open unemployment data.

Most developing countries will continue for many years to experience rapid rates of growth in the size of their working-age population. The expansion in labour force in developing countries will add approximately 1 billion new workers over the next 25 years to the 1990 total of about 2 billion. In only a few developing countries — of which China

is by far the most significant — will the rate of growth of the labour force decline. Excluding China, the overall rate of growth will increase, with increases being particularly strong in Africa and the Middle East¹. For the foreseeable future, the developing countries need to increase employment by more than 2 per cent a year in order to keep up with the expansion of the labour force. It will not be easy to do this: the OECD countries over the past 25 years managed to increase employment by only about 1 per cent a year and failed to prevent a rise in unemployment from 2 to 3 per cent in the mid-1960s to an average rate close to 8 per cent in the 1980s. Rising concern about persistent high unemployment has prompted new efforts at the OECD and elsewhere to understand the causes and to identify measures to ameliorate the problem, including measures to increase flexibility in the labour market through training and other means.

Unless there is a large acceleration in the inflow of migrant workers, labour force growth in the developed countries will continue to decrease. *Developing countries will therefore account for almost the entire increment to the world labour force over the next 25 years.* By the year 2015, sub-Saharan Africa alone will add annually to the world's labour force more than *three times* as many new workers and work seekers as the OECD countries, Eastern Europe and the ex-Soviet Union combined. The numbers of young people² seeking work can be expected to more than double in much of sub-Saharan Africa by 2015 and to increase by very large amounts in other poor countries such as Bangladesh, Pakistan and Egypt.

For all these reasons complacency about employment is as dangerous as it is unwarranted. The issue of employment needs to be moved to the top of the policy agenda. However, employment generation has not ranked high on the policy agendas of developing countries over the past quarter of a century. Governments therefore need to rethink their approach to development and to reshape a variety of the incentives and signals that influence the demand for labour, through the pattern of production of goods and services, investment, and technology adaptation and acquisition. The removal of administrative impediments to a better use of labour resources, for example through fairer treatment of small-scale enterprise, is also important.

The ready availability of labour resources ought to be to the advantage of developing countries and a positive factor in strengthening their growth performance. In practice the rapid expansion of the labour force is more often seen as a curse than as a blessing. In failing to meet the employment challenge governments everywhere — not least in the many OECD countries that suffer from high unemployment — lose both credibility and the confidence of the people so that their ability to exercise effective governance is undermined. In the developing countries, as the history of recent efforts at structural reform testifies, the precariousness of living standards among the marginally employed and the unemployed reduces the government's room for manoeuvre and creates resistance to reforms among those people who ought to be the natural allies of reform.

II. Understanding the employment problem: What are the relevant indicators?³

In the past many controversies and disagreements over the employment problem have been brought about by lack of information and by ambiguities in the information that was available. Even today, there are differences of view about the scale and nature of the employment problem as well as differing interpretations of the significance of some of the indicators — in particular, measures of unemployment and youth unemployment.

Employment, Earnings and Unemployment

In many developing countries, especially the poorer ones, social security is virtually absent and savings are too low to provide much of a margin in the absence of an income source. Thus, the motivation to retain work (and to scramble for it when unemployment threatens) is very powerful; necessity squeezes hard on poor families and particularly on their adult breadwinners. In consequence, there is a crowding into employment which affects any activity not shielded from competition by entry barriers such as skills, complementary assets (land in the case of would-be farmers), and education. It follows that a low level of *measured* unemployment should not be taken as clear evidence of the absence of an employment problem.

Survival self-employment is one common means by which people in developing countries retain a source of income from work activities when threatened with unemployment. Self-employment accounts for a much larger fraction of total employment in developing countries than in the developed ones. This is partly due to the large role of family farming in most developing countries but self-employment is more important in the urban areas too. A recent report shows self-employment shares falling from 37 per cent of total urban employment in the poorest group of developing countries to 18 per cent in the richest group. Among developed countries the share was only 6 per cent⁴. In recent years, there is evidence of a resort to self-employment on quite a wide scale in Latin America with the loss of factory jobs during the recession of the 1980s. In Africa as well as in Latin America there is also evidence of a return to the rural areas, so that some unemployment among urban workers may have been exported to the countryside where it is more readily “disguised” in the form of survival farming on a family plot.

Unemployment measures need to be supplemented by information about what is happening to the real earnings of the groups of workers that are most subject to these iron necessities. Thus far, there has been very little focused effort to measure this aspect of the employment problem or to assess changes over time in the magnitude of survival employment, although there is a good deal of indirect and partial evidence indicating deep, pervasive and persistent poverty due to low earnings as well as evidence of a widespread worsening trend in earnings in recent years in many countries. As discussed in the Annex on page 39, the difficulties posed by the collection of such information have been much

exaggerated. Data requirements could be met by sampling no more than a narrow range of carefully chosen occupations as part of a labour force sample survey of the type now regularly carried out in many countries.

The idea of people being too poor to afford to be unemployed is a useful insight, but it is also self-evident that no amount of urgency or need will *guarantee* that work is always available. Moreover, even among the poor, provided that there are several earners within the family, the unemployment of one or two members can be sustained, at least for a time. Thus, despite the iron necessity of earning a living, measured unemployment rates are often high, even in poor countries — as appears to be the case throughout urban Africa. There is also evidence of considerable unemployment among casual wage workers, usually among the poorest categories of worker, although this type of unemployment tends to be experienced in forms that are hidden under standard labour force survey procedures — for example, casual workers in agriculture who obtain only two or three days of work a week will not usually be counted as unemployed.

Unemployment is often measured at relatively high levels in the transitional, “middle income” economies, perhaps because individuals and families are, on average, better able to sustain bouts of unemployment. The beginnings of social security systems and unemployment compensation also enter the picture. As already noted, self-employment falls with rising per capita income, especially in the urban areas, and hence “disguised unemployment” is also less likely to occur.

Nevertheless, some middle-income countries have very low unemployment. Thus, the most accurate generalisation about unemployment is that it is very variable — from levels below 2 per cent in a few Asian economies up to rates close to 20 per cent in a number of third world cities. The unweighed average rate of urban unemployment among the 36 developing countries for which there is recent data is 9.8 per cent. Except in East Asia, unemployment rates seem mostly to be higher in the 1980s than in earlier times.

Youth unemployment

Almost everywhere the unemployed are mostly young people. Youth unemployment rates are typically 3 to 6 times higher than those for older workers and in several countries measured rates of youth unemployment exceed 30 per cent. Further, the youth labour force and unemployment may be substantially under-reported since many young people are neither included in the labour force nor in school.

Among the young unemployed there is often a group of relatively well-educated school leavers who may not be under immediate pressure to accept work and for whom any immediately available job opportunities are markedly inferior to those which might open up as a result of persistent searching or perhaps at a later age. In the past, this phenomenon of “educated unemployment” has often been taken as evidence that youth unemployment is quasi-voluntary, with available jobs being rejected in order to pursue a search for the better paying jobs in the government and big business. It was also often inferred that superior education was a good marker for membership of a relatively affluent family, one that was able — in contrast with the poor who cannot afford to become unemployed — to finance protracted job search.

However, there is growing evidence that the importance of such “luxury” unemployment has been much exaggerated. Among the youth group, unemployment affects the less as well as the more educated and those from poor households as well as from rich ones. Although usually (but not always) there is a higher proportion of more educated young people that are unemployed than of those who are less educated, this can be explained by the later start to job search among more educated youth. The less educated start looking for work from an earlier age and thus — while still young — have had more time at work after finding the all-important first entry into employment than their more educated counterparts.

In brief, the simplest interpretation of the evidence about youth unemployment is also the most persuasive, namely, that if 30 per cent are unemployed it is because jobs — especially at the entry level — are very hard to find.

One upshot of the “luxury unemployment” interpretation of measured unemployment was to direct most analytical and empirical work from the early 1970s into a broader framework of human resource and social issues. The tendency has been to treat the problem of unemployment as political rather than as social or economic. If unemployment is a problem affecting educated young and largely urban people, and if there are enough of them, there is a potential to provide active support to (or to constitute) a political opposition. Moreover, the possibly well-to-do families that support the unemployed youth may themselves be a client group of those who hold power.

Somewhat paradoxically, in the discussions of economists, the distortions and burdens imposed on an economy by unemployment were — and often still are — seen as flowing from the attempts to satisfy unemployed groups (Egypt’s provision of government jobs to all graduates is often cited as a case in point) rather than stemming from the social and economic wastes directly associated with the condition. In other words, unemployment is not the problem — government attempts to deal with it are.

Thus, unemployment data, even where available, has been little used either as a social indicator (i.e. indicator of the difficulty or ease of obtaining employment generally or in helping to identify particular groups suffering from high rates of unemployment), or as an economic indicator of wasted resources. Remarkably little attention has been devoted to the development of specific policies or programmes to deal with unemployment⁵.

Many countries would find a close investigation of the pathways to employment of their new labour market entrants to be a very useful and illuminating exercise. Little study has been made of this question. For example, in all countries some young people find work in the family business and some in survival self-employments, but the ease of entry into such work seems to vary considerably from country to country. Also, it is easier for older workers to find a *niche* in self-employment, once a basis of job skills and prior work experience has been established. Probably the large majority of labour market entrants, especially in the urban areas, are seeking entry into wage employment. From the perspective of the young job seeker, the relevant comparison is of the number of young people with wage paying jobs to those without such jobs and seeking them; under current conditions, such a comparison will often suggest a very large shortfall indeed between the supply of such jobs and the demand for them.

Women and unemployment

Unemployment data often show higher rates of unemployment among women than among men. In addition, in many countries there is a hidden reservoir of potential workers who may not actively seek work but would take up job opportunities were they to be available. This group mostly consists of women. The experience in many countries shows that a sustained improvement in opportunities and conditions of work for women will result in increased participation. Usually, this hidden potential is not recorded as part of the labour force, nor does it show up in the statistics of unemployment. As well as measured unemployment, the participation rate itself — especially of women — needs to be examined for evidence of slack in the labour market.

The increase in the level of employment and income at the household level through the contributions from women as members of the labour force is an important means through which a reduction of poverty can be effected. However, for many women — particularly women from very poor households — this results in a double burden because economic activity — paid or unpaid — is frequently added to all the other household chores and responsibilities. This is a further illustration that an improved, more productive use of labour is at the heart of the employment problem in developing countries.

Employment and unemployment in rural areas

Although there is an increasing amount of employment information available due to an increasing number of developing countries' adding labour force sample surveys to their basic statistical package, most surveys are confined only to the urban areas. However, the rural areas are much too important a source of employment to continue to be ignored. The paucity of data from rural areas is partly a matter of expense but there are also some special problems in applying the standard labour force measurement approach to rural areas. The type of enquiry and data collection effort we recommend (see Annex) is better adapted to elicit useful information from the rural areas than is the conventional approach.

With some partial exceptions, the rural problem is largely an earnings problem. Measured unemployment is typically low relative to the levels found in the urban areas, mainly because the dominant form of employment is the family farm which continues to absorb its members into at least part-time employment. Small-scale rural enterprise is also an important employer, though statistically this type of work is often included as part of the urban economy since most of it is clustered in small towns. For those outside or partly outside the family enterprise system (many family members are also involved in casual wage work), part-time unemployment is a problem especially among casual workers. Where wage employment (regular as well as casual) dominates — as in rural areas given over to commercial farming and plantations — the situation may not be so different from that found in the urban areas. Indeed, casual workers often show high mobility, seeking work on a seasonal or irregular basis throughout the rural areas or sometimes in both rural and urban areas.

While efforts have been made in some countries to assess the level and trend of rural incomes, especially farm incomes, easy access to an unambiguous series or indices with which to interpret the trends remains a dream. The problem is the same as already mentioned, namely, the unwillingness to incur the expense of purposeful sampling to secure the information. Frequently there are series of rural wages (as there are of urban wages) but these typically derive from some readily collectible source and relate to some special fraction of the organised labour force. Such data cannot be taken as representative of the trends in earnings among the low income population in general.

III. Lessons from country experience in the last quarter of a century

Creating the conditions for rapid, labour-intensive growth in the developing world is a challenge that few countries have successfully met. Country experience over the last 20 years spans a range from a few highly successful economies, mostly in East Asia, to cases where the problems today are almost overwhelming in their scale and complexity, as in much of sub-Saharan Africa. In between are the majority of countries which can mostly be described as “muddling through” in their response to the employment challenge: people fend for themselves in an economic environment that is not conducive to rapid employment creation.

East Asia: A potent policy mix

The widely recognised achievements of these highly successful economies are rapid growth of output and the spectacular expansion of exports of manufactured goods. However, the capacity to absorb labour while transforming the structures of employment and increasing real wages is just as significant a feat. The “Dragons” — Korea and Taiwan, and the city-states of Hong Kong and Singapore — have virtually eliminated employment problems in the sense we are using the term. Since the mid-1960s, these four economies experienced employment growth of 3 to 3.5 per cent while unemployment has fallen to very low levels, typically 1 to 2 per cent, and real earnings have increased rapidly. Today, labour scarcities and the role of foreign migrants are among important questions in these economies.

Real earnings grew as workers moved to occupations using increased skills and education. Real earnings also rose in the unskilled occupations as employers paid more to retain workers who would otherwise be attracted into better paid activities. Among farm workers (who are among the lowest paid workers) real earnings in Korea doubled between 1970 and 1980 and more than doubled again between 1980 and 1990; workers in manufacturing did even better. In Hong Kong, Singapore, and Taiwan, real wages among relatively unskilled groups have also risen remarkably fast. For example, in Taiwan, the real earnings of construction workers have increased by more than 8.5 per cent per annum since 1975. Further, labour’s share in income in these economies was not squeezed in favour of higher shares to other factors so that income remained rather evenly distributed, with a share accruing to the lowest 40 per cent of families that has been both relatively large and constant or increasing over time.

Policy makers in these economies found ways of adopting and continuing to enforce strategies that respected their factor endowment — an endowment nowhere rich in natural resources, and initially consisting in large part of unskilled labour. This was done through policies with impact at the macro, sectoral and micro levels, with a good deal of common ground among the four economies. The policy elements include: early and sustained emphasis on education; a stable macroeconomic policy supporting a market-friendly, “open” environment with incentives for exporters, investment, technology acquisition and adaptation, plus — in varying degrees — forceful intervention to help shape and give direction to the pattern of industrial investment; a reasonably efficient bureaucracy, effective tax efforts and public expenditure programmes, including public infrastructure investments; in Taiwan and Korea, early land reform plus continuing attention to agricultural development.

Breaking out of the constraints set by the limits of a domestic market is critical to the establishment of an employment-intensive structure of manufacturing output. According to one well known study, in value added terms, a dollar’s worth of exports generates about 50 per cent more employment than a dollar’s worth of production of goods competing against imports⁶. The massive expansion of manufactured exports helped boost the employment share of manufacturing and related activities in the case of Korea and Taiwan and hastened the transformation from agriculture.

The main policy instruments used to promote exports include a management of the exchange rate calculated to avoid over-valuation of the currency vis-a-vis competitors, special concessions for exporters through tax rebates on materials, export credit facilities, and access to investment capital at preferential rates. Exporting success also relates to a policy background which complements and reinforces the impact of the specific, identifiable elements in the export promotion package. Thus, the policymakers have shown consistency in the application of general policies, notably macro-economic policies. Investor and entrepreneurial confidence that the policies will be maintained adds to their potency and has encouraged savings and investment. In economy-wide terms, investment has typically exceeded 30 per cent of the GDP in these economies.

The special emphasis given to education and human capital development in the policies and programmes of East Asia also assisted the export drive. Exporters have been able to seize opportunities to move into technically more sophisticated markets and products by drawing upon a labour force with growing skills and an increasing mastery of technology. Of course, the role of education in a labour-intensive development strategy is of a much broader significance than indicated by the link to exporting. Numerous studies for various groups (including wage earners, farmers and businessmen), confirm the high rate of return to investments in education⁷.

Among the Dragons, strong government support and close supervision of high quality standards in education stems partly from the cultural inheritance shared by these countries — a heritage that assigns great value to education and high status to educated people. Thus, enrolment and completion rates for secondary and higher levels of education continue to be well above the levels found in other parts of the developing world. By a clear margin, these countries are also at the top of the list of developing countries ranked by the number of years of education per worker.

Some East Asian governments were prepared to intervene forcefully to prevent restrictive practices and aggressive pursuit of wage claims by organised labour. In general, the legislative philosophy has tended towards minimalism in respect of mandatory worker protection, job security and fringe benefits, though, as noted above, this did not prevent large real income gains among wage earners.

Apparently restrictive labour policies may be politically more acceptable in economies that are not overwhelmed with impoverished job seekers and acute poverty. In Korea and Taiwan particularly, the virtual absence of an indigent landless labourer class helped to avoid massive rural to urban migration and urban squalour. Major improvements in employment and earnings through labour-intensive investment in land development were realised in Korea and Taiwan following the early post-World War II land reforms carried out there. A uniform structure of small farms also facilitated the development of farmer-based institutions through which technical knowledge, new inputs, and infrastructure could be developed, all with vigorous support from the government. In Taiwan, a prosperous agriculture was complemented by access to power supplies, communications, and favourable decentralisation policies, which helped to spark rural industry, leading to diversification of income sources and the emergence of off-farm income as leading contributor to rural family incomes in the 1970s.

There is evidence that East Asian governments are more interventionist and directive in the style of their economic management than an earlier generation of neo-classical revivalists (who stressed the importance of market-based pricing policy) would have us believe⁸. Far-sighted and vigorous governance to support the development of industry, agriculture and education, and to carry out the necessarily large programmes of public sector investment is a part of the East Asian success story. However, the effectiveness of some interventions is questionable (for example, Korea's effort in the late 1970s to develop heavy industry, Singapore's high wage policy of the mid 1980s, or Taiwan and Korea's highly protectionist policies sheltering an increasingly high-cost agriculture). The debate continues on this issue with some analysts continuing to stress the influence of broad trade and macroeconomic policies over direct intervention in influencing investment choices⁹.

Debate also continues on another issue, namely, the extent to which other developing countries can hope to emulate or even to learn from the East Asian experience. However, to a considerable extent the East Asian policies are already being emulated and there are indications of at least partial success in several so-called second-tier newly industrialising countries such as Malaysia, Thailand, Chile, Indonesia, Mexico and Turkey. A belief that world markets would not admit more exporters of manufactures is also contradicted by the experience in the difficult decade of the 1980s. Despite threats of rising protectionism (see later discussion) there have been opportunities aplenty to satisfy what — by comparison with the Dragons — has been the modest expansion in market share needed to handle fast growing exports from the minor exporters, actual and potential. Finally, for those who regard the success as due to some special features in the Asian cultural tradition, it may be worth recalling that the success of these countries is comparatively recent and that period of rapid growth was preceded by historically very long periods of stagnation and persistent poverty.

In sum, there appears to be scope in many countries for large improvements in performance even if the exact formula for success is difficult to repeat and even if the results fall well below those attained in East Asia.

Agricultural employment and rural development

Over the period since 1965, on average, non-agricultural employment and the urban share of the population have each grown by about 60 per cent in the low-income developing countries and by about 50 per cent in the middle-income countries. Thus in many countries with much less successful a development record than those whose experience has been discussed above there was also dramatic change in the occupational and industrial structure of the labour force and a massive surge in the share of the population counted as urban. Even so, agriculture remains the main sector of employment in about half the countries of the developing world.

Broadly speaking, agricultural employment and output structures divide between those based on a bipolar pattern of large, commercial farms and plantations on one side and a quasi-subsistence household sector of near-landless household farmers on the other; and systems based on peasant farming that are much less sharply differentiated. Farming in large parts of Latin America typifies the bipolar system¹⁰. During the past 25 years, in countries where rapid growth was attained, it was usually the result of increased production from a commercial and partially mechanised agriculture, concentrated on cash crops. New technology and investment (both stimulated by subsidies) largely bypassed the extensive quasi-subsistence sub-sector of small farmer and near-landless peasant households. The powerful migratory movement from rural to urban areas in many Latin America countries reflects in part people's reactions to a rural economy that has offered little to the small farmer and wage labourer.

Many of the densely populated low to middle income economies in Asia also experienced fast growth in agriculture. Here, though, investments in infrastructure and the new "green revolution" technologies were usually accessible over a wide spectrum of the farming community, involving small as well as large farmers. This has helped to sustain rural employment growth both within agriculture and through expanding non-farm rural employment; a slower rate of rural to urban migration in Asia than in most of the countries of Latin America is one result.

Even in the most successful countries, however, it is common that agricultural progress is unevenly spread. This is partly a reflection of the impact of policies towards agriculture, but also of variable agronomic potential and differentiated access to markets and technical progress. Gains have been greatest in areas best suited to the green revolution technologies, usually the irrigated areas or areas with very reliable rainfall. Large rural populations subsisting on the basis of very low productivity and earnings are often found outside the favoured areas. Regional disparities are one reason why, even with rapid agricultural growth overall, there may still be a strong motivation to migrate in search of better employment prospects.

Biases Against Agriculture. Agricultural backwardness is often greater than it need be because of policies that are adverse to agriculture including tax, price and exchange-rate policies that have distorted the internal terms of trade in favour of consumers rather than

producers, and distortions in public investment policies and programmes. In India, for example, one calculation has it that by the early 1980s real farm per capita incomes were on average only a fraction above their level 20 years earlier, despite a rise in agricultural output of some 70 per cent¹¹. Government isolated the domestic market from the world market, and output growth above the growth rate of local market demand could be absorbed only with price declines that shifted benefits from producers to consumers. In the green revolution areas the impact of such terms of trade losses is likely to be more than offset by cost-reducing innovation and productivity gains; however, no such offsets operate in less favoured areas. Public investment in roads, irrigation and power supplies, and in research and extension services, is typically made available to local farmer beneficiaries at a fraction its true cost. Rural credit too is often highly subsidized and under many schemes large amounts have been lost through defaulting (in effect these are *de facto* gifts to the defaulters). However, public investment is mainly concentrated in the areas of high potential, thus leaving little for less favoured areas. The effects on farm employment arising from this form of discrimination can be rather subtle — for example, while the *local* impact on and off the farm from subsidized irrigation development is one of big gains in output and employment, the extra output from the irrigated areas may undermine the incomes and employment prospects of other farmers producing under less favourable rainfed conditions. Or government-subsidized research and advisory services may produce good results for particular crops (eg fertilizer-responsive wheat or irrigated rice), but these activities frequently offer very little to the vast numbers of small farmers growing so-called poor man's crops — for example, cassava or millet in drought-prone areas.

In many countries there has been a considerable investment in tractors, threshers, and other labour saving innovations. Premature mechanisation has often been stimulated by subsidized credit and duty free farm machinery imported at favourable exchange rates. Appropriate mechanisation tends mostly to occur at a late stage in agricultural development as labour is leaving the land so creating a scarcity of farm workers, and as levels of locally available technical and mechanical know-how increase. The latter facilitates both local adaptation of machinery and its repair. Examples of failure due to neglect of this element — especially in the form of rusting tractors — littered the developing world of the 1960s and 1970s.

In summary, there is much evidence of government support of agriculture that served to offset in part the disincentive effects stemming from an adverse macroeconomic framework. However, the offset is much more effective in relation to output than in relation to employment. The subsidy elements tend to favour the areas already more productive, to support capital inputs in preference to a more intensive use of labour, and to be better adapted for use by large than by small farmers.

While it is vain to hope that politics can be taken out of agriculture, it is critical that farmers be able to operate in an environment where they are not disfavoured by systemic price distortions; also to be kept in mind is the pricing of scarce public capital and services such that those who benefit from them make a substantial contribution to their costs.

Targeted Interventions. At the community level, even where the distribution of land is not very equal, investments in well designed rural development and rural infrastructure programmes are often successful in achieving output, productivity and employment gains for a broad spectrum of the rural population.

Agricultural development schemes aimed at the small farmer (involving combinations of land and crop development, credit for inputs, community and regional infrastructure), are the most common and widely applied type of rural development programme. Landless and near-landless labour (often plentiful in densely populated areas) can be given employment to create low cost infrastructure through public works along the lines of Korea's *Saemul Undong* movement of the 1970s, Maharashtra (India) State's Employment Guarantee Scheme and Indonesia's *Kabupaten* programmes. The promotion and support of informal and micro-scale enterprise as well as farmers through local savings and credit institutions is another category of programme, with the Grameen Bank in Bangladesh and Indonesia's Badan Kredit Kecamatan (BKK) among the better known examples. Many programmes and special projects have been supported by aid and by NGOs and the record is mostly favourable though less so in Latin America than in Asia. Sub-Saharan Africa, however, has experienced many failed programmes and problems tend to occur there in a more acute form (see later discussion).

While many types of programme can be used to help particular "target groups" of low productivity, low income people, an education system which provides at least basic primary skills to all children is increasingly seen as the most effective way of building up the assets of the poor. Programmes to deliver a better quality of primary education to a larger share of children in rural areas merit top priority, notably in sub-Saharan Africa, where the systems have deteriorated in recent years.

Within this general objective, additional benefits may be anticipated by a special effort to improve the opportunities for girls to obtain education. These benefits take various forms but not the least among them are better management of the household economy and improved pre- and post-natal care of children. There is also evidence that educated women are more likely to achieve a better spacing of births, a closer alignment of desired with actual family size and an avoidance of unwanted pregnancies.

Off-farm Employment. A labour-intensive rural industry led by demands from a prosperous and expanding rural economy based on agricultural development is a further argument for giving special emphasis to agriculture as part of a labour-absorbing strategy of development. A rising share of income from non-farm enterprise and employment is also a partial solution to the problem of an expanding rural labour force which is faced with a stagnant or shrinking land base. Among non-farm rural activities, cottage industries and low productivity work are often of special importance among the poorest and it is the smallest scale farmers and the landless households that earn the highest share of income outside agriculture — over 70 per cent in parts of Asia and 50 per cent or more in Africa where landlessness is uncommon. Thus, the growth of new forms of rural non-farm employment is particularly important to poor households. Non-farm work in the local area also contributes to smoothing the work and income profile of an on-farm labour demand that is often highly seasonal.

While rural credit schemes, improved rural infrastructure (power and roads are particularly important) all contribute to stimulating off-farm rural employment, the demand factor is usually the most critical. Case studies have been made to assess the link between increased farm income and the related expansion of non-farm activities. Fast agricultural growth helps through the stimulus to non-farm enterprise via local consumption expenditures from higher farm profits, also because higher non-farm earnings themselves seem often to feed back into higher farm investment. In one much studied instance based on an expansion of irrigation facilities in the Muda river region of Malaysia, the indirect effect of an initial boost to farm income brought about by investment in irrigation was measured at almost to double the initial income gain, i.e., a regional multiplier of close to two. In this case, about two-thirds of the multiplier was due to agricultural households' higher demands for consumer goods and services and one-third to increased inputs for farming activities.

Other case studies have given similar results in North India, but lower multipliers (in the vicinity of 1.5) seem more typical for Africa and Latin America. It is suggested that the differences are largely accounted for (a) in Africa, by weak industry-agriculture linkages, reflecting the much smaller use of purchased farm inputs such as fertilizer and less farm machinery¹², and (b) in Latin America, by the dominance of estate and commercial farming, which seem to have comparatively weak links to local communities.

Higher farm production can also create a base for local resource-based enterprises exporting to the urban areas and to the outside world, and thus expand employment opportunities in such rural export industries. The spectacular success of China's agriculture during the 1980s helped to produce the remarkable expansion of rural enterprise in that country. The number of workers employed in rural enterprises almost tripled, from about 37 million in 1978 to close to 95 million in 1989, and among agricultural households the income from production derived from non-agricultural sources grew from less than 8 per cent in 1978 to 31 per cent in 1989¹³. With agricultural output growing very fast, at close to 6 per cent per annum, rural factories were able to expand output on the basis of greater quantities of agricultural products used as inputs (cotton, oil seeds, silk cocoons, feedgrains, tobacco, etc.). Evidently, the expansion was buoyed by demand — a combination of rapidly increasing local demands for quality foods such as poultry and pork and a demand for industrial raw materials, boosted in some instances by exports — for example silk manufacture.

How important a role agriculture can play as part of an employment strategy can only be assessed in the light of country circumstances. Case histories such as the one for China confirm the importance of agriculture's role in sustaining and diversifying rural employment. At the same time, the example also testifies to the crucial role of buoyant demand from beyond the rural areas, stemming either from the rapid industrial and urban growth or from abroad, via exports. High domestic market growth and an expanding international demand are probably essential if an agricultural growth rate in excess of 4 per cent is to be sustained.

Urban employment

With migrants adding to what would anyway have been a rapid growth of the urban labour force, it is not surprising that urban unemployment has risen in many places and fallen only in the highly successful countries. Often more important than open unemployment, though, is the expansion of various forms of low income survival employment. In effect, a mirror image of the bi-polar production structure in agriculture is also common in the urban areas as indicated by the use of the terms formal and informal sectors to describe the two poles.

Informal Sector Employment. Informality is associated with a range of overlapping characteristics including a relative ease of entry, low capitalization and technology, lack of job security, and clandestine operations or irregularities *vis-à-vis* the fiscal and regulatory framework applicable to work and enterprise management. A now vast collection of case studies puts the size of the informal sector at 40-60 per cent of all urban employment, with higher shares mostly found in the poorer countries.

Relative ease of entry tends to imply low earnings and insecure, unprotected, irregular forms of employment. However, while dominated by those with very low earnings in survival self-employments and in casual wage work, all the studies indicate a wide range of income within the informal sector. Some of the more skilled among the entrepreneurs that own and operate informal businesses earn as much or more than the factory workers in large-scale modern industry. Many migrants are from low-income families and most begin their urban life in the informal sector. While they may not do very well, large numbers do well enough so as not to return to their place of origin¹⁴.

The informal sector suffers from a lack of institutional support and there are opportunities for efficiency gains in its mini-workshops via credit, technical services, training and education since these workshops are typically starved of both the technology and the know-how for the use of more up to date techniques. There are also potential gains through regulatory reform: where the costs are high of conforming with an unreasonably burdensome regulatory framework, there is a disincentive to expand the scale of the business and to invest in increasing the fixed asset base because larger businesses are more difficult to hide from the regulators.

The opportunities for such upgrading should not be exaggerated however. With a plentiful supply of new workers flowing from population growth and rural migrants, the limits on expansion derive fundamentally from the expansion of income and output in the formal sector whose households consume informal sector goods and services, and whose enterprises use inputs and services contracted with the informal sector. More efficiency in the informal sector *might* enable a more effective competition against the products of the formal sector and thus modest gains in total employment as efficient labour-intensive informal processes substitute for less labour intensive, less efficient ones in the formal sector. However, it is just as likely that the efficiency gains of some improved informal sector firms enable them to take market share from unimproved informal sector firms. Thus improved incomes in one part of the sector might be at the cost of more work sharing in another part, more unemployment or reduced net migration. This again illustrates the limitations of easing supply side constraints in a world lacking in growth impulses stemming from the demand side.

Where sustained growth is taking place, the distinction between formality and informality gradually disappears as production structures are transformed into a continuum of size categories all of which can survive as efficient concerns catering to specialised market niches. In practice though, in most developing countries, while the characteristics of informal sector employment shade into formal employment, the differences are clear enough over a wide range of occupations.

Public Sector Employment. Among formal activities, employment growth has been led in many countries by growth in the public sector. Public employment has partly grown in response to increasing demands for services such as education and health services, but governments also found themselves acting as employer of last resort (especially for those with higher education) and/or providing patronage employment as a reward to the party faithful. A wider use of administrative controls and regulations was also a spur to the employment of officials needed to preside over their application. Prompted by suspicion of or hostility towards the private sector, many countries chose to invest heavily in public sector enterprise for ideological reasons.

The gross inefficiency of public sector enterprise has been demonstrated through case studies in many countries, and even cursory inspection of government offices “at work” suggests the likelihood that many government workers too are inefficiently and unproductively used. Plausible models showing that keeping workers employed unproductively in the public sector has a high cost in terms of forgone investment and growth have been constructed; moreover, to the extent that lower investment leads to a depressed economy which causes governments to try even harder to help people through public sector jobs, a vicious circle is created. The low quality of public service in many countries is also a reflection of the poor education and training of many officials. In this, as in many other respects, the East Asian situation is different: there is a relatively lean public service (the public sector share in employment is low) and the level of education is high, especially among the higher grades.

The rapid growth of employment in the public sector was often coupled with a rather slow growth of the private formal sector so that, by the end of the 1970s, in some countries the government accounted for as much as 50 per cent of total employment in the formal sector. In the 1980s, the public sector probably became even more dominant because while structural adjustment led to falling employment as well as to lower earnings in the private sector, in the public sector wage reductions — sometimes precipitous in real terms as nominal earnings rose much more slowly than prices — seem to have been much more common than reduced staffing¹⁵.

Employment in the Formal Business Sector. The comparatively modest contribution to aggregate employment and employment growth from the formal business sector is disappointing since the sector attracts the lion’s share of private investment and sizeable public sector support. In the absence of an export orientation, the slow growth of domestic demand — and hence a limited market potential — is usually the main factor. However, large distortions favouring capital intensity in production methods also discourage employment. The subsidy of capital is effected through interest rate and investment subsidies, implicit subsidies to capital good imports through overvalued exchange rates and concessionary tariffs. The vast differences in the cost of capital in formal versus informal credit markets have been widely documented, with real rates in

the latter often around 40 per cent or more in real terms, while in the formal market rates have been negative over considerable periods although more frequently positive in recent years. The bias is even more extreme in public sector enterprises which are frequently allocated capital — in effect, grants — from the government budget.

The bias from capital subsidies may be reinforced by labour taxes and charges. The non-wage element in labour costs has been estimated as equivalent to about 40 per cent of hourly wage costs of production workers in Latin American industry and 10-15 per cent in Africa, with Asia between these extremes. Other labour market interventions, aimed primarily at the formal sector — such as minimum wage protection and job security regulations — can also have significant impacts¹⁶.

The effect of trade unions as an independent influence on wage settlements and worker protection has never been well documented and is increasingly discounted in the light of major declines in real earnings in the modern sector in the 1980s in many countries that have had a strong union presence¹⁷. However, the tendency for large firms in particular to pay wages substantially above market-clearing rates is among the best validated empirical generalisations relating to labour markets, in developed as well as in developing countries. If not trade union pressure, what causes such behaviour?

A number of ingenious arguments have been deployed to describe why businesses might *appear* to pay above market-clearing wages in order to improve efficiency and profits. A wage premium could serve as an incentive to stabilize what might otherwise be a migratory work force, so avoiding costs of rehiring and retraining. High wages might be a device to attract and retain persons with above average general honesty, sense of responsibility, etc., consistent with the care and handling of valuable business property. A variant is the idea of using unemployment as a punishment threat for “shirkers”, the punishment being effective only if the employment that is lost is more valuable than anything that can be obtained on the open labour market. In effect, in paying higher wages to secure such a result, employers avoid a more expensive alternative, which is to provide more intensive supervision — small firms could be expected to supervise at lower costs and thus would feel less need to pay above market wages.

Other types of explanation give more weight to non-economic factors. Thus, there are large pay differences between the sexes even in apparently competitive markets such as the market for casual labour. Customary or conventional differentials also seem to play a part in wage setting for educated versus less educated workers even if education has little direct connection with job performance. An explanation could be that in earlier times educated manpower was often a good deal more scarce than it is today and the scarcity premium takes time to erode. Though erode it does — thus today there are plenty of educated people forming part of the workforce in the informal sector, showing the willingness of many educated labour market entrants to accept jobs that were formerly done only by less educated people.

There are thus several possible reasons why workers of similar characteristics receive different wages according to where they work. The explanations are not easy ones to choose between — thus, what starts as a customary differential may enable a firm to recruit a higher calibre of employee which then results in efficiency gains. However, the tendency for real wages in the formal sector to decline rather precipitously in the 1980s under the pressures of adjustment supports the view that wage rigidities are not nearly

so important in developing as they are in some developed countries. In some respects the narrowing may have gone too far with, for example, “moonlighting” now a widely reported phenomenon among public sector employees.

In summary, factor market distortions brought about by capital subsidies, labour legislation and the payment of high wages may contribute to the slow growth of employment in the formal sector through impacts on the choice of technique and the scale of production. However, the more important causes of the slow growth in employment in the modern private sector are most likely to be those that constrain the pace of development in an overall sense — notably, adverse macroeconomic and sectoral policies and the encouragement of an inward-looking industry, shielded from outside competition and with management and labour alike inclined to look too often to government for subsidies and other special favours. The inefficient and erratic enforcement of policies, a low level of efficiency among supporting institutions such as financial intermediaries, and the limited availability and poor quality of preparatory education and training of skilled workers and managers are also contributory factors to the slow growth of output and employment.

Employment in sub-Saharan Africa

During the past 20 years many sub-Saharan African countries have had little success in either development or employment creation. High and increasing rates of growth of labour force have been coupled with a very weak performance in the rural as well as in the urban areas. It is clear that the African continent faces problems of a degree of difficulty that exceeds those of the other regions. While there is much that can be learned on the basis of experience obtained in Africa and elsewhere, there is also a need for fresh thinking at the conceptual level and for new efforts in research work to be devoted to the problem of employment in this very challenging environment.

Agriculture, mostly in the form of small family-managed holdings, still accounts for about four-fifths of the labour force in most African countries. Furthermore, employment in rural manufacturing (usually in informal sector micro-enterprises) frequently exceeds that in urban manufacturing. However, since a period of significant growth in the 1960s, the mass of farm families have experienced stagnant or declining real earnings. A “guestimate” by the ILO suggests a decline in rural earnings of about 15 per cent from the early 1970s up to the mid-1980s and little improvement has taken place since then.

Misguided policies, including overly ambitious taxation of the agricultural surplus, have played a big role in depressing farm output and income growth, but Africa also suffers from a paucity of good cropland and its agronomic potential is limited. This partly reflects a lack of suitable agricultural research: broad-impact, important technical breakthroughs for traditional crops do not seem imminent, nor are opportunities abundant for new crops and for exports. A quasi-subsistence horizontal expansion into new areas has taken care of a large share of the population and labour force growth, but much land is marginal for field crop agriculture and in the more densely populated areas, for example Rwanda, land degradation is already severe and other resources are approaching exhaustion. Thus

deterioration rather than even modest progress may be in prospect, although past neglect has opened up a large potential market for local produce to substitute for imports: the challenge is to use this potential in conjunction with a wise use of natural resources.

Africa's urban areas, starting from a small base, have been witness to massive population growth, with a large contribution from rural migrants. However, greatly hampered by the still chronic lack of education and skills, the development of governance, urban infrastructure and industry have all proven to be very demanding and highly expensive in resource terms. In the formal sector, the gains in real earnings of the 1960s and early 1970s were sharply cut back in the 1980s and employment growth was slowed or reversed. In some cases, the former urban wage earning class has been transformed into a mixed wage *cum* self-employment group with much greater reliance than in the past on subsistence cropping and enterprise income. As public sector employment has been more and more constrained by the lack of resources, the expansion of informal sector employment, plus a return to rural areas, prevented even higher unemployment rates. Nevertheless, as numerous surveys show, Africa's cities tend to suffer from very high unemployment.

Policy solutions to Africa's numerous problems involve several elements. Thus, the recognition that agriculture will continue to be the major source of employment and income for many years to come is critical, along with the reform of policies to eliminate the longstanding sources of bias against farmers. Similarly, in rural and urban areas alike, governments need to invest heavily in education and in critical infrastructure. In both policy reforms and for public sector investments, African governments will continue to depend on a high level of development assistance — assistance that itself needs to be reformed so as to incorporate new approaches in design and delivery¹⁸.

Improvements in governance and in government efficiency are the highest priority of all in many countries. All too often limited resources are dissipated both in the maintenance of a bloated civil service and political influence pedlars, and in poorly selected and ill-conceived programmes and projects offering only very low returns. Here too there are no quick fixes, but policy makers must explore every means to pursue progressive and sustained reforms. Two very helpful guiding principles are, firstly, to encourage private sector investment through incentives to stimulate entrepreneurs and entrepreneurship and, second, to devolve power and decision making authority to the people themselves through community institutions and to encourage self-help community-based investments.

A policy directed towards stimulating the development of entrepreneurs is one that sets out to create opportunities for entrepreneurial behaviour and deliberately to stimulate the market mechanism to provoke entrepreneurial responses. It is the entrepreneurs who are most likely to recognise and create new investment opportunities that are beyond the ken of bureaucrat, planner and economist alike. It is they who mobilise and put to work the mini-savings of families, kinship groups and communities, and it is they who create employment for the working poor and provide the economic role models to succeeding generations. Africa has its share of entrepreneurs who might respond to the challenge if encouragement and freedom of action are sufficient for this to happen.

Similarly, under the approach recommended here, the local community would more and more have the major say in the spending of what resources there are for local development purposes — especially since their own self-help is likely to be the biggest resource for many years to come. This decentralised approach to the design of public investments would draw upon the experience of the local communities who are often much better able to identify investment priorities and opportunities to augment local incomes than any group of officials in the public sector. In Africa, there is clearly a sense that the bureaucracy-led systems of planning, regulation and governance that were set in train during the post-colonial period have run their course and have come close to rock bottom in terms of energy, ideas and imagination. Moreover, unlike Asia, in Africa the benefits from authoritarian rule in the one-party state seem to have been precious few. This too suggests the need and an opportunity for some of the answers to Africa's growth and employment problems to be sought more directly from the people themselves.

IV. Employment and development strategy

Initiatives in the 1970s¹⁹

Debates about the importance of employment and the need to include employment creation as an integral part of a development strategy are not new, nor indeed is the conclusion (so abundantly confirmed by the East Asian experience) that labour-intensity and rapid development go together. An important initiative in earlier times was the World Employment Programme (WEP) developed under International Labour Office auspices at the beginning of the 1970s, through which a series of comprehensive employment strategy missions was organised to a varied group of countries that included Colombia, Sri Lanka, Kenya, the Philippines and Sudan.

There are significant differences in the recommendations of these country studies, notably the involvement and the responsibilities proposed for the public sector. However, there are many more features that are common to all the reports. In brief, these are:

- (a) the emphasis on a correct application of a range of macroeconomic policies and policy instruments so as to enhance savings, investment, and exports, and to encourage the development and efficient use of technology; and
- (b) the recognition of the need and the opportunity to tackle a wide range of reforms which, in their totality, amount to a radical reordering of policy priorities — actions singled out for special attention commonly included land reform and new programmes of rural development, including rural works programmes, support for small business and informal sector activities, expansion and reform of the education system and increased manpower training, and greater efforts to ensure that employment was taken fully into account in investment decisions, both public and private.

There is marked similarity between these recommendations and the main features of the policies adopted by the East Asian Dragons that were discussed earlier. Also common to the reports was a recognition of the potential to increase significantly the rate of economic growth through adoption of employment-focused policies and programmes.

At about the same time as the WEP initiative, there was also a flowering of what might be called “piecemeal” approaches to employment promotion. These were the various types of employment and poverty oriented investments designed to help particular “target groups” of low productivity, low income people. The World Bank, notably through its rural and urban development projects, provided substantial support, and the approach was adopted by most of the bilateral aid agencies. Governments also funded many programmes without donor support. As discussed earlier, small farmer agricultural development schemes, employment intensive works programmes, the promotion and support of informal and micro-scale enterprise through credit and technical assistance, and basic education and skill enhancement for low income groups were the main initiatives.

Despite very active implementation and a promising build up in the commitments to poverty and employment-related programmes, interest waned rapidly from about 1974 onwards. In particular, the importance of these issues in the policy dialogue with the developing countries diminished. In large part this change reflected the quite disappointing reaction of the developing countries to the strategies proposed. Thus, the World Employment Programme studies — rather complex and expensive undertakings — led to very little discernable result in changed country policies. Similarly, there was some loss of momentum among the donor agencies in the pursuit of the so-called new style projects. While many projects were quite successful, some failed, and the failure rate was high among the more adventurous or radical of the new style projects, especially those undertaken in Africa. Basically, projects ran into difficulties for the same reasons that employment strategies were not acted upon, namely, a lack of commitment to reforms on the part of the implementing authorities and governments.

Employment and the structural adjustment programmes of the 1980s

Adjustment to deal with systemic imbalance between foreign exchange use and availability became compelling in the early 1980s along with declining commodity prices and depressed international markets and the disappearance of easily acquired foreign loans on favourable terms. The timing of the crisis was linked to the impact of the second oil price shock, and to recession and new high interest rate policies in the OECD countries. Fundamentally, though, the underlying imbalance was due to varying combinations of long term problems and tackling them has necessitated fundamental reforms.

Through structural adjustment, governments have been attempting to stabilise and redirect their economies to increase exports (so as to escape the trap of increasing inefficiency in import substitution), to stimulate agricultural development, to turn public sector enterprise over to the private sector, to improve the quality of public expenditure and to favour the market over government regulation and direction of the economy²⁰. While structural adjustment is not specifically motivated by a desire to improve the lot

of the poor or to generate improved employment for those with low incomes, the recommended policies do, nevertheless, have much in common with those of the WEP's 1970s employment missions.

The short term impact of such drastic change has, however, often been adverse, with a precipitous decline in growth accompanied by higher unemployment, more survival self-employment, reverse migration to the rural areas, and falling real wages. The decline in real wages has sometimes been dramatic, and often far greater than the fall in the GDP²¹.

Evidently, the challenge is to establish confidence in the stability of a new policy regime so as to encourage new investments and a substantial commitment to long term investment planning by the private sector. This takes time. Conditions are not yet very stable in most countries, and much reform has been attempted in an atmosphere of crisis.

The sustainability of the adjustment-led policies and programmes has yet to be fully demonstrated. There is still much uncertainty about the lasting effects of the reforms and, with few exceptions, the benefits from structural adjustment are yet to be clearly evident in the countries that have undertaken them. Judged by the experience of some Latin American countries — for example, Chile and Mexico — it may take five years or more for the measures to begin to affect development in a substantial way. The 1980s is often dubbed the “lost decade”, especially in Latin America and Africa.

However, there are encouraging features to counter-balance the gloom. The success in penetrating export markets is an important part of the adjustment strategy, and, thus far, the record of success has been encouraging. During the 1980s, while the Dragons were capturing exports that were worth more than US\$ 200 billion by 1990 (the result of a 10 per cent growth rate in exports over the 1980-90 period), other countries became major exporters too, notably China, moving to a position of thirteenth among all exporters by 1990, and Brazil, Malaysia, Thailand and Indonesia. Significant progress was also made by several smaller exporters including Bangladesh, Chile, Colombia, Mauritius, Pakistan, Paraguay and Sri Lanka. It seems that while the biggest and most successful exporters are seizing new opportunities through innovation, they are also in part being pushed up-market by rising wage costs at home and new competition from other lower cost exporters.

V. Politics and employment

Resistance to reforms

The experiences of the 1970s and 1980s illustrate that it is little use being right about the need for reform if the circumstances are unfavourable towards reform. The strength and tenacity of the entrenched interests is among the principal lessons of the ILO's comprehensive country employment strategy missions of the 1970s. Many of the policies and policy changes recommended by the ILO country missions sharply challenged the interests of the most powerful stakeholders under the unreformed system. Thus, despite the country's interest and concern about employment issues — otherwise the missions

would not have been invited in the first place — circumstances were not so desperate as to force or shock the country concerned into a reform mode capable of overcoming vested interests.

As a prominent development economist, Anne Krueger, remarked at a recent Seminar in reflecting on the opposition to reforms from the powerful stakeholders in society: “It is in fact relatively straightforward to identify who are the winners from inner-oriented import substitution strategy. They are the politicians, the bureaucrats, the army, the policy makers, the industrialists in the new and protected industries and the workers in those industries... That alliance has driven up rewards to themselves at the cost of growth in real terms to other members of society in both agriculture and industry.”²²

Unlike the situation in the 1970s, however, in several instances the recent crisis has been severe enough to force reform, and a belief in the lack of alternatives to bitter medicine has been an effective persuader. For bureaucrats, acceptance may flow from the avoidance of a major shedding of jobs; for the industrialist it may stem from a perception that profits can also be made from export markets (this group may be the easiest to convince of the possibilities of faster growth following reforms and may also see benefits from less government). The informal sector enterprise owner may actually see some quick benefits from greater freedom to obtain imported materials or through fairer competition from a less heavily subsidized and protected large scale sector.

As well as the depth of the crisis, the impulses favouring reform may be stronger for another reason: the impetus towards more democratic governance, especially in Latin America, and towards more limits on the powers of government, for example through privatization of various functions and by decentralisation. The hope is that transparency and the democratic process may help to bring about a higher level of efficiency and some redirection or broadening of government attention to serve the interests of poorer sections of the community. These movements flow from the growing understanding that there can be no reliance on presumptions about the government as an enlightened guardian angel of the national interest. Rather, most governments reflect the interests of their wealthier, more influential stakeholders who are likely to resist reforms.

While the poor and the unemployed — largely unemployed youth — might be expected to be the natural allies of reform, this may not be the case in practice. Indeed, they may oppose reforms. In increasingly democratic societies, the poor and the unemployed need to be convinced that the reform programme offers them their best opportunity to participate in and benefit from a developing economy. Publicity to emphasize employment creation as a central objective in the reform process would certainly be helpful. The use of special programmes to provide some early benefit may be more so. Targeted food and other forms of safety net assistance are one obvious form of intervention; rural and urban works programmes for the unemployed are another. Bolivia’s Emergency Social Fund is a recent case of a programme which achieved some success along these lines²³. An intensified effort to extend education and assistance to the private sector in support of training for youth is another candidate for early follow up. Above all, an effort to develop and support improvements in farm and crop systems for the small farmer (linked to price reforms) is often the most critical element. Evidently, efforts must be consistent with budget constraints, but these are activities that ought to be given priority.

Coherence in international policies

As in the 1970s, the international support of the reformist policies of the 1980s has been an important factor, especially support from the international institutions. Thus, development assistance was important in the 1970s in the effort to implement employment-based policies (at a time when the general policy framework was often not very supportive of such efforts) and it has also been influential in the structural adjustment efforts of the 1980s.

It is evident, however, despite a measure of success in Asia and in parts of Latin America and despite the still-growing wealth and income of the developed world, that the support for development assistance is faltering. Yet for Africa in particular, it is also obvious that a large volume of aid will need to be available for a long time to come if the fundamental problems arising from the lack of education, the lack of infrastructure and the lack of well adapted technology (especially in agriculture) are to be overcome.

There is also a lack of coherence in the policies adopted by the leading market economies of the industrialised world towards the developing world in other respects. In particular, the developed countries have been loath to remove the barriers to trade which plays a crucial role in the struggle to solve employment and development problems. Indeed, a dangerous protectionist tendency is much in evidence among the main trading nations and blocs — witness, for example, the frequent resort to anti-dumping charges and restriction by quota practised by the European Community. The lack of progress in removing long-standing trade barriers in agriculture and textiles — barriers which severely limit opportunities for some developing country exporters — is also discouraging. As noted in another Development Centre Policy Brief (Goldin and Van der Mensbrugghe, 1992), commenting on the importance of the current GATT negotiations in the Uruguay Round: “The challenge for the industrialised countries is to practice what they preach, breaking away from the straitjacket they currently find themselves in.”²⁴

Within the developing countries, the belief that world markets for manufactured goods will not admit larger and larger numbers of players (or volumes of goods) without protective reaction from the OECD market destinations has had a negative influence for a long time. The predictions of the export pessimists have thus far been contradicted by the success enjoyed by many developing countries in the difficult trading environment of the 1980s. Indeed, the performance of developing country exporters during that decade is one that offers a remarkable testimonial to the openness of the world trading system.

Nevertheless, the developing country policy maker would be justified in a concern about the steadfastness of the commitment of the developed countries to preserving the openness of the trading environment. In many respects, the resistance to structural reforms in the developing countries mirrors similar concerns to those of the opponents of liberalised trade in the developed countries, namely, the threat to jobs and increased economy insecurity. Indeed, there is evidence that the labour-intensive exports of manufactures from the developing world, while contributing to higher living standards generally, can displace significant numbers of unskilled workers in manufacturing²⁵. The challenge for OECD policy makers is to transform these threats into opportunities by upgrading the labour force through training while creating a policy framework favourable

to strong growth and the creation of new employment opportunities for skilled workers. In the early 1990s, however, it is all too easy to understand a lack of confidence and coherence in policy as the advocates of structural change, development assistance and liberal economic policies confront the spokespersons of those exposed to the high and rising unemployment which governments seem powerless to deal with.

It may be recalled that in the “golden age” of the 1960s and early 1970s the industrial world grew at some 5 per cent per annum — versus some 3 per cent in recent years — and this both supported and was supported by a very rapid expansion in world trade. How to re-establish growth at the higher rates achieved in past times is a subject beyond the limits of this Brief, but it is evident that low growth and concomitant high unemployment in the major OECD economies are inimical factors for the development of the rest of the world, not least through their encouragement to the advocates of national or regional autarkic and illiberal policies.

VI. Concluding remarks

The spectacular employment, export and growth performance of the Asian Dragons has been sustained over a quarter of a century including the 1980s when much of the developing world was mired in debt and suffering from rising unemployment and declining real incomes. The East Asian experience can also be interpreted as a practical demonstration of the effectiveness of policies and strategies which were presented in some detail in the 1970s under the series of major country studies undertaken as part of the World Employment Programme. Efforts are being made in several countries to emulate the strategy and policies that produced these results, but many more governments need to rethink their approach to development in the light of the increased urgency of employment creation.

Putting an economy on course for rapid employment growth and development involves taking a combination of corrective actions with an emphasis among the various elements that will vary from case to case. A stable macroeconomic environment is fundamental to building confidence among entrepreneurs and investors and to the promotion of high levels of savings; without these, sustained, rapid structural change becomes impractical. Policies to encourage exporters and to facilitate the development of manufactured exports and to escape the trap of increasing inefficiency in import substitution are critical for labour-intensive industrial development. Management and fiscal reforms to deal with overblown and overly centralised government services and inefficient, resource-devouring public sector enterprises are often critical in freeing up resources for higher priority uses in the public and in the private sector, including education and physical infrastructure. A last general task is to reverse the neglect of and the discrimination against agriculture.

Particularly in Africa, agriculture will need to be the centrepiece for employment generation for a long time to come and policies to promote a rapid but sustainable agricultural development must be government’s main preoccupation. This implies efforts to develop technology, to repair, maintain and build new rural infrastructure, and to invest heavily in a high quality primary education system. Above all though, governments must

learn how to let market forces work in a liberalised framework of price setting of farm inputs and outputs with farmer entrepreneurs taking the decisions, and to take on a supportive and secondary role so as to encourage the rural communities themselves to decide their own fate through community self-help and community decision-taking.

While the crisis conditions existing in many developing countries have broadened the constituency for radical reform, the immediate result is often more dislocation, poverty and unemployment. In the effort to put in place the conditions that are fundamental to progress in the long term, experience shows that it is vital as an integral part of the design of a new approach to mitigate the adverse effects on the most vulnerable groups in society. This can be done through creating short-term opportunities for work and training in rural and urban investment through works programmes and similar carefully targeted activities. Here too there is much scope to build upon the successful experience of several countries in implementing such programmes.

Annex

Employment indicators: some measurement issues

For policy work on employment — just as in all other fields — the availability of relevant and accurate data is an essential element. However, with respect to employment, the data base is shamefully incomplete. Indeed, one reason for the comparatively limited attention in general paid to employment issues in developing countries is the dearth of such data. Probably the essential difficulty is the need to collect much of the most valuable information from households and firms through special-purpose surveys. However, given the importance of employment objectives, expenditures to secure the needed data are minor. So it may be that the lack of data also reflects a lack of commitment to the idea of employment creation as central to development policy and strategy.

There is, however, evidence of greater concern since more and more developing countries are conducting labour force sample surveys and collecting other labour-related information. Thus, while in the late 1960s there were about ten developing countries (including some very small ones) that conducted on a regular basis labour force or equivalent household surveys, by the end of the 1980s the number had increased to around thirty. In this group, the Asian and Latin American countries are well represented, although data are still generally lacking for centrally planned economies such as China, North Korea, Vietnam and Burma. In Africa, few surveys have yet been conducted and those that have been made are largely confined to the urban areas or the capital city.

Such labour force surveys yield a good deal of useful information, notably about changing structures of employment, the role of women, youth and other groups of special interest, and about some aspects of unemployment. However, the content is heavily influenced by questions that are more directly relevant to developed industrial market economies and other data more useful and relevant in the developing country context is typically not sought and collected. Hitherto, the developed countries have largely dominated the measurement conventions — conventions that are established, for example, in the guise of the resolutions adopted by the International Conference of Labour Statisticians under the auspices of the ILO — and the urge towards international uniformity in the data collected is itself a strong force. Moreover, developed countries and international agencies have frequently assisted in the conduct of labour force surveys, supplying expertise and finance.

What are the most important types of missing data? First, as noted in the Brief, it is very important to collect data that throws light on the evolving structure of real earnings among low income workers. This could be done through surveys of the earnings of wage workers in small and micro-scale enterprises (including farms), with sufficient observations to differentiate urban/rural and male/female groups so that separate data series could be established for these groups. Evidently, there are other groups of workers — notably among the self-employed and family-based enterprises — that also experience low earnings. Data for these activities however are hard to collect and there is evidence that these parts of the labour market are closely interconnected so that measurement of the earnings of wage earners in small-scale enterprise would provide an adequate

general purpose index. Such data might be obtained as part of a conventional labour force survey with special questions addressed to wage workers about the size of the enterprise within which they work and — for those employed as wage workers in small-scale enterprises — their earnings.

Information about the size of the enterprise and the nature of the enterprise (government, public corporation, and private enterprise) are very important for other reasons, as is information about the employment provided by the self-employed enterprise owner. Thus, casual (as distinct from regular) employment has been shown (in the rare surveys that collect such information, for example, in India), to be highly significant in differentiating a group of older workers that are subject to unemployment.

With respect to the measurement of unemployment, the conventional labour force approach, which relies exclusively on questions about activity during a “reference week” (with unemployment measured only as those who are without work for the entire week, even an hour of work being sufficient to exclude a person from the category) misses important types of partial unemployment, especially among casual workers. Additional data on such partial employment is thus important in amplifying and supplementing the conventional unemployment measures.

Finally, there are issues relating to the definition of the labour force. Labour force activity is fairly easily identified in developed industrial economies, where employment is dominated by paid work carried out at work stations outside the home. This is much less true in developing countries, where household enterprise — including household farm enterprise — is more the rule than the exception and where much activity, particularly of women, contributes to household income but in somewhat indirect ways. While it is not easy to distinguish between those activities that are non-market, purely household, activities such as cooking and child minding, and other activities, experimental survey results clearly indicate that this can be done if care is used in the questions asked and in the instructions given to the enumerators²⁶.

A related problem, and in some countries the most important single factor influencing the data available regarding female participation, has been classification according to a self-declared primary activity. Under this procedure, large numbers of self-declared “housewives” are omitted although they do substantial amounts of work, particularly in farm households. Others who may also be left out under this approach may be classed as students or as retired or as simply “not seeking work” and therefore not in the labour force. The last-mentioned problem particularly affects the count of young people in unemployment (and in the labour force) and older women. These ambiguities can also be dealt with by careful attention to the phrasing of the questions and instructions to the enumerators.

If the view taken in the Brief about the importance of employment is accepted, there can be no valid objection to the additional statistical burdens that might be implied by accepting all the points made above. However, in order better to understand and measure the various employment problems, it is not necessarily true that more information is needed about everything. Rather, our principal conclusion is that *the authorities need to be clear about the rationale for the questions being asked and the uses to which the answers will be put*. In particular, recognising the inherent constraints or confines of the one-to-two hour repeatable and cost-effective survey, each of the possible questions needs to be carefully

assessed for its usefulness so that the priority questions are selected and those of lower priority are set aside. Similarly, one might question the tendency for more and more developing countries to copy the approach of the developed countries in organising surveys on a quarterly basis. A careful look at the ways in which employment data are used will confirm that for the great bulk of such uses annual surveys would be entirely adequate, with quarterly information (for example, to assess the impact of seasonality in agriculture) conducted only once or twice per decade. Here, too, there are opportunities for savings that could be put to good use in collecting the vital information about earnings.

Notes and references

1. The data quoted here plus other evidence and studies discussed in the text are — unless otherwise noted — based on a more extensive discussion in TURNHAM, D., 1993, *Employment and Development, A New Review of Evidence*, OECD Development Centre Studies, Paris.
2. In employment analysis, young people are usually defined as those aged between 15 and 24 years of age.
3. This section of the Brief draws heavily on TURNHAM, 1993, *op. cit.*, chapters 1 and 2.
4. See LOUFTI, Martha, 1991, "Self Employment in Europe", *International Labour Review*, Vol. 130, No. 1, ILO, Geneva.
5. There are numerous institutional illustrations of these tendencies. For example, the World Employment Programme of the International Labour Organisation (ILO), gave little attention to unemployment in its important and influential country and other studies in the 1970s, indeed, by the middle of the decade "basic human needs" was the centrepiece of its development message. When the World Bank summarised a decade of operational and research work on the theme of poverty and human development in the *World Development Report (WDR)* of 1980, there was only one reference to unemployment — in the form of a box on unemployment among the educated (see p. 51 of the cited report). More recently still, the UNDP's first report on Human Development (UNDP, 1990) and the World Bank's new poverty-focused WDR of 1990 have virtually nothing to say about unemployment.
6. The data quoted are based on results from nine country case studies, see KRUEGER, A.O., H.B. LARY, T. MONSON and N. AKRASANEE (eds) (1981), *Trade and Employment in Developing Countries: Individual Studies*, University of Chicago Press for the NBER, Chicago.
7. See PSACHAROPOULOS, G. (1988), "Education and Development. A Review", *The World Bank Research Observer*, Vol. 3, No. 1, January, pp. 99-116.
8. See BRADFORD, C.I., Jr. (1986), "East Asian 'Models': Myths and Lessons," in LEWIS, J.P. and V. KALLAB (eds) (1986), *Development Strategies Reconsidered*, published for the Overseas Development Council, Washington, by Transaction Books, New Brunswick, New Jersey.
9. See for example Pack's analysis of industrial development in Taiwan in RANIS, G., (ed.), (1992), *Taiwan, From Developing to Mature Economy*, Westview Press, Boulder, Colorado.

10. Thus "...family farmers by and large have been the great absents in the... agrarian structure." see DE JANVRY, A. and E. SADOULET (1989), "Investment Strategies to Combat Rural Poverty: A Proposal for Latin America", *World Development*, Vol. 17, No. 8, pp. 1203-21.
11. QUIZON, J. and H. BINSWANGER, 1986, "Modeling the Impact of Agricultural Growth and Government Policy on Income Distribution in India," *The World Bank Economic Review*, Vol. 1, No. 1, World Bank, Washington, D.C., September.
12. There is also the suggestion that rural industry in Africa is slow to respond to potential opportunities because of a shortage of raw materials and products that cannot be locally obtained —see BERTHÉLEMY, J.-C. and C. MORRISSON (1987), *Manufactured Goods Supply and Cash Crops in Sub-Saharan Africa*, Reprint Series No. 4, OECD Development Centre, Paris. Also, the lower rural density of population typical of Africa may discourage the establishment of rural towns as service and trading centres.
13. Data are from the Statistical Yearbook of China for 1990. The coverage of employment in village and township enterprise (Table 9.59) was changed in 1983; a rough correction to the 1983 coverage was made to the 1978 figure. The statistics about the income of agricultural households are from Table 8.26 of the same source.
14. Gains are due in part to the ability of households to combine different types of earnings more easily in the urban areas (or combine rural with urban earnings) and basic security may be better assured in towns compared with rural communities whose income and sustenance is dominated by a few risky crops.
15. Thus, a recent paper on military expenditures in Latin America comments that in the 1980s, while expenditures were decreased, in most countries military employment continued to increase. See MENDELSON FORMAN, J., "Development of Civilian Information and Expertise on Military Affairs", 1993, draft paper presented at an OECD Workshop on Military Expenditure in Developing Countries, OECD, Paris, February 1-2.
16. Regarding the latter, a recent paper estimates that legislation restricting employers' rights to fire workers in India and Zimbabwe reduced employment in the large scale manufacturing sector by an average of 17.5 per cent and 25.2 per cent respectively. See FALLON, P.R. and R. E.B. LUCAS (1991), "The Impact of Changes in Job Security Regulations in India and Zimbabwe," *The World Bank Economic Review*, Vol. 5, No. 3, pp. 395-413.
17. However, Unions may have a potent influence as representative of organised labour in political struggle in supporting or fighting macroeconomic reforms and in this regard their role has been much more prominent in countries such as Brazil and Argentina than in some others. See HORTON, S., R. KANBUR and D. MAZUMDAR (1991), *Labour Markets in an Era of Adjustment: An Overview, Policy, Research, and External Affairs Working Papers (WPS) No. 694*, The World Bank, Washington, D.C., May.
18. On this and other points see the discussion in TURNHAM D. (1992), *Towards Sustainable Development in Rural Africa*, OECD Development Centre Policy Brief No. 6, OECD, Paris. The discussion is based on a wide-ranging review of experience summarised in the form of 16 "Francistown Principles", named for the town where they were formulated as a conclusion to a meeting of highly experienced Africa specialists and practitioners.
19. This section draws heavily on the discussion in TURNHAM, 1993, *op. cit.*, chapters 4 and 5.
20. In the Latin American context this policy package is described by Williamson, 1990, as the "Washington Consensus". See WILLIAMSON, J. (1990), *The Progress of Policy Reform in Latin America*, Policy Analyses in International Economics, No. 28, January, Institute for International Economics, Washington, D.C.
21. The recent review by Horton *et al.*, *op. cit.*, based on a set of 12 country studies, argues that the real wage declines may have been excessively large, leading to a fall in domestic demand which inhibited recovery.

22. See her statement on pp. 155-156 of BERG, E. (ed.) (1988), *Policy Reform & Equity: Extending the Benefits of Development*, A Sequoia Seminar, ICS Press, San Francisco.
23. See GRAHAM, C., "The Politics of Protecting the Poor during Adjustment: Bolivia's Emergency Social Fund" (1992), *World Development*, Vol. 20, No. 9, pp. 1233-1251.
24. GOLDIN, I. and D. VAN DER MENSBRUGGHE (1992), *Trade Liberalisation: What's at Stake?*, OECD Development Centre Policy Brief No. 6, OECD, Paris.
25. See WOOD, A. (1991), "How much does trade with the South affect workers in the North?", *The World Bank Research Observer*, Vol. 6, No. 1, pp. 19-36, January; see also the forthcoming study by the same author entitled *North-South Trade, Employment and Equity* to be published by the Clarendon Press in 1993.
26. See ANKER, R., M.E. KHAN and R.B. GUPTA (1987), "Biases in measuring the labour force. Results of a methods test in Uttar Pradesh, India", *International Labour Review*, Vol. 126, No. 2, March-April, pp. 151-67.

Employment creation and development strategy

Employment creation and development strategy