

In recent years unemployment has come to be recognized as one of the most troublesome elements in the economic syndrome that is called "underdevelopment."

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Unemployment in developing countries is causing increasing concern in political, technical, and academic circles. It challenges accepted theories and calls for renewed exploration of basic development problems. Special studies, at both national and international levels, are being made and plans drawn up to cope with this grave and growing problem.

The "World Employment Program" of the International Labor Organization (ILO) is one of the new efforts at better understanding of the causes of unemployment and the nature of national and international remedies. Under this program, ILO has sent pilot missions, headed by Dudley Seers, to Colombia and Ceylon.

Some Examples

The first of these missions, visiting Colombia in 1970, estimated that urban unemployment amounted to 25 per cent of the labor force.¹ The mission proposed a comprehensive full-employment strategy to provide sufficient jobs for the existing labor force and the additional workers expected to come on the market in the next 15 years. Such an objective, while on the face of it quite conservative and reasonable, implies a

doubling of employment opportunities. Jobs will have to grow at 5 per cent a year, more than twice the rate of the previous 6 years.

The staggering magnitude of unemployment and the huge task of providing a sufficient number of new jobs observed by the mission to Colombia are representative of conditions in many other countries. These findings are confirmed by those of World Bank economic missions which are giving closer attention to the employment situation. Thus, many African countries are found to be suffering from widespread underutilization of labor resources in backward and poor rural areas. Disguised unemployment in the countryside is brought out into the open when people move to the cities. A World Bank mission which visited Ghana in 1970 estimated that open unemployment reached 30 per cent of the labor force in urban areas. Behind such an astonishing underutilization of human resources was a growth in the urban population of 9 per cent a year in the past decade, three times the national average.

The Magnitude of the Problem

These examples of the situations in individual countries are supplemented by estimates of the magnitude of the problem on an international scale. Not only are the findings of *present* widespread unemployment quite general, but tentative figures suggest that, in all the developing countries taken together, some 225 million new entrants will be looking for jobs in the decade of

¹ See International Labor Organization, "Towards Full Employment: A Program for Colombia," prepared by an inter-agency team organized by the ILO (Geneva, 1970).

the 1970s. This does not deny that some countries are managing to develop without large-scale unemployment. Furthermore, where unemployment has reached significant proportions the total number of jobs may have risen steadily, even if not sufficiently rapidly to keep pace with the growth of the labor force.

Both concepts and measurement of unemployment need far more attention than they have received so far. Statistics on employment in developing countries are entirely inadequate, often based on improper definitions of work and very poor demographic data.

As used in national and international discussions, the term "unemployment" covers a multitude of sins—among others, a scarcity of jobs in the organized economy and low labor utilization everywhere. It also reflects low productivity in many sectors, caused by several interreacting factors—poor organization, poor equipment, poor training, inadequate demand, and, not the least, the debilitating effects of malnutrition. Most significantly, perhaps, unemployment means that large groups of the population do not participate in the nation's growth process, do not receive the benefits of development, and have remained entirely untouched by official programs. The prevalence of "open" unemployment in the cities or in commercial agriculture will in itself discourage the poor from improving themselves and seeking full-time work. Finally, unemployment and freedom to move location and choose jobs are intimately linked: when people are free to leave their traditional environment and move to the city, the existence of underemployment opens up for all to see.

The studies undertaken so far strongly suggest that widespread unemployment and poverty are different aspects of the same phenomenon—underdevelopment. To be effective, an attack on mass unemployment must go to the root of the developing country's problems. It must be comprehensive and affect many different development activities. Some elements of a full employment strategy are the adaptations needed in general financial and fiscal policies; changes called for in criteria used in planning the economy; the role of the advanced urban sector and large-scale commercial agriculture in relation to the contribution of small-scale farming; de-emphasis of capital investment and of the growth of commodity output as unique criteria for development success, and certain adaptations in international trade, aid, and investment policies.

General Economic Policies

Evidence has been found in too many developing countries that economic incentives tend to encourage the use of capital goods and discourage the utilization of labor. *General* economic policies—those affecting interest rates, wage rates, exchange rates, and public expenditure patterns—can be used more effectively to increase the demand for labor.

In professional circles wider attention has recently been given to the employment effects of the underpricing of capital through low interest rates, subsidies, overvalued exchange rates, preferential licensing of equipment imports, and so on. In many countries effective measures to increase employment may require adaptations in economic policies with a view to increasing the cost of capital and equipment. Calculated in terms of wheat, the cost of a tractor in Pakistan is only half of one in Iowa. In Ivory Coast a loan to finance farm equipment is made at half what it costs in Germany. These are examples of prices and costs working against the fuller use of human resources.

Governments can, and should, do something to correct such disincentives. To do so, they may have to restructure their fiscal and public expenditure policies in several respects:

- In many countries export taxes weigh heavily on primary production, thereby discouraging rural development and perhaps indirectly encouraging migration to the cities, where open unemployment is already serious. The proceeds of taxes levied on farmers are all too often used for urban-oriented infrastructure rather than the promotion of agriculture.
- The persistent increase in public current expenditures benefits primarily the government's urban workers, who already receive real wages and salaries considerably above those prevailing in rural regions. Thus, the trends in fiscal policies worsen rather than ameliorate the very wage differentials which cause an acceleration of rural-urban migration.
- More generally, the fiscal instruments of government should help to redistribute income and public expenditures in favor of backward regions and classes—those regions and population groups where utilization of human resources, training, and education is poor and where unemployment is most serious.
- Public policy turns the domestic terms of trade in favor of the cities and against rural activities: urban incomes and prices are raised relative to those in rural areas. Does such a policy make sense when the vast majority of labor lives in rural areas and many of the solutions for widespread unemployment must of necessity be worked out in the countryside?

Basic Orientation

The restructuring of general economic and fiscal policies may well change the orientation of development. In fact, tackling employment problems at their roots may invalidate the identification of development with modernization and give the more advanced sectors a less dominant role in the growth process.

Some countries, which until recently were considered showcases of success, have followed a "Strategy of Widening Disparities." The growth of already advanced sectors was accelerated, benefiting primarily the middle-class in the urban economy and in large-scale agriculture. In this process, public and private firms operating in the advanced sector ploughed back their increasing profits. The tax base of the advanced sector tended to grow stronger while its share in public expenditures remained high. The nation's growing financial resources were only to a small extent diverted to development of its poorest regions and population groups. The latter's living standards improved only little and the disparity between the advanced and the underdeveloped sectors has remained the same or may even have worsened.²

Longer-term solutions to the employment problem call for a higher priority to be assigned to the development of the resources of those rural and underdeveloped regions with potential. As long as countries are still in an early stage of development, with as much as two thirds of the population in agriculture, they must of necessity search for means of absorbing more labor in the rural sector. Development experts are generally agreed that more emphasis should be given to agriculture and a growing number of countries want to do this. Such a reorientation may involve a shift in emphasis within the agricultural sector. A keenly debated question concerns the pattern of agriculture development—should it be large-scale, capital-intensive, or small-scale with greater participation by laborers and greater use of simple, domestically produced implements. Many countries, either by design or by following the path of least resistance, have excessively favored large-scale and capital-intensive development. More attention should be given to the economic and social incentives and the technical support needed to make small-scale production more effective, particularly where land resources are scarce.

A full-employment strategy also involves changes in national planning—changes not merely in sectoral composition but in the very criteria by which plans are drawn up. Planning which aims at the maximization of direct return on capital may favor urban and other advanced sectors at the expense of rural and backward sectors, and may increase the extent of unemployment by discouraging those sectors in which labor-intensive projects are most promising. Should not decisions on both current and capital expenditures recognize that capital is only one of the factors to be considered? For example, projects with high returns on capital may, because of the extensive use of advanced equipment, tend to displace labor which, when migrating to the

city, becomes a public burden. Should not that burden be regarded as an indirect cost of the project, which greatly reduces its economic profitability? Put another way, under conditions of widespread underemployment, project appraisal and planning may well consider the outlay for labor as a benefit rather than a cost. When one makes full allowance for factors such as these, national planning will search for a wider range of projects for eventual selection and may well choose projects with relatively unattractive direct returns on capital, with a small component of imported equipment, and providing both training and employment for larger numbers of rural workers.

Educational methods and policies will also have to change as more attention is given to the absorption of underprivileged groups and underdeveloped regions into the national economy. Education is undergoing broad changes in the industrial countries—the changes in the poor countries may have to be equally profound. They must involve changes in curricula and greater attention to the realities facing the pupils. In fact, what may be needed is the development of truly indigenous educational systems and curricula emerging from local circumstances and requirements rather than the experience and conceptions of the rich countries. All too frequently educational systems are poorly geared to the realities of rural development and the needs of the underprivileged. A large proportion of rural youth is still left untouched by present school systems—and is in no way being prepared for the structural changes already under way in the country. To begin training these young people changes may be needed which professional educators and administrators abhor: school buildings may have to be simpler and cheaper, techniques less complex and less capital-intensive, and the "quality" of education lower.³

Dilemmas: Growth, Technology, and Employment

In assessing the longer-run impact of a strategy for full employment, two dilemmas present themselves. First, if a higher priority is assigned to employment, income distribution, and, more generally, social issues, will this reorientation entail a slowdown in the growth of commodity output? Second, when new technologies are capital-intensive and discourage labor absorption, should countries seek to develop without the latest know-how and instead make more use of simple, intermediate techniques?

Questions about the possible repercussions on commodity output have also arisen in some of the current

² See B. S. Minhas, "Mass Poverty and Strategy of Rural Development in India," Economic Development Institute, 1971, and Robert d'A. Shaw, "Jobs and Agricultural Development," Overseas Development Council, 1970.

³ See, for example, Frederick H. Harbison, "From Ashby to Reconstruction: Manpower and Education in Nigeria" in *Growth and Development of the Nigerian Economy*, edited by Carl K. Eicher and Carl Liedholm, Michigan State University, 1970.

debates about the objectives of public policy in industrial countries. Is the aim of economic measures an ever greater output of goods or should the test be whether people are indeed better off? Are these objectives in conflict with each other?

It would be more correct to say that when employment receives higher priority, the emphasis of development economics and policy shifts from commodity production and the efficiency of the economic system to the position of the individual in that system. The increase in production of commodities is no longer a primary objective but rather a result, an outcome, of a more comprehensive strategy to improve incomes and employment of all participants in the economic system.

It is extremely unlikely that full employment policies would induce a deceleration of growth. How would improved utilization of human resources throughout society reduce output below the production levels of economies in which 30 per cent of urban labor is unemployed and needs public support, not to speak of the production impact of widespread rural underemployment? On the contrary, it can be expected that fuller utilization of human resources will produce far higher growth and investment rates than have been achieved in the past decade.

The results of such a widened strategy can no longer be tested exclusively by reference to the growth of the gross domestic product (GDP) and its major components. More direct attention will need to be paid to the very factors which determine the welfare of individuals in the economic system: nutrition, clothing, shelter, education, community facilities, and the like. When these and other aspects of life in the developing countries become the targets, it is generally agreed that the GDP provides only an incomplete measure of development performance and that aims for commodity production may indeed be misleading as guides toward full employment.

On the second dilemma, concerning the impact of capital-intensive technology, one may well wonder whether any development plan is realistic and sensible if agriculture and industry are not encouraged to use the most up-to-date know-how. Many experts are frankly skeptical about the role of so-called intermediate technology in creating more employment opportunities, particularly in manufacturing industries. They do not deny that many shifts in techniques can be expected once policies and planning are altered to give incentives for saving capital. Beyond that, it is difficult to make a general case for the adoption of labor-intensive techniques. It will be more realistic to seek specific ways in which available technologies can be adapted to labor surplus conditions in individual cases.

Furthermore, economists have argued that agricultural development should place more reliance on small-scale labor-intensive production, transforming in

effect, existing communities rather than displacing them with large-scale mechanized operations.⁴ In so doing, measures are needed to make broader and more effective use of the results of agricultural research and many adaptations are needed in existing incentives, policies of mechanization, and land tenure. To many development experts and rural politicians this sounds like a promising and attractive alternative. On the other hand, it would be unreal to expect that technical improvements in small-scale agriculture will stem the flight to the cities for long.

Some International Aspects

Domestic measures for a full employment strategy must, in several respects, be supported by international action: in trade, aid, and the transfer of know-how.

Fuller utilization of the labor potential of developing countries is bound to increase their output growth. It will require higher levels of development expenditure, both current and capital, and more financial resources. An acceleration of export growth, particularly of labor-intensive products, could play a strategic role in this process. Certain medium-sized countries, e.g., Korea and the Republic of China, have indeed succeeded in expanding exports rapidly and have suffered less from unemployment than others.

International action to widen the markets of exports from poor countries takes on new meaning and importance in a full-employment strategy. Preferential arrangements favoring access to the markets of the richer countries would be an important step forward. Shifts in the international division of labor in favor of labor-intensive exports from developing countries require, as a counterbalance, structural and policy changes in industrial countries, some of which suffer from unemployment themselves.

Various adaptations must also be made in procedures and objectives of development assistance if the flow of public capital is to supplement policies for fuller employment. These policies must necessarily be the outcome of national debate and deliberation and of a truly *domestic* effort. It should be recognized that international assistance can play only a supplementary role in the reorientation of policies in recipient countries toward more effective utilization of human resources. Thus, in considering the possible adaptations of aid policies, it should also be kept in mind that the criteria for allocating external aid within a country are essentially the same as those governing the formulation and execution of its development program. More

⁴ For example, Carl Eicher and others, *Employment Generation in African Agriculture*, Institute of International Agriculture, Michigan State University; Guy Hunter, *Modernizing Peasant Societies: A Comparative Study in Asia and Africa*, Oxford University Press, London, 1969; and Bruce F. Johnson, "Agriculture and Structural Transformation in Developing Countries: A Survey of Research," *The Journal of Economic Literature*, June 1970.

explicit recognition of employment effects may well increase the number of projects with a relatively low direct economic return on capital, a low import component, and greater expenditure for current purposes and for employing and training labor. All three of these aspects would require special attention in the formulation of aid policies.

The solutions which emerge from these considerations leave ample scope for close collaboration between foreign know-how, management, and capital and domestic interests in the developing countries. On balance, it is extremely difficult to conceive a lasting solution to the employment problem without a rapid growth in the country's own foreign exchange earnings and the availability of mass-produced consumer goods. Both of these may—for many products and in many countries—be

achieved most rapidly by capital-intensive technology and the use of foreign management. It would be unwise for recipient countries to pass up opportunities of international collaboration of this nature. Most likely, external resources—private and public—will, for some time, seek to promote capital-intensive techniques and investments. Such projects may appear to intensify the employment problem. Yet, with appropriate domestic policies, the increase in output and incomes made possible by these outlays should strengthen the resource base for implementing comprehensive programs for labor absorption and training. In any case, the developing countries will need to make strong efforts to formulate and implement full employment strategies and to make the necessary adaptations in present policies and plans.

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