Chapter 4: Employment Trends and Issues

Scope and Nature of the Employment Challenge

Because average labor productivity is lower in agriculture than in industry or services, the sectoral restructuring of the labor force initially proceeds more slowly than that of production. As a result, agriculture so far remains the predominant source of employment not only in Low Income countries but also in many Middle Income countries.

whereas that in the developing countries is currently growing at more than 2 percent a year. It took 90 years for the labor force to double in the industrialized countries; it now takes less than 30 years in the developing countries.

Such differences in the pace of labor force growth have significant implications for the transformation process. Relative to the size of the total labor force, industrial employment expanded at roughly the same rate—absorbing between 0.3 percent and 0.4 percent of the labor force a year—in the European industrialized countries at the turn of the century and in the Low Income countries in the 1960s. The Middle Income countries absorbed a substantially higher proportion in the 1960s: about 0.7 percent a year. Relative to the annual increments in the labor force, however, the outcomes have been very different. Whereas the industrialized European nations could absorb almost half of their incremental labor force into industry each year, the Low Income countries, because of their very much higher labor force growth rate, have absorbed less than 20 percent of their additional workers into industry each year, and the Middle Income countries, notwithstanding their rapid industrialization, have absorbed less than 35 percent. The sectoral transformation of the labor force in the developing countries has been much slower than the European historical experience, not because of unusually slow expansion in industrial employment, but because of unusually fast growth in the labor force.

26. Structure of the Labor Force, 1950-70

	Percentage of Labor Force in								
	Agriculture			Industry			Services		
	1950	1960	1970	1950	1960	1970	1950	1960	1970
Low Income Countries	78	77	75	8	9	10	14	14	15
Middle Income Countries	65	59	50	14	17	20	21	24	30
Industrialized Countries	25	17	10	36	38	38	39	45	52

The large number of workers remaining in agriculture in developing countries has increasingly raised doubts about the adequacy of the industrialization process as a source of remunerative employment. Only in a few developing countries has there been an absolute decrease in the agricultural labor force in response to the growing demand for industrial labor. Even in the Republic of Korea, where extremely rapid growth of total output and industry between 1950 and 1970 was accompanied by a large decline in the share of agriculture in the total labor force—from 70 percent to 50 percent—there was still an increase in the absolute numbers employed in agriculture. During the same period, the agricultural labor force in Bangladesh increased by over 6 million, agriculture's share of total employment remaining about 85 percent. Although the developing countries vary considerably in this regard, in many of them the sectoral transformation of the labor force is disappointingly slow.

Compared with the historical experience of the industrialized countries, today's transformation efforts must contend with much more rapid labor force growth: throughout the nineteenth century the labor force in European industrialized countries grew at less than 1 percent a year,

The most visible consequence of modern industry's inability to provide adequate employment for such a rapidly growing labor force is the emergence of underemployment—a state of low labor productivity, sporadic employment and depressed earnings—as a significant phenomenon, not only in agriculture but also in the traditional segments of the industrial and service sectors. Although precise estimates of their numbers are not available, the underemployed are usually understood to comprise most of the rural landless, many small farmers, many of the urban self-employed and most employees of small-scale urban enterprises. While some are not fully employed because of such factors as seasonal variation in the demand for agricultural labor, others work long hours throughout the year but earn very little from their low-productivity jobs. Their common characteristic—low income—identifies them as the core of the poverty problem.

Frequently, the expansion in service sector employment observed in many countries is regarded as a further manifestation of the failure of industry to create enough jobs. This view is oversimplified, however, in that it neglects the great variety of activities in the service sector and underemphasizes the extent to which their expansion is induced by economic growth. Intermediate services—transport, communications, commerce, banking, finance and professional services—respond and contribute to successful industrial and agricultural development, rather than merely serving as a sump for residual, unproductive employment. Many of the social goals espoused by developing country governments entail increases in employment in the service sector. Education and health programs and, in most developing countries, expansion in the role played by government in other sectors, have contributed substantially to the observed increase in employment in services. In the early 1970s, the public sector accounted for more than 15 percent of the total wage employment in, for example, Argentina, Chile, India and Venezuela. In some countries, part of the expansion in public sector employment has represented excessive hiring by governments seeking to defuse social tensions stemming from unemployment and underemployment. Although measured productivity is frequently higher in services than in either agriculture or industry, many service activities, especially in petty trading and domestic service, are indeed appropriately characterized as low-productivity jobs. The demise of these activities has been retarded by the continued excess supply of cheap unskilled labor in many developing countries.

A second consequence of the rapid increase in the labor force combined with insufficient growth in industrial employment is the high rate of unemployment experienced by first-time entrants to the urban labor market, especially those who have primary or secondary education. Unemployment rates of over 20 percent have been recorded for the age group 15-24 in the urban areas of countries as diverse as Colombia, Kenya, the Philippines and Sri Lanka. The concentrated incidence of unemployment on such a politically vocal group makes this an especially pressing social issue. Unlike underemployment, however, unemployment is not necessarily associated with low income, because only those with access to unearned income are able to finance a period of unemployment while they search for a job they consider satisfactory. The poor, on the other hand, cannot afford to be unemployed; they are obliged to accept underemployment.

In many countries, increasingly rapid growth in the labor force will make the creation of adequate employment opportunities more difficult in the future than it was in the past. Although changing labor force participation rates may

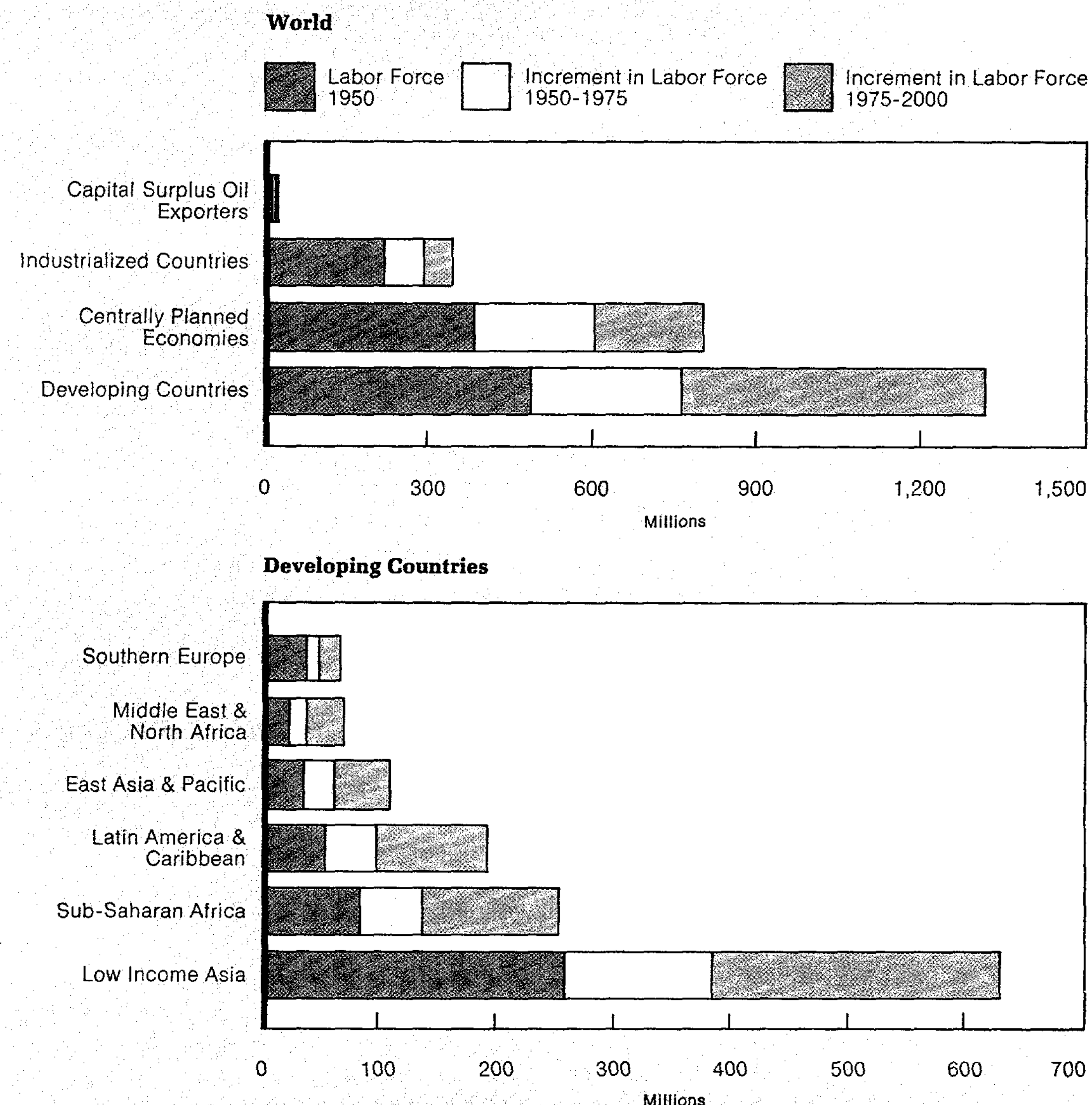
27. Growth of the Labor Force, 1960-2000

	Average Annual Percentage Growth Rate			
	1960-70	1970-80	1980-90	1990-2000
East Asia and Pacific	2.4	2.6	2.3	2.0
Low Income Asia	1.7	2.0	2.0	1.9
Latin America and Caribbean	2.4	2.7	3.0	2.7
Middle East and North Africa	1.9	2.6	2.9	2.2
Sub-Saharan Africa[a]	2.2	2.2	2.5	2.6
Southern Europe	0.8	1.3	1.3	1.2
All Developing Countries	1.8	2.2	2.2	2.1
Industrialized Countries	1.2	1.2	0.7	0.5

[a]In all tables and figures in this chapter and in Chapter 6, the term "Sub-Saharan Africa" includes Low and Middle Income countries.

Figure 7

Labor Force Estimates and Projections, 1950-2000



modify the relationship somewhat, labor force growth is determined mainly by past population growth with a lag of about 15 years. Consequently, the high, and in some countries increasing, rates of population growth of the late 1960s and 1970s will not be reflected in labor force growth rates until the 1980s and 1990s. Although already high by historical standards, the recent annual rates of labor force growth reported for Latin America and the Caribbean, Sub-Saharan Africa, the Middle East and North Africa, and Low Income Asia will be surpassed in the future (Table 27).

The immensity of future expansion in the labor force is illustrated in Figure 7. In Low Income Asia, the labor force increased by about 125 million people between 1950 and 1975; between 1975 and 2000, despite a projected slight decline in the participation rate, it is expected to increase by almost 250 million to approximately 630 million. While not so overwhelming, the projected increments in the labor force for the last quarter of the century in Sub-Saharan Africa (120 million) and Latin America and the Caribbean (100 million) are nevertheless daunting. The remainder of this chapter discusses the policy measures required to cope with this unprecedented expansion in the supply of labor. The analysis puts its main emphasis on the creation of remunerative employment opportunities through the promotion of appropriate agricultural and industrial development strategies and the creation of a more skilled and better educated labor force. These efforts can be reinforced by labor market policies that facilitate the geographical and occupational mobility of workers and improve the sectoral allocation of labor. The discussion ends with an analysis of a policy instrument—population planning—the significance of which lies in its potential to reduce labor force growth in the medium and long term.

Development Strategies for Expanding Employment and Improving Skills

Agricultural Policy

While rapid population growth has been a major reason for the slow sectoral transformation of the labor force, other factors have depressed the growth of employment and income-earning opportunities in agriculture. Policies that discriminate against agriculture in general and agricultural labor in particular have exacerbated rural underemployment and poverty, and contributed to the increase in rates of rural-urban migration.

The role of agriculture during the process of industrialization is discussed in Chapter 5. Here it is simply noted that appropriate policies toward investment and pricing can have significant implications for the growth of agricultural production. Policies in these areas have even more important implications for poverty and employment, especially in the Low Income countries, where more than 70 percent of the labor force depends directly on agriculture and will continue to do so in the foreseeable future. In addition to their immediate, first-round benefits within agriculture, increases in agricultural production and incomes will generate new demands for non-agricultural output. In Sri Lanka, for example, where agriculture still accounts for almost 40 percent of GDP, one-third of the country's non-agricultural gross output is purchased by rural households. As income rises, an increasing proportion of incremental expenditure is allocated to non-farm commodities and services. Policies to improve agricultural incomes thus not only benefit the underemployed small farmer directly, but also create a demand for non-agricultural labor through expenditure linkages. These linkages are especially important in Low Income countries in view of industry's dependence on a growing domestic market; the production of consumer goods and agricultural implements and the processing of agricultural produce, as well as related activities such as construction, transport and wholesale marketing, depend critically on development in agriculture.

Rural small-scale enterprise has demonstrated a remarkable capacity to respond to increases in demand and to provide jobs for rural labor. In the Republic of Korea, for example, employment in rural manufacturing grew at an annual rate of nearly 6 percent in the 1960s; in the Republic of China, employment in the rural manufacturing sector grew at an even faster annual rate—7.4 percent—in the decade 1956 to 1966. Non-farm activities are the main source of employment for between 20 percent and 30 percent of the rural labor force in Chile, Colombia, India, Indonesia, Iran, Kenya, the Philippines and Venezuela, and are an important secondary source of income for many small farmers, especially during agricultural slack seasons. In Egypt and Malaysia, for example, many small farm households devote 30 percent to 40 percent of their labor to off-farm activities. The inherent dynamism of rural non-farm enterprise can be enhanced by public assistance in the form of improved infrastructure, rural electrification and the extension of credit facilities. The People's Republic of China, for example, by actively stimulating investment in rural industry, has created new employment opportunities and simultaneously provided agriculture with a valuable source of inputs to enhance productivity, ranging from chemical fertilizers to drainage machinery.

Several countries have used public works programs to provide slack-season employment for rural labor. Most of these programs have emphasized temporary employment and income generation rather than the creation of assets designed to increase productivity permanently. The Instruksi Presiden (INPRES) programs in Indonesia, for example, are reported to have provided employment for almost 1 percent of the country's total labor force. This is a remarkable achievement and has undoubtedly brought at least temporary benefits to those employed; nevertheless, the construction of physical infrastructure has not been quite as successful. In poor countries, public works programs should be increasingly designed to create infrastructure that is economically justified, rather than simply to generate temporary employment. Minor irrigation and drainage schemes and land reclamation, for example, are highly labor-intensive activities which can be undertaken in the agricultural slack season, and which can be expected to stimulate increases in production by raising yields and making larger areas viable for cultivation.

Other policies within the agricultural sector have an influence on labor demand and income distribution. Of particular concern in this respect is the common provision of subsidized credit to large farmers and the exclusion of small farmers from the formal credit market. With the notable exceptions of the Republic of China and the Republic of Korea, institutional credit in developing countries rarely reaches more than one-fourth of the farm population; most of it is usually secured by large farmers, often at very low or even negative real rates of interest. Subsidized credit programs have often had the unintended effect of encouraging mechanization. In the early 1960s, farms of more than 50 hectares accounted for over 90 percent of all tractors in Chile, over 60 percent in Colombia, and for over 70 percent of all farm machinery in Mexico. The significance of this observation is that studies in Asia and Latin America have consistently demonstrated the labor-displacing effect of mechanization. Selective mechanization may be appropriate where output is limited by seasonal shortages of labor, but its general encouragement through subsidized credit is unwarranted, especially in poor countries.

Small farms receive relatively few institutional loans and are forced to rely on informal credit markets where real interest rates higher than 50 percent are not unusual. As a result, these farms rarely use credit to finance technological improvements such as the introduction of high-yielding varieties of seed, inorganic fertilizers or chemical pest and weed controls, but resort to borrowing mainly in emergencies such as crop failure. Moreover, small farms generally have less contact than large farms with government seed and fertilizer programs and extension services, and are usually inadequately connected to the main markets. Since the cultivation techniques required by the new varieties are relatively labor intensive, failure to ensure their widespread distribution limits the growth of both agricultural output and employment.

Unequal land distribution and policies that discriminate against the small farmer have resulted in bimodal agrarian structures, in which a well supported, large-scale, commercial, but relatively small, subsector of farms coexists with a large backward subsistence sector. Countries such as the Republic of China, Israel and Malaysia, in all of which land is relatively evenly distributed, have achieved a more broadly based development of agriculture by distributing government-supported services—infrastructure, irrigation, credit—throughout the sector. Although experience varies, some countries following such a unimodal strategy have achieved agricultural growth rates at least as high as those of countries with a bimodal structure, and have enjoyed a considerably more egalitarian distribution of the benefits of growth.

Many studies have demonstrated that small farms typically use more labor per unit of land than large farms. In 1960, Colombian farms of less than three hectares used 20 times as much labor per hectare as farms in the range of 50 to 500 hectares. Since the more intensive application of labor is also associated with higher yields, achieving a more equitable distribution of land ownership offers the prospect not only of improving rural equity, but also of increasing output and labor demand. Several countries—the Republic of China, Egypt and the Republic of Korea—by combining land reform with credit and other types of assistance, have successfully enabled the participating farmers to increase productivity. Tenancy reform, to fix rents and guarantee security of tenure, has facilitated the adoption of innovations by tenants in, for example, Ecuador and Sri Lanka. Supervised credit programs and technical assistance for small farmers, such as Operaçao Tatu in Brazil, the Small Farmer Development Agencies in India, and Kenya's Small Farmer Credit Program have also stimulated the adoption of new techniques which have increased the labor intensity of production and resulted in higher yields.

Promoting agricultural growth and encouraging the efficient use of rural labor are the most important means of reducing underemployment in the Low Income countries. This conclusion applies with almost the same force to the Middle Income countries, many of which still have half their labor force in agriculture. Though some of the Middle Income countries have industrialized rapidly, agriculture remains the single most important source of employment; it provides a large market for industrial output and can, given the appropriate support, relieve the pressures of rural-urban migration. For these and other reasons, greater attention to agriculture is of importance not only in the Low Income countries but also in Middle Income nations.

Industrial Policy

Despite their obvious abundance of labor, many developing countries have encouraged capital-intensive industrialization, either directly, through public sector projects, or indirectly, by artificially lowering the price of capital to the modern private sector. Subsidized interest rates, allowances for accelerated depreciation, tax holidays, overvalued exchange rates, and facilities for duty-free imports of capital have enhanced the profitability of capital-intensive investments and often encouraged enterprises to economize on labor rather than on capital.

Access to institutional credit and capital subsidies for industry is commonly confined to large-scale modern enterprises. Traditional and small-scale enterprises, unable to take advantage of these subsidies, have pursued more labor-intensive paths of expansion. Their development, however, has been constrained by the overly bureaucratic administration of industrial licensing schemes and by the unreliability and high cost of credit in the informal "curb" markets. The generation of income, both wages and profits, is thus restricted in that part of the economy where a large number of the poor seek their livelihood.

The elimination of subsidized credit, relaxation of administrative requirements for industrial licenses, and the expansion of government-backed credit facilities to encompass small-scale operations are some of the measures that would enhance the overall efficiency of the industrial sector in many developing countries. The provision of adequate financial resources to small-scale enterprises will usually require government initiative and support. The Republic of Korea, for example, guarantees loans from the Citizens' National Bank and the Medium Industries Bank to small- and medium-sized industries; by 1977, these loans accounted for almost 40 percent of the total lending to industry. Among other countries that have fostered the development of small-scale enterprises, India has reserved some consumer goods for exclusive manufacture by the small-scale sector. In certain circumstances, such as the possibility of widespread unemployment as a result of technological change, the temporary use of quantitative controls and other special measures to assist small-scale industry merit consideration. In general, however, the appropriate approach toward the small-scale sector is the removal of policies that impair its competitiveness, rather than the creation of an incentive structure biased against large-scale enterprises. Measures that enhance the exploitation of potential linkages between small and large units are also important. The promotion of subcontracting, for example, assures a market for the output of small-scale enterprises, encourages the transmission of technical expertise, and provides a low-cost source of inputs for large firms.

Foreign trade policy is an equally important component of a successful employment-generating industrial strategy. While selective protection is likely to be essential in early phases of industrial development, the small size of the domestic market limits the gains from prolonged recourse to import-substitution policies. Particularly in the middle and later phases of development, industrial output and employment have grown more slowly in countries that have relied heavily on tariffs and quantitative restrictions to foster import substitution, than in countries that have provided incentives of similar magnitude to both import substitutes and exports. The elimination of the policy bias against exports normally accelerates industrial labor absorption in two principal ways. First, there is a shift of

28. Growth of Industrial Production and Labor Force in Selected Developing Countries, 1960-70
(Average annual percentage growth rates)

	Value Added	Labor Force
Export Promoting Countries		
Korea, Republic of	17.2	11.2
China, Republic of	16.4	6.3
Singapore	12.6	5.6
Import Substituting Countries		
Mexico	9.3	4.5
Colombia	6.0	3.7
Philippines	6.0	2.5

resources into export production, rather than production of import substitutes; this increases labor demand because exports, especially in the early phases of industrialization, are usually more labor intensive than import substitutes. Second, the overall improvement in industrial efficiency induces higher rates of investment which, in turn, further increase the demand for labor. Employment thus benefits both from more labor-intensive methods of production and a more rapid expansion in the stock of national capital.

The Republic of Korea has been strikingly successful in export promotion. Between 1960 and 1970, industrial output and employment grew at annual rates of 17 percent and 11 percent, respectively; the capital stock in manufacturing increased fourfold between 1960 and 1973, and gross investment expanded from 11 percent of GDP in 1960 to 27 percent in 1975. These developments were reflected in annual growth rates of both GNP per person and real wages in manufacturing of around 7 percent between 1960 and 1976, and a decrease in the unemployment rate from 9 percent in 1960 to less than 5 percent in 1970. The increase in employment has enabled the benefits of a high growth rate to be dispersed through the labor market to a significant proportion of the population; thus the export-promoting strategy has furthered both economic growth and the alleviation of poverty.

Production for the domestic market, as well as for export, can be rendered less efficient by inappropriate tariff structures or by unduly heavy reliance on quantitative import restrictions. The pursuit of such policies in India during the 1960s contributed to the slow annual growth in the industrial labor force (1.6 percent) and in output (5.5 percent). Rationalizing trade policy is an important component of an employment strategy even if the domestic market remains the main outlet for industrial production.

How great an impact a more trade-oriented industrial strategy would have on employment rates will vary among countries. In semi-industrialized countries that are still following import-substitution policies, this impact could be substantial. In the Low Income countries, existing trade policies may not be the sole constraint on exports, and improvements in such policies may have their greatest effects on the efficiency of industrial production for the domestic market. Increases in employment resulting from improvements in industrial policies are nonetheless likely to be small relative to the annual increase in the labor force: if the rate of growth in industrial employment in the Low Income countries were suddenly doubled, the industrial sector would still only absorb about a third of the annual increment in the labor force. Rationalization of industrial trade policy should be encouraged, but improved agricultural strategies are likely to be quantitatively more significant for these countries.

Education and the Acquisition of Skills

Improvement in the abilities of the labor force is a fundamental feature of development. Technological advance continuously demands new industrial skills. Most countries have recognized this and have expanded educational facilities very rapidly. By 1976 in many Low Income countries more than 50 percent of the primary school age children were in school. Universal primary enrollment had been achieved, or was within sight, in most Middle Income countries and some Low Income countries, such as Kenya and Zaire. At the secondary level, enrollment rates were lower than 20 percent in many Low Income countries, although Sri Lanka had achieved a rate of over 50 percent. In the Middle Income countries, secondary enrollment rates varied from a low of 4 percent in the Yemen Arab Republic to a high of 85 percent in Portugal, with the rates in almost half the countries falling between 30 percent and 60 percent.

In many countries, education has made workers more geographically mobile and increased their range of possible occupations; those able to obtain school places have later benefited substantially from the better earning opportunities available to educated workers. In some countries, however, educational expansion has resulted in high rates of unemployment among recent graduates, especially at the secondary level. In the early 1970s, for example, almost 20 percent of Sri Lanka's secondary school graduates were unemployed. In part, such high rates reflect the success of these countries in raising enrollment rates at a time when the school age population was itself increasing: the consequent increase in the supply of educated labor exceeded demand, resulting in unemployment. However, they also reflect the failure of the labor market to adjust to this imbalance: wage differentials between educated and uneducated workers have not diminished sufficiently to eliminate the excess supply. Since the public sector is often the largest employer of educated labor, the unemployment problem highlights the importance of ensuring that public sector pay scales are responsive to developments in the labor market. Current unemployment among the educated also emphasizes the need for a critical review of future plans to expand higher educational facilities in these countries.

Because education offers one of the few chances for the poor and disadvantaged to escape from poverty, efforts to ensure the equitable distribution of educational opportunities are extremely important. In this respect, the high unit costs of secondary relative to primary education, and the need to widen access to primary education, suggest a reallocation of limited educational budgets in favor of the latter. The location of adequate primary schools in rural areas and the provision of grants and scholarships to compensate poor students for the loss of earnings while attending school are important aspects of an education strategy to benefit the poor.

In economies where the modern sector has expanded very rapidly, a shortage of workers with secondary education can be expected. Such a shortage is being felt in oil exporting countries such as Saudi Arabia, where educational facilities are not yet widely spread, and in rapidly growing economies such as Brazil, where the secondary school enrollment rate is less than 20 percent. For these countries further early development of secondary education is warranted on economic grounds.

The appropriate combination of academic and vocational training for the labor force is crucial during industrialization; in many developing countries the skills supplied by the educational system may not match the skills demanded by industry. The most important feature of a successful industrial training program is a direct link with the labor market. In the traditional apprenticeship schemes of West and East Africa, training is linked to the labor market in the person of the master craftsman. This system is useful in imparting certain types of skills, but in an economy in the process of rapid transformation, it is unlikely to be adequate.

Attempts to provide vocational training through the formal education system, as in Kenya's secondary technical schools and Colombia's comprehensive schools, have sometimes had limited success because they lacked strong links to the labor market. In these countries, on-the-job training is still the most common way in which workers acquire skills. Some countries have deliberately sought to stimulate on-the-job training and to make vocational institutions responsive to labor market conditions, with considerable success. The Industrial Training Board in Singapore, for example, was established expressly to promote and coordinate industrial training, within a highly flexible and responsive framework. It offers a variety of training courses which combine formal instruction and on-the-job training in different proportions, and which are tailored to meet industry's rapidly changing requirements. The Board also supervises the Joint Government-Industrial Training Scheme and the Industrial Training Grants Scheme, both of which are designed to encourage industry's participation in training programs, either in conjunction with the government or independently through the provision of grants. Brazil's National Service for Industrial Apprenticeship is another institution responsive to the needs of industry. It relies on periodic surveys of the labor market to provide a basis for forecasting the quantitative and qualitative needs of business, and on careful job analyses to identify the technical requirements of specific tasks. The one-percent payroll tax used to finance this scheme also serves as an incentive to employers to undertake their own on-the-job training programs, since employers who do so are exempted from payment. Although their details vary, the programs in Singapore and Brazil are similar in their determination to involve the business community in training and in their efforts to monitor, and respond to, changing labor market conditions.

Labor Market Policies

The principal means to the more rapid expansion of productive job opportunities lies in the choice of appropriate policies for agricultural and industrial development. But, as a growing proportion of the labor force comes to depend on wage employment, a significant supplementary role can be played by policy intervention in the labor market. As developing economies shift out of agriculture, land gradually yields its place to labor and reproducible capital as the predominant sources of income. At the same time, the extent of wage employment increases relative to self employment. In most Low Income countries, with some exceptions such as Sri Lanka, more than 60 percent of the labor force remains self-employed, whereas in the industrialized countries around 80 percent relies on wage employment.

Dualism in the Labor Market

As formal labor market transactions increase, the institutional structure of the market develops in a number of respects. Labor is more able to form, organize and maintain trade unions. Similarly, the public sector assumes an increasingly important role in determining wages, both as an employer in its own right and as an arbiter of private sector wage rates through legislation and the pronouncements of wage tribunals. The expansion in wage employment also facilitates the introduction of social security legislation and payroll taxation.

The motivating force behind these developments is the improvement of working conditions and incomes and the provision of security for the employed. In most developing countries, however, the state of institutional development severely limits the coverage of such programs, and often effectively confines them to the public sector and the modern industrial, extractive or plantation sectors. As a result, overly vigorous pursuit of improvements in conditions of employment can help to cause labor market dualism—that is, a situation in which workers of similar abilities are paid substantially different wages, depending on the sector of employment. Such a situation is an inherent danger of technological dualism, which is apt to worsen as the gap widens between the traditional labor-intensive modes of production and the capital-intensive technologies of the modern sector.

The economic consequences of labor market dualism include disruption of the efficient allocation of labor, and encouragement of capital-intensive investment in the high-wage sector. Since both of these effects serve to limit the creation of modern sector jobs, attempts to increase the incomes and improve the working conditions of those within the public sector's immediate purview can conflict with efforts to extend remunerative employment opportunities to as many people as possible. As a result, dualism is often cited as one of the major causes of underemployment and unemployment.

The severity of labor market dualism, however, varies considerably among countries. In India, for example, the government has sought to moderate wage demands through wage boards, industrial tribunals and labor courts. The Republic of China, the Republic of Korea and Singapore have exercised wage restraint by circumscribing the power of trade unions. In other countries, such as Afghanistan, Ghana, Indonesia, Sudan and Thailand, governments have either used minimum wage legislation sparingly or else not intervened in the market at all. Countries such as Brazil and Mexico have elaborate minimum wage legislation, but its implementation leaves it with relatively little effect on the labor market.

Dualism is more apparent in the labor markets of countries such as Nigeria, Sri Lanka and Tanzania where effectively enforced minimum wage legislation or excessive increases in public sector pay scales—especially when coupled with a tendency toward substantial overmanning in public employment—have accelerated wage increases. It is also apparent in countries such as Chile, Venezuela and Zambia where important, sometimes foreign-owned, mining enclaves have acceded to the demands of well organized unions, and granted large wage increases which have percolated through the rest of the modern sector. Since these enclaves are usually small, successful percolation requires public sector support in the form of upward adjustment in public pay scales and legislated minima, and more generous wage awards. The distinguishing feature of these countries, therefore, lies in the source of the wage increases rather than in the mechanism that secures their extension to the rest of the modern sector. Since the maintenance of relatively high and protected wage levels for some people can retard the expansion of productive income earning opportunities for many more, both groups of countries could promote growth and alleviate poverty by reassessing their wage policies.

Social security programs and payroll taxation can reinforce labor market dualism in certain circumstances. Most of the countries with major programs are in Latin America, with a few in Asia and Africa. Colombia, Malaysia, Mexico, Sri Lanka, Venezuela and Zambia allocate 3 to 4 percent of GDP to social security, but some countries, such as Chile, allocate as much as the industrialized countries—around 15 percent. In Latin America, again with exceptions such as Chile, 15 to 20 percent of the labor force is usually covered by insurance. Australia, Canada, Sweden and the UK finance a large part of their social security payments from general revenue, but other industrialized countries and most developing countries rely more heavily on payroll taxation. In the latter, taxation rates of around 5 percent on employees and 10 percent on employers are not unusual. Where employers are able to shift their portion of the tax on to labor, its impact on labor costs and hence on labor demand is relatively slight. In this event, social security payments and payroll taxes serve primarily to redistribute income from relatively well paid, employed persons to relatively poor, inactive persons. But where the tax is borne by the employer, labor costs are increased and, other things being equal, the demand for labor is accordingly reduced.

The most appropriate set of policies for securing an orderly development of the labor market varies among countries, but certain broad guidelines merit consideration. In doing so, it is important to recognize that in any country these general guidelines for labor market policies designed to reduce dualism and expand productive employment will have to contend with practical political constraints and broader non-economic objectives. Government policies toward trade unions, for example, cannot be formulated in narrowly economic terms, but must also reflect the wider political and social role and significance of these organizations in pluralistic societies.

First, where minimum wage legislation is enacted, it should be used mainly to counteract the concentrated market power of employers in the labor market by establishing a "floor" for the wage structure; the use of legislated minima as standard-setting rates for a large part of the modern sector labor force should be avoided. Thailand's legislation in 1974 and 1975 exemplifies the successful use of minimum wages: it secured a wage increase for low-paid female textile workers, without impeding the overall efficiency of the market for unskilled labor.

Second, the ability of trade unions to engage in voluntary collective bargaining should be strengthened wherever employers exert undue control over wage determination. With the important exception of the mining unions, few unions in developing countries are able to engage in across-the-table bargaining with employers who dominate the market, and instead are obliged to rely on public sector mediation. Since the essentials for effective bargaining—organizational skills and financial strength—take time to develop, the public sector can foster this process by establishing the legal framework and administrative procedures for voluntary collective bargaining. Third, the public sector can strive to ensure that its own pay scales and the decisions of its wage tribunals and industrial courts reflect, rather than determine, trends in the labor market. The principal objective here should be to keep public sector salaries competitive in order to ensure an adequate supply of well trained manpower for the civil service.

Fourth, where the demand for labor is adversely affected by payroll taxation, the possibility of financing social security payments from alternative sources may be investigated. Fifth, information services, labor exchanges and job-placement agencies could be improved and expanded to provide more assistance to the unemployed in their search for suitable jobs. In a world where the supply of educated workers is increasing rapidly and technological developments are transforming the skills needed by industry, better flows of information can be of great help to first-time job seekers in evaluating and adjusting to changing market conditions.

Migration

Mobility is an essential attribute of a well functioning labor market. High rates of domestic and international migration attest to workers' responsiveness to geographical variations in income earning opportunities. In most developing countries, more than 30 percent of the additions to urban population during the 1960s were migrants from rural areas; in some countries—Ghana, the Republic of Korea, Tanzania—migration accounted for over 60 percent of urban growth, and in a few countries, notably Ivory Coast and Uganda, it accounted for over 70 percent. International labor migration depends on the proximity of foreign demand. Southern Europe and Northern Africa, for example, supply more than six million temporary workers to the industrialized countries of Northern and Western Europe; several million illegal migrants from Mexico and other Latin American countries are believed to be working in the United States; and over two million construction workers from the non-oil Arab countries and South Asia are employed in capital surplus oil exporting countries such as Kuwait and Saudi Arabia. Other main international destinations of temporary migrant workers include the prosperous agricultural economies on the

West African coast and the mines of the Republic of South Africa.

International migration is tacitly or explicitly encouraged by most labor exporting countries, even though in some cases the loss of the emigrants' skills offsets much of the gains from their remittances. While some countries—Malawi and Mozambique, for example—have curtailed migration for political reasons, the majority regard repatriated earnings as an important source of foreign exchange: in 1975, remittances equaled about one-fourth of Turkey's import bill, 20 percent of Yugoslavia's, and 9 percent of Pakistan's. International migration also provides jobs for a substantial proportion of the labor force in some labor exporting countries. In 1975, over 10 percent of Algeria's labor force and over 5 percent of Yugoslavia's were employed abroad. International migration is a less important source of employment for populous countries like Pakistan, less than 1 percent of whose labor force is employed abroad.

Official reaction to high rates of internal migration has been less sanguine, most countries expressing concern that rural underemployment is being transformed into urban unemployment. This concern is frequently exaggerated. Evidence from several countries—Argentina, Brazil, Chile, the Republic of Korea, Peru, Tanzania and Thailand—indicates that most urban migrants find work within one month of arrival, many migrants moving only when they are assured of an urban job; most increase their income and improve their employment status as a result of their move. Despite the very obvious poverty of some urban migrants, the majority consider themselves better off than their rural counterparts and evince no desire to return to their rural existence; many in fact are sufficiently well off to help support their rural kin. Where migrants have chosen to remain unemployed in order to search for high-paying jobs, the fault lies not with the process of migration but with dualistic wage structures and inadequate flows of information about job opportunities. The appropriate policy responses to migrant unemployment, and to urban unemployment in general, are those outlined in the previous section.

Concern with migration has caused a few countries, such as the People's Republic of China and Indonesia, to implement measures restricting the rural-urban flow. But since migration is motivated mainly by the desire for better employment, this concern might more effectively be shown in policies that influence the spatial distribution of income earning opportunities. The encouragement of industry relative to agriculture, which has been a common feature of many development strategies, has concentrated new job opportunities in urban areas. Rural-urban migration has been the natural consequence. Redressing the balance between incentives to industry and agriculture may not reverse rural-urban migration, but it will reduce the movement to more manageable dimensions and alter the spatial requirements for infrastructure and other services. The interactions between migration, the spatial distribution of the population, and the costs of urbanization are discussed in Chapter 6.

Population Planning

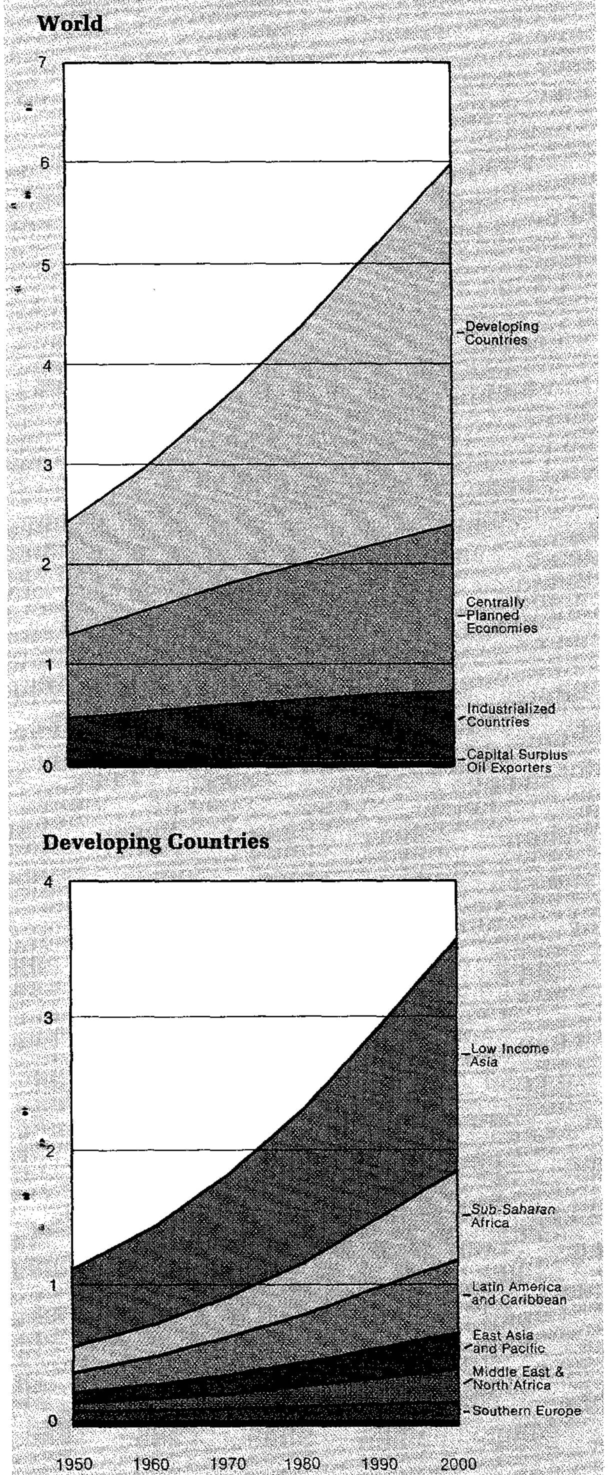
In the short and medium term, economic policies must be designed to contend with rapidly increasing numbers of new entrants to the labor force. In the longer run, however, population policy is fundamental to any strategy that seeks to raise productivity and incomes by transforming the sectoral structure of the labor force. Of the projected increase in world population between 1975 and 2000 of approximately 2 billion, more than 1.5 billion will be citizens of developing countries. The areas of greatest population expansion will be Low Income Asia (680 million), Sub-Saharan Africa (330 million) and Latin America (250 million).

The main determinant of future population growth is the level of fertility; with few exceptions, mortality decline will not be an important factor. In parts of Latin America and East Asia, mortality rates are already approaching those of the industrialized countries. In Low Income Asia, mortality is higher, but given its current level, future declines will have a smaller impact on population growth than those of the past. Although high mortality remains a major problem in Africa, the prospects for a rapid decline are not encouraging. With respect to fertility, declines in the crude birth rate between 1960 and 1977 in excess of 30 percent have occurred in a number of East Asian countries—the Republic of China, Hong Kong, the Republic of Korea, Singapore and Thailand—and in Chile, Colombia, Costa Rica, Trinidad and Tobago, Tunisia and Turkey. There have been smaller but nevertheless significant decreases in India, Indonesia, Malaysia, the Philippines and Sri Lanka, in some Latin American countries such

Figure 8

Population Estimates and Projections, 1950-2000

(Billions)



as Jamaica, Panama and Venezuela, and in Greece, Portugal and Yugoslavia. In the remaining Low Income Asian countries and virtually all countries in Africa (the main exception being Egypt) and in the Middle East, fertility has either remained constant or else shown only a modest decline. In these countries, population growth rates of well over 2 percent a year can be expected throughout the remainder of this century. These rates are substantially higher than the 0.4 percent a year projected for the industrialized countries and the 1.2 percent a year projected for the developing countries of Southern Europe.

While much of the observed fall in fertility can be attributed to general improvements in social and economic conditions, which increase the incentives for families to limit their size, most countries experiencing significant declines in crude birth rates had adopted public programs in the 1960s designed to reduce fertility. Family planning programs have taken a variety of forms, ranging from policies of persuasion (such as the public promotion of small families in Indonesia), to tax incentives (for example, reducing the benefits accruing to large families in the Philippines and Singapore) to measures such as raising the minimum legal age for marriage in India and the Republic of Korea. Most programs concentrate on providing information about contraception and supplying contraceptive services, including sterilization at or below market cost.

Declining fertility rates are also associated with increased urbanization, improved educa-

29. Contraceptive Use and Crude Birth Rates in Selected Developing Countries, 1977

	Percentage of Married Women of Child-bearing Age Using Contraceptives[a]	Crude Birth Rate Per Thousand Population
Kenya	4	51
Pakistan	6	45
Indonesia	19	37
Mexico	21	38
Egypt	21	36
Thailand	32	32
Malaysia	34	29
Sri Lanka	44	26
Colombia	49	30
Hong Kong	64	19

[a]These data refer to the latest available information covering the period 1975-77.

tion and more extensive participation of women in the labor force. These factors alone, however, may not guarantee a rapid decline in the birth rate; family planning programs offer an important complementary means of limiting future labor force growth by making the public more aware of the benefits of birth control and by providing contraceptive supplies and information. If natural fertility is equated with a crude birth rate of approximately 50 births per thousand of the population a year, experience to date indicates that the rate declines by about one birth for every 2 percent of the women in the child-bearing age group who practice effective contraception (Table 29).

The development of population policies is particularly important in the Low Income countries of Africa where fertility rates have not yet started to decline, and in some Middle Income Latin American countries where population growth rates are above 3 percent. Few countries in either group have yet introduced population policies to any significant extent.

The potential significance of declines in fertility for the size of the labor force in the long term may be illustrated by some rough simulations. If fertility rates in developing countries had suddenly been halved in 1975, by the year 2000 the total male labor force would be approximately an eighth smaller than it is otherwise projected to be; however, the male labor force under 25—the group who usually display the highest incidence of unemployment and underemployment—would be only half the size that is presently projected. By the year 2200, such a fertility decline would be felt even more dramatically: the total male labor force would be nearly 40 percent smaller, while the male labor force under 45 would be only one-fourth of the size that is presently projected. Slower population growth would not only help to contain the future dimensions of the employment problem; without it, for many countries, the immense demands for social and economic infrastructure are likely to pose a crippling burden on public budgets and planning capacities.