

# Aid for Employment?

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*Lack of employment opportunities is a major source of poverty in many developing countries. H.W. Arndt, Emeritus Professor of Economics at the Australian National University, discusses whether and how Australian aid programs can help developing countries promote employment-generating policies.*

**T**HIS article addresses three questions in turn. First, what scope exists for governments of developing countries to pursue employment-oriented economic policies? Second, what scope is there, in principle, for foreign aid to pursue such policies? Third, what can be done within the context of Australia's foreign aid program?

## Employment-Oriented Economic Policies

The concept of employment-oriented development policy was born in 1970, when David Morse, Director of the International Labour Organisation (ILO), demanded in a famous speech the 'dethronement of GNP' because reasonably high rates of economic growth had failed to eliminate 'unacceptably high rates of unemployment and underemployment', and urged governments 'to make employment a major goal and criterion of development' (cited in Arndt, 1987:92). Successive ILO employment missions and intensive worldwide discussion gradually yielded the insight that the real problem in developing countries was not unemployment (which was virtually confined to educated youth whom their middle-class parents could support until they found acceptable jobs), or even 'disguised unemployment' or 'underemployment', but 'the working poor [who] work long hours for low incomes' (Kenya Mission Report, cited in Arndt, 1987:94).

The conclusion that, in the absence of the dole or parental support, no one can afford to be unemployed is not in itself very interesting. In rural areas, the available work is spread among all family members, and income shared out. In urban areas, the alternatives are to scratch some sort of living or to starve. Granted that the problem for governments is to promote **more productive** employment for the working poor, how can this be done?

A much discussed and still disputed question is to what extent, if any, there is in developing countries 'Keynesian' unemployment (or underemployment) due to deficient aggregate demand that could

be reduced by expansionary monetary-fiscal policies. Everyone agrees that scope for such policies is narrowly limited by pressures on prices and the balance of payments because of inelastic domestic supply. The debatable questions are **how** narrowly and whether it is worth trying to widen the limits by direct controls over prices and imports, at the well-known costs of such controls in terms of efficiency and economic growth.

It has been argued, with reference to Indonesia, that there may be scope for rural public works programs, especially in the less developed Eastern provinces, which could provide employment on useful infrastructure works and, although in effect deficit-financed, would have negligible effects on prices and the balance of payments (McCawley, 1987). Even economists who generally support the Indonesian government's cautious policies of demand management, symbolised by the twin principles of budget balance and currency convertibility, might go some way along with such a proposal.

What else can governments do to promote employment? In the long run, it is agreed, the best, indeed the only, way to ensure adequate opportunities for productive employment of a growing labour force is rapid overall economic growth. But some patterns of growth are more favourable to employment than others. Most obviously, since capital tends to be scarce in developing countries, there is a general case for labour-intensive rather than capital-intensive industries and techniques; and since labour is the abundant factor, it is in labour-intensive industries that developing countries are most likely to have a comparative advantage in international trade. These considerations, together with dynamic gains attributed to the stimulus of a competitive environment, constitute the rationale for an outward-looking industrial and trade policy as most conducive to growth of employment and income in developing countries. The chief prescription for government policy that follows, on this view, is removal of constraints and distortions, whether these are due to

high transaction and information costs, to private monopoly or to government regulation.

While policies for efficient economic growth may be the first-best means of promoting employment in the long run, there may be a case for second-best policies in the short run. Among these are policies aimed at more productive employment in rural areas and in urban small-scale industry and policies directed at employment opportunities for educated youth.

It has been persuasively argued that in countries like Indonesia, industrialisation is unlikely to generate enough jobs, even indirectly, to absorb rural underemployment. There is a case, therefore, for policies that accelerate the emergence of opportunities for off-farm (and especially off-season) employment in rural areas and promote labour absorption in agriculture (Booth & Sundrum, 1984). The role for government in relation to off-farm rural employment is probably again primarily in the removal of obstacles, improved roads and other infrastructure and removal of restrictive regulations; private enterprise will do the rest. But there is scope for government policies to stimulate labour absorption in agriculture, such as technological and policy changes to facilitate multiple cropping and, in certain circumstances, changes in land ownership and tenure.

Policies ostensibly aimed at 'protecting' small-scale industry, for long a will-o'-the-wisp among policymakers in many developing countries, probably do more harm than good (Little, 1988). At best, they may marginally raise the output and income of small groups of poor people.

Educated youth unemployment in the cities of developing countries is a political rather than an economic problem, but none the less of a worry to governments. It results partly from 'mismatch' between preferences (for white-collar job qualifications) and opportunities (in vocational and technical jobs) and partly from excessive wage and salary differentials reflecting scarcity of skills and labour market segmentation. Possible policy approaches include: greater emphasis on, and relative incentives for, vocational and technical training; systematic raising of minimum educational qualifications for all sorts of jobs, from bus and taxi-drivers to office clerks and waiters; and in some cases scholarships subject to bonding.

### Scope for Foreign Aid

If the prospects for employment in developing countries depend mainly on sensible national policies for rapid and efficient economic growth, there is clearly little scope for foreign aid to make a difference. The World Bank, the IMF and the very large bilateral donors may have some leverage through conditionality and advice, though even for them undue pressures are liable to backfire, and all too often their influence has been in the wrong direction (e.g. towards unduly capital-intensive projects). The poten-

tial influence of small donors, such as Australia, on national policies in recipient countries (except perhaps mini-states) is negligible.

To revert to the proposal for rural public works in Eastern Indonesia, what could Australia do beyond offering discreet advice to Indonesian policymakers? Conditional aid is unlikely to be welcome. Once such a policy has been adopted, Australia might be able to offer money, technical assistance or equipment. But while this might yield some satisfaction in Australia, it would not generate one additional job in Indonesia.

The best-known of major aid programs specifically aimed at employment creation was the US-AID 'food for work' program. But this arose as a variant of PL480, the US program of the 1950s for disposal of food surpluses. Attaching participation in rural public works as a condition of entitlement to food distribution was not very different from requiring young unemployed to work for the dole. As a mechanism for generating employment, the program had no advantage over national-government financed rural public works, such as the Indonesian Inpres programs.

Small donors must aim at less ambitious targets: making small contributions to larger programs, such as training; undertaking or contributing to industrial development projects, e.g. through joint ventures; or to projects to improve conditions in particular cities such as water supply, or in backward regions, such as rural development; or helping small groups of people, in a village here or a cottage industry there. In many such projects, there may be scope for greater or less attention to employment generation. A rural development or road-building project may rely more or less on mechanical equipment, tractors or bulldozers. Even here, it cannot be taken for granted that employment should outweigh cost-effectiveness. A gimmick once popular in cost-benefit analysis was to take account of underemployment by inserting a shadow wage into the calculation; but this did not really relieve the policymaker of the need for a value judgment on the trade-off.

### A Modest Agenda

The implications of these reflections for concrete action in the context of Australia's aid program are not encouraging.

The potentially most useful contribution — influence on national economic policies in the right directions — is ruled out for Australia as a small bilateral donor, except perhaps in relation to Papua-New Guinea and the smaller Pacific island economies (to the alleviation of whose unemployment problems, such as they are, Australia can contribute most effectively by a liberal immigration policy).

Nor do training and technical assistance programs obviously lend themselves to employment-orientation. There may be areas of technical assistance where advisers can influence the choice of

technique in favour of job creation without harm to cost-effectiveness. There may also be areas, such as vocational training, if possible combined with apprenticeship-type on-the-job training, where Australia can help reduce the mismatch between preference and opportunities in secondary or tertiary education. But 'manpower planning' is a hazardous business in which foreign aid donors do well not to burn their fingers.

It makes sense to look to the area of regional development for opportunities to inject a greater element of employment-generation into Australia's aid program. Regional development projects, as for example in North-East Thailand or Eastern Indonesia, have the advantage that they can be made small enough to fit Australia's limited capacity, that they can focus on poverty, and that Australia can claim or develop a comparative advantage as aid donor based on proximity or specialisation. But one must doubt whether it is for foreign aid donors to aim at generating employment directly, for example through public works. The objective should rather be to break down transaction and information cost barriers to regional development, through extension and other measures designed to raise farm productivity, and through improvement of infrastructure, such as roads, ports and shipping.

Such project aid does not pretend to reduce the overall rate of unemployment or underemployment

in the recipient country. Its purpose is to make some poor people less poor by enhancing their opportunities for productive employment. In this sense, modest regional development programs have much in common with the kind of aid projects in which non-governmental organisations (NGOs) tend to specialise: helping a group of leather workers by supplying equipment, improving the efficiency of dairying in one village or giving a hand in building an abattoir in another. Aid of this kind is perhaps best left to NGOs, but they can be helped with money and in other ways. And the principle of aid designed to make some poor people less poor by enhancing their opportunities for productive employment may have wider application for Australia's aid program.

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