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**EMPLOYMENT AND INCOME
DISTRIBUTION OBJECTIVES FOR
A.I.D. PROGRAMS AND POLICIES**

POLICY BACKGROUND PAPER

October 1972

**Bureau for Program and Policy Coordination
Agency for International Development
Washington, D.C. 20523**

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Edwin J. Cohn and John R. Eriksson

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FOREWORD

This paper was prepared by Edwin Cohn and John Eriksson of the Policy Development and Analysis Office of the Bureau for Program and Policy Coordination. It has served as a basis for discussion in A.I.D. of the problems of inadequate participation in the process of development and unequal distribution of the benefits of economic growth as well as a consideration of the potential for external assistance to contribute more effectively to resolving these problems. The paper also constitutes the basis for an Agency policy determination on employment and income distribution. It summarizes the approach and specific measures recommended to assure that the Agency's technical and capital assistance respond to the needs of the developing countries in a manner that takes full account of the potential impact of these programs on employment generation and on equity.

The problem of translating economic growth into tangible improvements in income and in the welfare of the large, poor segments of developing country populations has become central to national and international deliberations over development strategies. Problems of resource allocation, trade, domestic savings and investment policies, the role of investment in human resources through education and health, and other aspects of the development process are now being reexamined from the viewpoint of more people in the LDCs participating in the development process and in sharing its benefits.

Besides serving as the background for A.I.D.'s own efforts to shape its programs to assure that employment and equity constitute an integral part of its development assistance effort, this paper is intended as a contribution to the wider reconsideration of these development policies among various bilateral and multilateral assistance agencies.

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TABLE OF CONTENTS

	<u>Page</u>
I. THE PROBLEM AND ITS RELATION TO CURRENT ACTIVITIES	1
The Current Situation and its Background	1
Impact of Aid Donors	7
II. THE CURRENT CONCERN ABOUT EMPLOYMENT AND INCOME DISTRIBUTION	14
Activities by Other Donors	14
Past and Continuing A.I.D. Activities	17
Recent A.I.D. Initiatives	20
III. A RECOMMENDED PROGRAM OF ACTION BY A.I.D.	23
1) Economic Policy Guidance	29
2) Sector and Project Guidance	30
3) The Development of Human Resources	33
4) Labor Intensive Technologies in Agriculture and Industry	36
5) Labor Intensive Public Works	40
6) The Training of LDC Administrators and Technicians	41
7) Evaluation	41
8) Research	42
9) Organization of A.I.D. and Orientation of A.I.D. Staff	43
10) Expression of Views on Employment and Income Distribution	44
IV. CONCLUSION	45

EMPLOYMENT AND INCOME DISTRIBUTION OBJECTIVES
FOR A.I.D. PROGRAMS AND POLICIES

I. The Problem and Its Relation to Current Activities

Despite creditable aggregate growth performance over the past two decades substantial segments of population in LDC's are not sharing proportionately in the benefits of growth. This unequal participation in the benefits of development is manifested in two particularly conspicuous -- and related -- aspects: (1) persistently high underemployment and (in some countries) unemployment and (2) highly unequal income distribution. The available incomplete and not always very reliable data indicate, moreover, that the labor force is increasing faster than opportunities for productive employment and that in most countries for which data exist the distribution of income is becoming more unequal.

The inadequacy of employment opportunities is reflected both in open (or measured) unemployment, especially in cities, and in widespread underemployment in both urban and rural areas. High open unemployment is primarily a problem in Latin America and in some African cities. In a number of Latin American and African cities open unemployment exceeds 10% of the labor force and is probably rising; for the 15-24 age group, those seeking their first job, it is especially severe, exceeding 20% in many cities and running as high as 40% in some.* The applicability to developing countries of the concept of open unemployment used in industrialized countries is questionable since the great majority of the labor force in LDC's does not work at wage jobs in the organized sector but is family- or self-employed. Moreover, many people,

* IBRD, "The Employment Problem and Bank Operations," Washington, D.C., April 21, 1972, Appendix Table 2. Of the twelve African and Latin American cities for which unemployment rates are given, nine have rates above 10% for the total labor force aged 15 and above and six have unemployment rates of 20% or more for the 15-24 age group.

knowing how scarce jobs are, do not actively seek regular employment and thus are not counted among the open unemployed. In addition, in many low income countries substantial numbers are too poor to afford being openly unemployed and are forced to settle for any type of work, even if it does not employ them fully or is of very low productivity. This circumstance may help to explain the remarkably low level of open urban unemployment in India and in some other very poor countries. On the other hand considerable open unemployment is accounted for in at least some countries by young people who aspire to enter employment at levels they feel compatible with their education and status and who therefore refuse jobs which they regard as inferior; in such cases unemployment does not coincide with poverty.

The more prevalent, although less readily quantifiable, phenomenon is underemployment. The underemployed include both those who are idle during much of the year because of seasonal or sporadic need for their services, such as a substantial part of the agricultural work force, and those who, although putting in long hours throughout the year, are productive only a fraction of the time they spend at work, such as street peddlers. These types of underemployment or low productivity employment, which are widespread in both rural and urban areas, constitute a much more serious problem, especially in those countries where, according to official statistics, open unemployment is relatively low. Given on the one hand the projected acceleration in labor force growth rates in all regions of the developing world during the next two decades and on the other hand the probable modest rise in demand for labor in agriculture, which is likely to be at least partially offset by labor-displacing mechanization, and the inadequate growth of labor requirements in the industrial sector,

underemployment can be expected to increase.

The distribution of income is closely related to employment since for most people productive work is the main source of income. Income distribution data for developing countries is inadequate and of uneven quality. Moreover, comparable data on which to base inter-temporal comparisons for individual countries is scarce. Most of the available evidence, including longitudinal data for those few countries for which it is available and cross-country analysis, however, indicates that in the absence of public policies aimed at equalizing income distribution (such as those followed in Taiwan), economic growth in non-socialist countries tends to favor the upper income groups and to worsen the relative position of the poor, at least until a country has achieved a relatively high level of socio-economic development.* Scattered observations suggest not only that those in the lower socio-economic strata are receiving a disproportionately small share of the benefits of growth (i.e., that their relative position is deteriorating) but that some of the poorest groups have been experiencing no increase, or even a decline, in absolute real income. It should be noted, however, that the poor have received some significant gains not counted as income, notably the sharp decline in mortality

* In more than half (23) of 44 developing countries for which at least one recent set of income distribution data is available the top 20% of households enjoyed an average income at least ten times as great as the average received by the poorest 20%. In fifteen of these countries the ratio was more than 15 to 1 and in six it exceeded 25 to 1. (In the United States the comparable ratio -- before income tax -- is about 8 to 1). Irma Adelman, "An Anatomy of Patterns of Income Distribution in Developing Nations," Part III of the Final Report prepared for the U.S. Agency for International Development, February 12, 1971 and summarized in Development Digest, Vol. IX, No. 4 October 1971, pp. 24-37. See also: David J. Turnham "Income Distribution: Measurement and Problems," paper delivered at the 12th World Conference of the Society for International Development, Ottawa, May 18, 1971. Albert Fishlow, "Brazilian Size Distribution of Income," paper delivered at the American Economic Association Meeting, New Orleans, December 1971.

and morbidity from famine and communicable diseases (such as malaria) of which the poor had been the main victims.

These prevalent problems of inadequate employment opportunities and skewed income distribution in low income countries underscore the persistence of massive poverty despite the rise in average per capita income, a figure which like many aggregates can easily conceal gross inequalities. Even in LDC's with average per capita incomes of \$200 or more, substantial segments of the population are unable to maintain a human standard of existence; in India, where per capita income is less than \$100, a recent study placed those below the official poverty line, as defined by minimum nutrition standards, at 40-50% of the population.

In addition to the human misery they entail, inadequate employment opportunities and increasingly unequal income distribution have at least two important implications for the development process: first, the waste inherent in the under-utilization of human resources, the most abundant resource of most developing countries, retards the development process; and, second, the frustrations generated by perceived unequal participation in the benefits of development, and especially by open unemployment, constitute a potential source of disaffection and unrest which could undermine the development process. Meaningful development involves broad popular participation in the development process and in its benefits, including progress toward meeting the basic needs of people, both their material needs for food, health, shelter and security and their less readily measured but no less important spiritual needs for human dignity.

The Causes of the Problem

One of the basic factors responsible for widespread unemployment and

underemployment is demographic. The population explosion of the 1950's and 1960's is now being reflected in labor force growth rates of 2 to 3% in most developing countries and even more in some. This is at least double the rate of labor force growth experienced in Western Europe or Japan at comparable periods in their development.* Labor force growth will continue at high levels even if fertility rates decline because the entrants for the next fifteen years have already been born. The longer run solution to the employment problem must come, of course, in large measure from slower population growth, which underscores the critical need for efforts to reduce fertility rates. Meanwhile, massive rural-urban migration compounds the problem in cities. The expansion of the school system, which over the past two decades has acted as a reservoir delaying entry into the labor market of the young, is unlikely to continue at its recent rapid rate because of the high costs involved. As a result of these factors the supply of labor can be expected to grow at an even higher rate, especially in urban areas.

The second element is technological and affects the demand for labor. The traditional technology of developing countries is very labor intensive but the technology being transferred to them from abroad is that developed by and for industrialized countries which are characterized by relative abundance of capital and scarcity of labor. While the economies of most developing countries remain generally rather labor intensive because of the large size of the traditional sector, much of the technology introduced over the past two decades has been much more capital-intensive and labor-saving than is appropriate for

* Edgar Owens and Robert Shaw, "Development Reconsidered", D.C. Heath, Lexington, Mass., 1972, p. 54. Labor force growth rates in the United States were higher (3-3.5%) during the mid 19th century as a result of massive immigration but the situation was radically different because of the almost unlimited availability of land.

countries with excess labor and acute scarcity of capital. The transfer of such inappropriate technology means that the investment cost per job created is too high or, to express it the other way round, the number of jobs generated per thousand dollars of investment is lower than it should be. The result is that employment in the modern, organized sector (especially in manufacturing) has been growing at no more than half the rate of production growth and that the absorption into modern non-agricultural activity of the surplus labor from rural areas, which occurred in Western Europe, North America, and Japan at the time of their industrialization, is not proceeding at a rate commensurate with the growth of the labor surplus. The structure which is emerging contains a small, deeply capitalized sector utilizing advanced technology and employing relatively few workers, although at relatively high wages, at the one end of the spectrum, and a large, thinly capitalized traditional sector (both agricultural and non-agricultural) at the other. The mix varies, of course, from country to country. Some of the least developed countries are split into a small (although often conspicuous) enclave of large-scale capital-intensive activity and a very large residual sector of small-scale operations employing unimproved modes of production, with little or nothing in between; other countries in which the modernization process has been at work for a longer period are less dichotomized and possess a fuller range of technologies.

The labor force can be expected to continue to expand rapidly, as noted above, while the thrust of technological change within the industrialized world will generally be increasingly capital-intensive. Selectivity and adaptation will therefore be essential to prevent technological transfers from worsening the employment situation. The growing recognition of this problem, however, is

an encouraging sign and may lead to the development and adoption of more appropriate technologies. It is necessary to recognize that the scarcity of managerial talent is likely to be a significant constraint on the application of labor-intensive technologies to large-scale operations.

The third element affecting the problem is institutional. Credit, education, land tenure, agricultural extension, marketing, and other institutions tend to favor the already privileged and to penalize or ignore the poor. Large, well-established enterprises and upper income groups enjoy superior access to these institutions partly because of their powerful connections and partly because it is easier and more expeditious to deal with large clients than to reach out and serve the dispersed, less well informed, less able to afford risk, less market-oriented enterprises and lower socio-economic groups. Yet smaller units in agriculture, industry, and construction are often more labor-intensive. This orientation of institutions to serving the more powerful clients results in further skewing of income distribution and in the creation of fewer employment opportunities than would otherwise be generated.

Finally, powerful groups in many developing countries perceive the existing situation as being to their own advantage and therefore oppose measures such as land reform, tax reform, reorientation of government service, etc. and thus frustrate efforts to create more employment, equalize the distribution of income and wealth, and alleviate mass poverty.

Impact of Aid Donors

Donor agencies, including AID, inevitably affect employment and income distribution, regardless of their intentions or whether they even realize that they are doing so. Their influence makes itself felt in many ways, notably

1) the types of technological and capital transfer which they finance; 2) the orientations of the LDC institutions the development of which they support; 3) the effect of these transfers on what the developing countries do with their own resources (i.e., the demonstration effect); 4) the training in developed countries which they provide for LDC administrators and technicians; and 5) the general policy advice they give to LDC governments. AID policies and practices are especially significant in these respects because, despite the diminishing role of U.S. foreign assistance, they continue to exert an influence on multilateral agencies and bilateral donors.

Many practices and policies followed by multilateral and bilateral donors, including AID, have unwittingly made income distribution more unequal and have created less additional employment than they could have; in some instances they may even have reduced employment. These results have occurred as a consequence of donors' 1) often encouraging capital-intensive, labor saving technologies, notably in agriculture, manufacturing, and civil engineering works, and 2) restricting their concern to aggregate growth and neglecting which socio-economic groups contribute to the increased production and receive the benefits. This is not to say that donors have consistently, much less intentionally, acted in ways contrary to expanded employment and more equal distribution of income; many activities, notably PL 480 and program loans have brought important benefits, although this matter has never been systematically studied or even roughly evaluated. But donors have often leaned in the wrong direction and this could and should be corrected.

Adoption in LDC's of capital-intensive technologies is encouraged by a variety of donor policies and practices, notably:

- 1) passing on to final borrowers some of the subsidy made possible by concessional lending terms; even when interest rates to final borrowers are raised by the two-step loan device, which is not always the case when public entities are involved, the rates charged to such final borrowers are usually below the opportunity cost of capital. (This is an aspect of the general under-pricing of capital in LDC's but different in that the donor agencies are directly a party to the practice);
- 2) limiting aid financing to foreign exchange costs; which induces borrowers to over-emphasize large, foreign exchange and capital intensive projects and to procure more -- and more elaborate -- equipment than they otherwise would;
- 3) individual donors tying procurement to their own country, which is likely to result in more capital intensive equipment being transferred than if LDC's had a greater range of choice among alternative types of equipment. In addition, tying by most donors (not the US) excludes procurement in LDC's (such as India and Brazil) where more appropriate equipment may be available.
- 4) donor propensity for financing large, highly visible projects which are presumed to generate public relations benefits for themselves;
- 5) the advice of foreign technicians familiar only with advanced country technology and not attuned to the need for (or perhaps incapable of) creating/adapting technologies which fit the factor endowments of poor countries.
- 6) insistence on the use of foreign contracting firms which, especially

in construction projects, tend to employ advanced country, machine-intensive methods;

- 7) encouragement and support of foreign investment which, although sometimes notably responsive to local factor endowments, often utilizes the same capital intensive methods it employs at home;
- 8) channeling both direct loans and loans through intermediate credit institutions preponderantly to enterprises which are large, located in the major metropolis, and/or owned by wealthy families. Assistance to enterprises which are large and/or in the major metropolis tends to encourage a capital intensive pattern of investment; assistance to enterprises in the major metropolis or owned by wealthy families increases inequalities in income distribution between geographic regions and between socio-economic groups, respectively; and
- 9) encouragement for the importation of advanced social legislation (minimum wages, high premia for shift work, payroll-financed social benefits, etc.) which the economy does not yet have the capacity to support but which artificially raises labor costs.

The result of these various practices is to encourage the substitution of capital for labor and thus to exert an adverse effect on the expansion of employment opportunities.

By concerning themselves mainly with aggregate economic growth and paying inadequate attention to which socio-economic groups have opportunities to contribute to increased production or to participate in the fruits of growth, donors have neglected opportunities to exercise positive influence to reduce

inequalities in the distribution of income and wealth. Usually it is easier and quicker to achieve a given increase in output by arranging for new technology, physical inputs, credit, information and advice, and marketing facilities to be made available first and most abundantly to large producers in agriculture, manufacturing, mining, etc., rather than to small ones. Institutions established, often with donor assistance, to provide services of this type are normally designed to support larger enterprises, which also happen to be those with the greatest political power, rather than to assist smaller units and those in remote areas, which often have somewhat different needs and call for different procedures and a different orientation on the part of the staff. The result of this tendency to support and strengthen institutions biased in favor of larger, more influential operators is 1) to increase inequality in access to resources and opportunities and therefore to make the distribution of income and wealth more unequal, and 2) to generate less additional employment than might be achieved if more possibilities were opened up to small units, which tend to be more labor intensive.

Many policies and practices pursued by developing countries aggravate employment and income distribution problems. A number of these policies and practices are or could be the subject of discussion between donors and recipients in consultative groups or as appropriate on a bilateral basis.

Prominent among these is the inappropriate factor-pricing referred to above which makes capital artificially cheap and labor artificially expensive; (i.e., capital is priced below its opportunity cost and labor above its opportunity cost). Capital is under-priced as a result of over-valued currencies, officially controlled low interest rates, preferential tariffs on imported capital goods,

tax allowances on investment, and import licensing arrangements which discriminate in favor of large enterprises. Labor, on the other hand, may be over-priced as a consequence of minimum wages, high premia for shift work, high legally required social benefits (e.g. family allowances, medical clinics, and pensions) financed from payroll taxes, and legislation intended to protect the job security of employees, such as rigid and costly dismissal compensation. These have the practical effect of encouraging employers to minimize their dependence on labor or to rely on overtime rather than hiring additional workers.* These policies and practices curb employment growth by artificially encouraging investment in capital-intensive sectors, by stimulating the adoption of capital-intensive methods where alternative technologies exist, and by discouraging the full use of existing scarce capital, such as multiple shift operations.

A second set of policies and practices relates to institutions, especially those providing inputs, credit, information and advice, education and training, and marketing services. As noted above, these are often geared to and more responsive to larger and politically more powerful producers than to smaller or even medium-sized ones. They also tend to be biased in favor of those in the more developed regions and, in the case of services for industry, to operators in the main cities.

* Governments have an obligation to prevent employer exploitation of workers, but they also have a countervailing obligation to the unemployed. The latter stand a better chance of obtaining a relatively well-paying modern sector job if urban minimum wages bear some reasonable relationship, after allowing for difference in cost of living, to rural incomes, if real compensation increases in the organized labor market follow some reasonable guide, such as productivity growth, and if social legislation takes into account the economy's capacity to support it and also makes judicious use of the payroll tax as a financing device.

Third, there is often a bias in LDC bureaucracies in favor of low prices and rationing and against the value of the market as an allocating mechanism. This approach is frequently justified on equity grounds, the argument being that high interest rates, for instance, are anti-social. The fact is, however, that prices set below the point at which supply and demand intersect make rationing necessary and that the larger, better informed, more aggressive and powerful operators obtain the lion's share of what is being rationed while the small and weak farmers and businessmen, for whose benefit the practice is ostensibly intended, may receive little if anything. The latter would be better off if prices were permitted to find their own level rather than, as at present, be compelled to resort to the more expensive informal money market or black market, or be unable to obtain credit or supplies at all. Some bureaucracies may prefer controls and rationing because these devices, whether for political considerations or disinterested pursuit of economic management, can represent an important source of power.*

Fourth, considerations of self-esteem and prestige often induce LDC administrators and technicians to opt for sophisticated, highly automated equipment because of a feeling that less advanced technologies are less dignified.

* To the extent that resale of imported capital goods occurs small operators may be able to acquire them at a price reflecting the scarcity value of the capital good. But even if this does occur, the original recipient of the commodity at a subsidized price will have received a windfall profit. Such resale possibilities are much more limited for industrial equipment than for tractors, trucks, and similar standard items. These issues are discussed by Ronald G. Ridker in "Employment and Unemployment in Near East and South Asian Countries: A Review of the Evidence and Issues" in Ronald G. Ridker and Harold Lubell, editors, Employment and Unemployment Problems of the Near East and South Asia, Volume I (New Delhi, Vikas Publications, 1971)

II. The Current Concern About Employment and Income Distribution

While in the past donor agencies often disregarded employment and income distribution, they have paid increasing attention to them in recent years. The International Labor Organization (ILO) took the lead in the early sixties by holding conferences and publishing studies on employment problems in developing countries. These efforts led to the passage of ILO Convention 122 on Employment Policy which in turn laid the basis for the ILO's World Employment Program (WEP) initiated in 1968. WEP has begun an ambitious research effort to investigate the relationships between employment and six other aspects of development (population growth, technology, income distribution, education, urban development, and trade). This research program is receiving substantial financial support from several sources (UNDP, UN Population Fund, and Swedish International Development Agency). WEP has also organized four major missions to analyze employment problems and make policy recommendations in selected countries (Colombia, Ceylon, Iran and Kenya). The reports of the first two missions have become basic primers on the inter-related nature of LDC employment and development problems.* Complementing the work of these short-term missions are regional employment teams of advisors permanently located in Asia (Bangkok) and Latin America (Santiago). A team for Africa is also planned.

Current concern with employment and income distribution problems is reflected in the U.N.'s International Development Strategy for the Second

* ILO, Towards Full Employment: A Programme for Colombia, (Geneva: ILO, 1970), and ILO, Matching Employment Opportunities and Expectations: A Programme of Action for Ceylon, (Geneva: ILO, 1971).

U.N. Development Decade. Two explicit goals of the strategy are (1) "to bring about a more equitable distribution of income and wealth for promoting both social justice and efficiency of production," and (2) "to raise substantially the level of employment."* These general objectives have been elaborated in the recent Report of the U.N. Committee for Development Planning to ECOSOC, which elevates the reduction of mass poverty and unemployment to the status of primary development goals.**

World Bank President Robert McNamara has given repeated emphasis to employment and income distribution in his public statements. In his address to the Bank Board of Governors (Washington, September 27, 1971), he called for the Bank to provide sound policy advice and expanded programs for dealing with employment and income distribution problems. One of the chief points in his recent address to the Third U.N. Conference on Trade and Development (Santiago, Chile, April 14, 1972) was the "urgent need to relate the goals of national growth to realistic targets of more equitable income distribution." The Bank is now sponsoring several research studies on employment and income-distribution related topics. Employment considerations are beginning to be taken into account in project appraisals. A step towards more basic changes in Bank policies and programs was taken with the discussion of a staff-prepared paper, "The Employment Problem and Bank Operations," at the Executive Director's Meeting May 23, 1972. While the paper does not propose immediate changes in the way the Bank deals with loans, it does recommend further exploration of

* Department of Economic and Social Affairs, International Development Strategy (New York: United Nations, 1970), para. 18. See also paras. 7 and 66.

** U.N., Committee for Development Planning, Report on the Eighth Session, U.N. Doc. E/5126, (New York: United Nations, 1972)

the following: (1) greater stress on macroeconomic policies conducive to employment generation in Bank discussions with LDC officials, (2) new labor-intensive sectors for lending, such as public works and housing, (3) increased local cost financing, (4) expanded research and development on appropriate labor-intensive technology, (5) increased lending to small operators - perhaps through sector lending, (6) greater stress on employment generation in project identification and appraisal, and (7) cooperative research and data gathering on employment and income distribution with LDC institutions.

The OECD's Development Centre has sponsored 13 empirical studies on employment as related to agricultural policies, technological change, housing, public works, government fiscal policy, and other topics.* DAC Chairman Edwin Martin has asserted that "only a massive, coordinated attack can be justified, one which founds the whole development plan on the twin objectives of job creation and economic growth - and often in that order - rather than aiming primarily at a higher G.N.P." (DAC Chairman's Report for 1971 (DAC (71) 33), p. I-13).

Several regional organizations have given recent emphasis to employment problems. The Organization of American States focused on employment generation in its 1971 Inter-American Economic and Social Council Meeting. The Council on Asian Manpower Studies (CAMS) was formed in 1971 by scholars and government officials of nine East and Southeast Asian countries to sponsor policy-oriented

* Special mention should be made of the first of the five already published studies, D. Turnham and I. Jaeger, The Employment Problem in Less-Developed Countries: A Review of the Evidence (Paris: OECD, 1971). This study is a comprehensive summary of available evidence on unemployment and underemployment and discussion of measurement and conceptual questions.

research on employment and income distribution problems in the region. CAMS has created five Asian-based working parties specializing on labor force and labor supply, employment-generating projects and policies, education and manpower, technology, and trade, respectively. Funding sources include the major foundations, the U.N., and bilateral donors in the region (including the U.S. and Japan).

Several bilateral donor agencies have manifested concern with employment and income distribution problems. The Overseas Development Administration of the U.K. supports major research and technical assistance on employment problems via the Institute of Development Studies at Sussex University. The Swedish International Development Agency, in addition to providing direct support to the ILO's World Employment Research Program, has declared that its assistance will henceforth only be given to recipient countries committed to the goal of improving income distribution.

Past and Continuing A.I.D. Activities

A.I.D. has and continues to support a number of activities with at least a potential positive impact on employment and income distribution.

A significant proportion of capital assistance channeled through A.I.D. has been in the form of the program loan. This form of assistance could in theory result in greater employment generation than project lending restricted to financing capital equipment. This result arises from the greater flexibility of a program loan which is not restricted to capital goods but permits importation of a wide range of raw materials and intermediate goods.* An

* For maximum flexibility (and employment-creating potential) there is in principle no reason why consumer goods should not be added to the list of eligible imports under a program loan for a country with a foreign exchange constraint so severe that total consumer goods supply would fall short at existing levels of demand and income.

assured adequate flow of current inputs can exert a significant favorable effect on the degree to which existing capacity is utilized, including multiple shift operations, and thus tends to reduce the capital-labor ratio and raise employment. In addition, the program loan can provide fertilizer and other agricultural inputs to a large number of small farmers, provided an adequate distribution network exists. But this potential depends on IDC policies. If factor-pricing and institutional development policies favor capital imports and large scale producers the potential employment-creating affects of program loans will be substantially reduced.*

PL 480 assistance, which has assumed substantial proportions in several countries, has probably exerted a positive impact on employment and income distribution. Concessional food sales under Title I have reduced the relative prices of basic wage goods and permitted non-inflationary expansion of employment and output. In some cases, however, the flow of foreign food on concessional terms may have discouraged productivity improvements which would have reduced the production costs of domestic agriculture. Small farmers who are net grain buyers have also benefitted; in some countries many small farmers fall into this category. Title II grant assistance has been directly aimed at the needy through maternal and child feeding and food for work programs, although there is room to improve both the developmental and income distribution impacts of these programs.

On occasion A.I.D. has deliberately channeled its capital assistance on a project or sector basis to finance local costs for such programs as sites

In some countries the flexibility of program loans is nullified by restrictions on materials imports to one-shift operation requirements. This biases import demand towards addition of new capacity rather than fuller utilization of existing capacity.

and services for self-help, low-cost housing and credit to small and medium scale agriculture and industry. Current examples are to be found in A.I.D. agriculture and urban/regional sector loans to Colombia.

A.I.D.'s technical assistance has also influenced employment and income distribution. The effects vary depending on what kinds of institutions and groups are assisted, such as whether assistance is for primary or higher education. In agriculture many of the institutions supported by A.I.D. have been geared to the needs of large operators; the needs of small producers have, except in special cases, received much less attention. While the relative distribution of the benefits flowing from the new grain varieties is an unsettled issue, the absolute increase in food supplies in some parts of Asia, for example, has undoubtedly reduced the incidence of famine (which by definition affects the poorest), exerted some favorable effect on nutrition, and permitted expansion in employment-generating programs where food supply has been an important constraint.* A.I.D. shares deserved credit for the development and diffusion of this technical breakthrough. Another area where A.I.D.'s technical assistance has had a positive impact on the welfare of the poor is public health. Over the years programs supported by A.I.D. have contributed significantly to sharp declines in the incidence of communicable diseases, notably malaria. In nutrition, the work of A.I.D. on the fortification of staples, the genetics of breeding higher protein content into cereals, child feeding, and other areas has also focussed largely on the nutritional problems of the poor.

* The availability of large supplies of grain from the outside together with improved internal transport and organization have also, of course, contributed significantly to the alleviation of famine.

In some countries, such as Colombia, India, the Philippines, Taiwan, and Vietnam, A.I.D. has supported cooperatives and other local action entities, such as land reform organization. In Latin America it has supplied Bureau of the Census experts for the improvement of household survey statistics on employment and incomes.

Finally, A.I.D.'s Office of Labor Affairs has provided a limited amount of technical assistance in the manpower field and has called attention to the increasing severity of LDC employment problems.* Such assistance has been in the fields of skills and vocational training, manpower planning, employment services, and other related areas. This office has also supported training programs for LDC employment and manpower experts in the Labor Department-administered International Manpower Institute and for LDC labor statisticians in the Bureau of Labor Statistics.

Recent A.I.D. Initiatives

Two recent initiatives have been undertaken by Development Planning Offices of the Africa and Latin America Bureaus. Papers giving a regional focus to employment and development have been written and circulated to solicit field Mission views on employment strategy.** Although the issues raised by Missions have naturally varied from country to country, most have agreed that employment-equity considerations should be given more attention in Agency programs and

* O/LAB-prepared A.I.D. Manual Orders 1612.40.4, "Manpower and Employment Development," June 6, 1967, and 1612.40.1, Attachment A, Planning Guide: Manpower/Employment and Labor Ministry Development," June 11, 1969.

** The two papers are: "Developing an Employment Strategy for Africa in the 1970's," by Charlotte Cook, AFR/DP, September 1971, and "Employment and Development Planning in Latin America," by Charles Montrie, LA/DP, October, 1971. The airgrams are AIDTO Circular A-9, "Developing an Employment Strategy for Africa in the 1960's," January 6, 1972, and AIDTO Circular A-2127, "Employment and Economic Development," October 30, 1971.

policies. Many have suggested the same recommendations made in this paper.

A.I.D. has also supported recent initiatives in the Asian region. Support was provided for the international conference on employment and development held at Kathmandu in July 1970, "Employment and Unemployment Problems of the Near East and South Asia." The 29 papers presented at this conference have been published and given wide circulation in the development community.* Support was also provided for establishing the already-mentioned Committee on Asian Manpower Studies. The Bureau of Program and Policy Coordination has also prepared recent papers on employment and income distribution which have been sent to Missions.**

A major technical effort by the Latin American Bureau has been an intensive sector analysis of Colombian agriculture which explicitly takes into account employment and income distribution. Although the magnitude of this effort precludes its replication in every country, it should provide invaluable guidance to sector analysis efforts throughout the Agency.***

Since the formation of the Technical Assistance Bureau in 1969, employment and income distribution considerations have received more explicit attention in A.I.D. technical assistance reviews and proposals. Some of the Key Problem Area exercises have raised these issues. Particularly noteworthy is the local action key problem area analysis undertaken to improve the design and implementation of programs and projects intended to involve and benefit lower strata of

* Ronald G. Ridker and Harold Lubell, op. cit.

** "Social Criteria for Project and Sector Lending," by Edwin Cohn, PPC/PDA/CP, June 28, 1971, and Employment and Development: The Problem and Some Policy Alternatives," by John R. Eriksson, PPC/PDA/EA, October 12, 1971.

*** See "Summary Results of Employment, Income Distribution and Small Farm Analysis," by Samuel R. Daines, et. al., Analytical Working Document #2, LA/DR/SASS, April, 1972.

LDC populations. Support has been extended to IRRI for the development of machinery and implements appropriate for small farmers and to the Agricultural Development Council for its efforts to improve the relevancy of U.S. agricultural economics training for LDC technicians and administrators. In education, three key problem areas have important implications for increasing learning opportunities available to a broader spectrum of people: (1) non-formal education, (2) educational technology, and (3) educational finance. Employment and income distribution considerations are also being taken into account in examining the potential for an integrated approach to U.S. technical assistance in urban development. A related initiative is a proposed project to study labor-intensive approaches to the construction of low income housing and related infrastructure.

Increasing attention is being paid to income distribution and employment considerations in AID/Washington reviews of sector and project loans. The impact of this approach is limited, however, by the fact that the loan proposal is already structured at the review stage. These considerations are more likely to be implemented if they are incorporated into proposals from the outset. One current project which should facilitate the achievement of this objective is the development of a new capital project appraisal manual. A draft "Guidelines for Capital Project Appraisal" which contains chapters on social criteria and shadow-pricing has been circulated to the field.* Consideration is also being given to

*"Guidelines for Capital Project Appraisal," Agency for International Development, September, 1971. (Draft Circulated for Comment).

ways of introducing social criteria into the proposal and evaluation processes.

Present information on the nature of employment and income distribution problems and policy alternatives is inadequate because until recently these problems were not considered very important and there was consequently little demand for data and analysis. Recent A.I.D. efforts to overcome this deficiency include the following research contracts and grants: Yale, Employment and Unemployment in Developing Countries; Rice, Distribution of Gains from Economic and Political Development; Cornell, Impact of New Technology on Rural Employment and Income; M.I.T., Adaptation of Industrial and Public Works Technology to the Conditions of the Developing Countries; and National Academy of Sciences, Series of Multi-disciplinary Panels and Papers Assessing the State of Knowledge on Appropriate Technology.

Clearly there is considerable interest in employment-equity problems in various parts of the Agency as well as in the rest of the development assistance community. The recent initiatives undertaken within A.I.D. are a useful beginning. The remainder of this paper outlines some new initiatives to extend these concerns more systematically in the Agency's programs.

III. A Recommended Program of Action

The governments of many developing countries are on record as assigning a high priority to employment and equity. This concern has been expressed by national leaders, in development plans, and in a variety

of official and unofficial statements.* In many developing countries, the government and/or important elements in the national leadership have long been concerned about these issues and felt that donors did not give sufficient weight to them. The gap between official enunciation of employment and equity as important development objectives and the design and implementation of public policies and practices necessary to assure their realization, however, has often been large. The weight given to employment and equity considerations varies from country to country and is a matter for each country to determine for itself. These are not issues on which the U.S. or other donors should seek to impose their own values or goals. This does not mean, however, that bilateral and multi-lateral donors should remain indifferent to the employment and income distribution performance of aid-receiving countries, any more than they have hitherto remained indifferent to their growth performance. First, A.I.D. and other donors should help LDC governments to identify and where possible avoid transfers of technology which have an adverse effect on employment and/or equity, especially but not exclusively in the capital and technical assistance projects they support. Second, donors can take account of employment expansion and income equalization policies as a factor in the allocation of aid resources among recipients.

One approach to equitable sharing of the benefits of growth would be through taxation of the rich and financial support of the poor by means of direct transfers. In many countries such an approach is limited

* For a collection of such policy statements see "Developing Country Policies and Popular Participation in Development, With Particular Regard to Income Distribution and Employment: A Sourcebook," AID/FPC, June, 1972.

however, by political realities. A more feasible approach is to combine progressive taxation with other public policies, including expenditure, interest, foreign exchange, wage and migration policies, in ways which enhance the earning capabilities of the poor through expanding productive employment, promoting human resource development, and broadening access to resources and opportunities.

The emphasis placed here on employment and income distribution should not be interpreted to mean exclusion of other essential elements of the development process or indiscriminate support for any approach which promises to increase employment or equalize income regardless of other consequences and of costs; continuing growth of output remains essential. The important point is that development should be considered within an analytical framework which includes these key aspects. It should be possible to develop a set of policies and programs which will promote economic growth, employment and equity as coordinate objectives.

It is often assumed that growth and employment-equity objectives must conflict. This is not necessarily the case, even in the short run. Conflicts requiring trade-offs may arise, but in a number of significant respects growth and employment-equity may be complementary objectives, especially in the longer run.

One example of this presumed conflict is the defense of skewed income distribution on the grounds that the savings needed to support investment are generated largely by those in the highest income groups and that therefore redistribution of income toward the poorer classes, who were

presumed to have little if any propensity to save, would reduce investment and therefore retard growth. But this argument is increasingly coming into question for several reasons. First, the difference between the marginal savings of the rich and the poor may be neither so large nor so significant, in terms of its impact on growth, as had earlier been thought. In some developing countries, notably in Latin America, the savings potential of the rich is partly offset by conspicuous consumption and flight of capital. A recent study of the likely effect of a hypothetical broad redistribution of income in several Latin American countries indicated that reductions in the growth rate would be relatively small.* Second, the conventional view that the middle and lower socio-economic groups do not save derives from study of the savings behavior of paid employees in industrialized countries and overlooks the fact that in developing countries most people in the comparable income brackets are not employees of large organizations but are self-employed. In these countries very substantial savings have been undertaken by small-scale operators in agriculture, manufacturing, and commerce to improve and expand their operations when a network of suitable supporting financial and technical institutions plus appropriate incentives exist.** This point should not, however, be overstated. While some studies have found significant savings among low income groups, other studies have supported the existence of a positive relationship between income levels and marginal

* William R. Cline, "The Potential Effect of Income Distribution on Economic Growth in Six Latin American Countries," AID/USAID Research Project, 1969.

** See Edgar Owens and Robert Shaw, "Development Reconsidered," p. 66 and pp. 93-94.

savings rates.

Another aspect of compatibility between growth and employment-equity objectives pertains to capital-labor ratios. Lower capital-labor ratios would not only create more employment but would improve overall resource allocation and should therefore accelerate growth; more equal income distribution would expand consumption by lower income groups and, if the hypothesis that the consumption pattern of such groups is less capital- and import-intensive than that of the affluent is correct,* should make it possible to achieve a given rate of growth with a lower level of savings and investment -- and at the same time create more employment. In this connection it should be noted that many policies pursued in the past which have assigned low priority to employment and equity in order to accelerate growth have led to a misallocation of resources and produced relatively low growth rates.

Recommendations for Action by A.I.D.

The importance of employment and equity concerns for A.I.D. has been stressed by the Administrator in his Memorandum of January 24 in which he said (p. 14),

"[development] has meaning only to the extent that genuine benefits accrue to those in the lower levels of the social and economic order."

Past A.I.D. efforts to incorporate employment and income distribution considerations have for the most part been fragmentary and unsystematic.

* Empirical testing of this hypothesis is one of the central objectives of the research project on "Distribution of Gains, Wealth, and Income from Economic and Political Development" being conducted by Rice University with support from A.I.D.

Greater effectiveness requires the integration of these considerations into the full range of activities A.I.D. engages in. This includes sectoral and sub-sectoral analysis, development lending, technical assistance, and food programs. It means building these considerations into the framework of projects and programs from their inception and not merely adding them at a later stage as modifications to a basic thrust directed at traditional growth objectives. Other opportunities for focusing attention on these considerations and integrating them more fully into the design of development are economic policy dialogues with LDC governments, participation in consultative groups, collaboration with international organizations, and the encouragement and support of relevant research.

It is necessary to recognize constraints at both the analytical and implementation levels. Lack of skilled staff and of an adequate data base limit the capacity to conduct sophisticated analyses. Even a rough analysis, of the type which the guidelines will be designed to facilitate, should, however, be a substantial improvement.

It is also important to recognize at the outset the enormity and stubbornness of employment and income distribution problems. The overwhelming magnitudes of current and projected labor force growth suggest that even the most vigorous combined efforts of all donors (let alone A.I.D.) and LDC governments will not be able to solve the problem of full sharing in economic growth quickly or easily. The difficulty is compounded by the fact that those who benefit from the existing order are usually politically powerful and strategically placed to resist what they regard

as threats to their interests. Yet there are things A.I.D. can do to at least prevent its technical and capital transfers from exacerbating the problem, and, hopefully, to ameliorate it. Specific approaches are outlined below.

(1) Economic Policy Guidance

The first element in this approach concerns general economic policy issues which have a significant impact on employment and income distribution. Guidance should be developed for the use of A.I.D. officials and consultants who participate in consultative group meetings or in other ways are involved in the discussion of general economic policy. The primary emphasis here should be on the ways in which employment can be adversely affected by distortions in exchange and interest rate, tariff, tax and wage policies as well as foreign exchange and investment allocation systems and other economic policies. The purpose would be to indicate to LDC governments the benefits of adopting policies and practices which contribute to the establishment of factor prices more closely reflecting factor availabilities. These measures are desirable in any case and should be adopted even if there were no employment and equity problems; they would improve resource allocation and therefore support rapid growth.

While more realistic factor prices are certainly an important and probably necessary step for better resource allocation and expanded employment they will not be sufficient to bring about equitable sharing of the benefits of growth. Additional labor-intensive investment may have to be promoted by indirect incentives (e.g., tax reductions or subsidies to reward employment) and/or by direct reallocation of resources

via credit institutions or public investment. Furthermore, the effect of more realistic factor prices on income distribution is not entirely clear. Realistic exchange and interest rates should eliminate the need for allocation by administrative decisions, which inevitably favor larger and more powerful enterprises, as well as stimulate private bank deposits and thus give small operators in agriculture and industry better access to capital and foreign exchange. It will probably also be necessary, however, to restructure credit, technical advice, marketing, land tenure, and other institutions to make them more responsive to the requirements of small operators in order to promote broader participation in the production process and in the sharing of the benefits of growth.

The importance of more realistic factor prices for employment growth should not, however, be underestimated. In addition to encouraging investment in more labor-intensive sectors and techniques as well as promoting fuller use of existing capital goods, they should strongly facilitate the efforts recommended below to adapt and develop more labor-intensive approaches.

Finally, the crucial longer-term importance for labor force growth and therefore for employment of measures to reduce fertility should be indicated.

(2) Sector Program and Project Guidance

Loan and technical assistance project proposals should be required to include a section explaining what attention was given to employment and income distribution considerations. Missions should be

expected to address these questions in the formulation and appraisal of capital and technical assistance programs and projects. (If no consideration was given, an explanation should be provided of why such consideration was omitted). Proposals should be reviewed with an eye to how these issues are treated.

In order to facilitate the integration of employment and income distribution considerations at the sector, program, and project levels a set of interrelated critical questions should be developed for each important sector (with special questions for important sub-sectors). The questions should be designed to explore how different socio-economic groups are affected -- both favorably and adversely -- in terms of their access to employment and to resources and opportunities -- and the consequences thereof for income distribution. Attention should also be directed to analysis of the conditions which must be established and the types of policy and institutional change required for programs and projects intended to reach segments of the population which have not previously participated significantly in the development process.

Within the sector of agricultural and rural development, for instance, a set of questions common to the sector should be developed plus selected special questions for each of the major sub-sectors or spheres of activity in which A.I.D. assistance clusters, such as irrigation, livestock, credit, extension, research, marketing, land tenure, rural electrification, cooperatives and farm-to-market roads. Similar sets of

questions should be developed for education (with special questions addressed to primary, secondary, higher, technical/vocational; teacher training, non-formal, etc.) and for other sectors such as urban services and housing. For this purpose of facilitating the formulation, appraisal, and subsequent evaluation of programs and projects in terms of their impact on employment and income distribution the same sets of sectorally and sub-sectorally organized questions should be applicable to project and sector loans, to technical assistance and to food programs. The documentation submitted in connection with project and program proposals would be expected to deal specifically with these questions. In collaboration with host country governments explicit consideration should be given to alternative technical and institutional versions of the proposal with different income distribution and employment implications. Within the constraints of available staff AID/Washington should be prepared to make available to Missions on a TDY basis specialized manpower to assist in this process in the initial phase.

When factor prices are distorted, shadow rates, especially for foreign exchange, capital, and labor, should be used in the design and appraisal of proposals. Admittedly, the calculation of shadow prices is difficult and demands technical expertise. But where gross distortions between market and shadow prices exist, even crude adjustments should result in a better allocation of resources. The effectiveness of this approach would be enhanced by consultation with the host country and other

donor agencies to determine how distorted market prices should be corrected for in project appraisal. Agency guidance on the use of shadow prices should be developed.

What constitutes satisfactory compliance with this guidance cannot be established at this stage. This question will be addressed on sector-by-sector basis as detailed guidance is formulated. But in the final analysis, an element of judgment must be involved in determining whether employment and income distribution questions have been seriously addressed. A rigid, uniform criterion of compliance is likely to be next to impossible to devise. Moreover, the probable arbitrariness of such a criterion could reduce the likelihood that the ultimate goal of injecting employment and income distribution considerations into project design and formulation would be achieved. The central purpose is to induce AID staff in the field and in Washington to "think employment and income distribution."

(3) The Development of Human Resources

Human resource development programs in health, nutrition, education, training, and family planning have the potential of creating a more employable and productive labor force, raising social mobility, and expanding the opportunities open to the poor without threatening the rich in the way that direct redistribution of wealth or income does. Redistribution of human capital may therefore be an easier and more effective means of equalizing income than redistributing physical capital and may at the same time help to expand employment.

In its continuing support for such programs A.I.D. must exercise care and selectivity, however, to assure that they in fact benefit the poor and thus exercise an equalizing effect rather than benefit predominantly the already privileged and thus further skew the distribution of income. This calls for careful analysis of the benefit incidence of human resource development programs. Health and education systems, for instance, have typically been extended outward (geographically) and downward (socio-economically) from the urban elite with the result that the last -- and least -- to benefit have been the poor, especially those in small villages and backward regions. Even if the services are available and free, the poor are less well able to bear the opportunity cost (foregone earnings) or the associated costs (school books or uniforms, boarding away from home, transportation to hospitals or clinics) of utilizing them. Although the poorest third or half of the population may be unable to take advantage of these services, they may nevertheless be taxed to pay for them, possibly at a higher level in relation to their incomes than the rich who do make use of them.

On the other hand, some program to be effective must involve all socio-economic groups and the very broadly spread benefits. Public health programs designed at communicable diseases, such as malaria, illustrate this virtually universal participation. Other programs can be designed to give special attention to less favored groups, such as health or facilities in rural districts or backward regions.

It would therefore be a serious error to assume that a human resource-oriented strategy will necessarily improve income distribution; whether it does so or not depends on what groups participate and have the opportunity to benefit. It is important for the longer run to undertake research to clarify our understanding of what types of programs tend to equalize income distribution, and under what circumstances, and in the meanwhile to pay careful attention to the likely benefit incidence in designing and implementing human resource development programs.

Broad improvement in health, nutrition, education, and training should contribute to the formation of a more employable and productive labor force. Preference should be given in the health field to coping with the diseases which afflict large masses rather than merely small elites. Cancer, heart disease, and other ailments which for the most part only the wealthy live long enough to contract should receive low priority. In the field of education and training special attention should be given to non-formal training and to on-the-job upgrading of skills, including arrangements for subsidies to employers who provide such training. The relevance of the education and training provided is, of course, critical.

Encouragement should be given to the removal of man-made barriers to occupational and geographic mobility, such as caste or ethnic restrictions on employment, or factors which prevent the flow of workers to areas experiencing labor scarcity, as at harvest time.

Clearly, however, human resource investment and increased

mobility, although necessary, are not sufficient to solve the employment problem any more than to solve the income distribution problem. A supply of educated, healthy, well-nourished people will not of itself create employment opportunities for these people; matching measures and policies to expand demand, as outlined in other sections of this paper, are also necessary.

Finally, the continuing efforts of AID and other donors to help LDC's reduce fertility should, in the long run, have a major impact on the number of entrants to the labor force and thus on employment. In addition, reduced fertility should contribute significantly to raising the quality of life and the productivity of the labor force.

(4) Labor Intensive Technologies in Agriculture and Industry

It is of the greatest importance not to accept existing technical co-efficients as immutable; new ways must be sought of combining capital, labor, and land which are efficient in terms of actual resource availabilities. The development, adaptation, and adoption of productive labor-intensive technologies has many aspects.

In choosing between sectors (or sub-sectors) LDC's should be encouraged to give greater attention to those sectors which are inherently labor-intensive, such as metal working and engineering, rather than to those in which the production techniques are highly capital-intensive, such as petro-chemicals. Within sectors, where alternative technologies exist, the potential of those which are more labor-absorbing should be fully explored. It is often said that the only technologies

available to developing countries are those embodied in the equipment produced in and for the most advanced countries and that therefore they have little or no choice. This is an overstatement of the situation. In many branches of production alternatives do exist. It is not necessary, for instance, to jump from threshing by driving animals over the piled grain to the combine; there are a range of intermediate possibilities. It is also possible to adapt Western machinery to LDC conditions by changing plant layout, utilizing labor-intensive techniques for materials handling, and in other ways adjusting the capital-labor mix; in Hong Kong and Taiwan modern textile machinery is operated at higher speeds and the number of spindles attended per worker is correspondingly reduced, thus changing the technical co-efficients. Numerous other instances can be cited. But there is a critical need for the development of incremental improvements in technology and for the creative adaptation of existing technology to LDC conditions.

Many institutions, both national and international, have a role to play in the development of improved labor-intensive technology and equipment; large LDC's with engineering capacity, such as India and Brazil, are in a position to make especially valuable contributions in this area, not only for their own use but for export to other LDC's. It is not proposed here that AID undertake a major effort in this field but rather that it encourage the work of others and, where appropriate, extend support, as it has to the IRRI program for the design and construction of improved simple agricultural equipment.

Because small-scale enterprises in agriculture and industry tend to be more labor-intensive than large ones in the same field and involve broader participation and benefit incidence they should be encouraged on both employment and equity grounds. A strategy of encouraging small, labor-intensive enterprises requires, in addition to appropriate technologies, IDC institutions geared to the needs of small and medium sized farmers and businessmen. Existing systems are largely designed to provide tools, credit, marketing, technical advice, and other types of support for large operators and tend to ignore or give low priority to small ones. In its programs in agriculture and industry A.I.D. should be responsive to the needs of IDC's to reorient existing institutions or create new ones to meet the needs of this clientele.

Some sector-specific measures to support labor-intensive and/or small-scale approaches in agriculture and industry are discussed separately below.

a.) Agriculture

In AID's extensive involvement in programs in the agriculture sector increased emphasis should be placed on problems of the small farmers and landless laborer. Relevant programs and policies which AID should support include the development of efficient technology applicable to small farms; expanding the availability of credit, water, improved physical inputs, technical advice, and marketing facilities to small farmers; cooperatives, especially for small farmers; land reform; and removal of subsidies or imposition of taxes on labor-displacing equipment.

b.) Industry

Although AID is no longer deeply involved in industry sector programs, where it is involved emphasis should be given to programs and policies which favor labor-intensive technologies in industry where feasible and encourage small-scale firms in particular. Elements in this approach include elimination of economic policies which discriminate against small firms, strengthening credit and other types of institutional support (e.g., technical advice, marketing, etc.) geared to the special needs of small producers, and the development and dissemination of appropriate technology.

Two additional approaches which seem promising but in the past do not appear to have produced the results expected of them require further research and evaluation to ascertain the conditions necessary for their success. The first of these is sub-contracting, which in Japan and Taiwan has been notably successful in drawing on small-scale labor-intensive enterprises to produce components for assembly and marketing by large firms. Constraints on the broader application of this practice in other LDC's apparently include quality control, reliability in meeting delivery schedules, and finance. The second is decentralized development of small-scale manufacturing and services in market towns and secondary cities. Such small enterprises, with their low capital intensity, should exert a favorable employment effect. They should also promote a more equitable geographical distribution of opportunities and spread benefits both in the towns themselves and in the surrounding rural areas the development of which they support. The major difficulty is that

there is little successful experience with planned decentralization in LDC's on which to draw.

(5) Labor Intensive Public Works

The practice often followed in the past of exporting U.S. machine-intensive construction methods is clearly incompatible with the factor endowment of LDC's. In projects involving AID capital or technical assistance for the construction or maintenance of highways, water supply systems, and other types of civil engineering works the possibilities of expanded use of labor and reduced use of machinery should be thoroughly explored and utilized.

In addition, consideration should be given to expanded A.I.D. support for public works which lend themselves to labor intensive methods (such as the construction of farm to market roads, drainage, irrigation, terracing and conservation, housing, etc.) by food assistance and other means. Such programs can contribute to the creation of useful infrastructure as well as provide employment. The substantial requirements for managerial competence implicit in this approach and the scarcity of such talent, however, are constraints which must be taken into account. Breaking up construction projects into small components may at least ease this constraint.

It is important to identify and distinguish between the immediate employment benefits and the longer-run use benefits, which may accrue to the wealthy. For this and other reasons more serious systematic analysis of their socio-economic impact and administrative arrangements are

required to improve their productivity and make their impact more equitable.

(6) The Training of LDC Administrators and Technicians

The foreign training provided for LDC administrators, engineers, economists, educators, and other experts should be oriented to the conditions of developing countries, with special attention to the employment and income implications of public policies (such as those outlined under item 1 above) and of technology. Administrators and technicians brought to the U.S. for training are exposed to techniques and approaches which are functional for capital-rich labor-scarce economies but dysfunctional for the capital-scarce labor-surplus developing world. As a major supporter of such training, A.I.D. should arrange for the development of materials emphasizing the creative adaptation to LDC conditions of techniques learned in the U.S. and for their introduction into training programs. The potential of third country training programs which include attention to the adaptation of technology to LDC conditions should be explored.

(7) Evaluation

A.I.D. should initiate a regular process of evaluating its projects in terms of their benefit incidence. This should include evaluation of selected completed projects as well as current ones. A select number of past projects should be evaluated for their benefit incidence, especially employment and access to resources and opportunities. Whenever possible, provision should be made for local social scientists to participate fully in the design and implementation of the evaluations.

(8) Research

It is important to develop improved understanding of the nature and dimensions of the employment and income distribution problems in LDC's and of the ways in which they are affected by different types of policies. A.I.D. should therefore, in collaboration with ILO, IBRD, and other appropriate international and national institutions, support improvement in the measurement of employment and income distribution in LDC's as a basis for assessing the present situation and projecting the consequences of development policies and programs. A high priority need is to improve the concepts as well as the data on employment and income distribution. This is a long-run task but is fundamental to intelligent policy formulation and progress in meeting development objectives. In its own research strategy A.I.D. should give special priority to research undertakings designed to increase our understanding of employment and income distribution in relation to other economic and social parameters and to produce policy recommendations which could be utilized by LDC governments and donor agencies. Among the topics on which research is especially needed are the benefit-cost relationships of employment generating projects, notably public works; alternative techniques of removing distortions in factor prices so as to minimize the disruptive effects; analysis of policies employed by countries which have equalized income distribution while sustaining growth; studies of the distributional impact of a broad spectrum of fiscal and monetary policies and other types of economic intervention by governments; and study of the income

equalization possibilities of human resource development programs. Missions should also be encouraged to stimulate and support LDC research in this area.

(9) Organization of A.I.D. and Orientation of A.I.D. Staff

The effectiveness with which A.I.D. is able to implement the recommendations outlined above depends to a considerable extent on how the Agency is organized for this purpose and on the skills the Agency staff in the field and in Washington can bring to perceiving and dealing with these issues. Within the policies outlined here and to be supplemented by the more specific guidance referred to above, the primary responsibility for incorporating employment and income distribution considerations into A.I.D. activities must rest with the Missions because of their greater familiarity with the specifics of country situations, their continuing dialogues with LDC governments, and their role in conceiving and developing programs and projects in collaboration with local institutions. The regional bureaus, of course, also have a major role to play as they review the proposals submitted by Missions; however, although bureau staff can probe the adequacy of the treatment given to employment and income distribution in proposals originating in the field it is extremely difficult for them to inject these considerations into program design and implementation from a distance.

Successful implementation of an employment-expanding and income-equalizing thrust clearly requires widespread understanding by A.I.D. staff of the nature of these problems and of the various instruments

available for dealing with them. Training can enhance sensitivities and capabilities in this area and should be undertaken. Several mutually supporting approaches can be utilized. First, long-term (academic year) training in the inter-relationships between economic development and socio-political change of the type now provided at the Fletcher and Maxwell Schools is highly relevant and could readily be adjusted to give more explicit and systematic attention to employment and income distribution. Secondly, periodic courses, such as the Program Implementation and Evaluation Systems and New Employees Orientation Program could incorporate more emphasis and fuller treatment of these issues. Third, seminars of a week's duration in Washington utilizing workshops could be designed to expose Agency staff more intensively to these topics and to stimulate the working out of solutions. Travelling regional seminar-workshops to reach Mission personnel, especially Mission Directors, economists, and program and loan officers, could also be developed. Finally, the assigning to the extent they are available of AID/Washington personnel or consultants with experience in this area to work with Missions on specific projects on a TDY basis could provide useful on-the-job training for Mission staff.

(10) Expression of Views on Employment and Income Distribution

A.I.D. should maintain a continuing exchange of information and ideas on these aspects of development with other multilateral and bilateral donors, with private organizations concerned with development and with the governments of developing countries. As noted above, consultative groups, consortia, and similar meetings with other donors

provide an opportunity for calling attention to employment and income distribution considerations which are relevant either at the policy level or at the level of particular project activities.

Conclusion

A number of constraints on what can be done must be recognized, including the massiveness and stubbornness of the employment and income distribution problems; the fact that LDC policy-makers may not see these as high priority problems on which they are prepared to take vigorous action; the resistance of powerful groups in LDC's who benefit from the existing order; and the understandable sensitivity in developing countries to outside concern with the values and goals of their society. Within these constraints and those imposed by its own limited resources, talents, and the availability of appropriate instruments, A.I.D. can and should support policies, programs, and projects which at a minimum do not make the situation worse and should contribute to improvement. These problems stand at the heart of the development process as it is now coming to be perceived and constitute a major challenge to make development meaningful for the poorer half of the population in developing countries.