Recovery and employment

Report of the Director-General (Part I)
We live in a time of paradox

As this report goes to press, the resumption of growth is trumpeted everywhere: 1988 is viewed as the year in which the world economy turned around. The widespread fears which seemed confirmed by the October 1987 stock market crash are but a distant memory. Each new month brings yet more optimistic results and forecasts. Many draw comparisons with the 1950s and 1960s, and some, echoing the sentiments expressed at the World Economic Forum held in Davos in late January, claim that we are on the threshold of a new era of prosperity.

And yet, what is the evidence before us? In spite of the encouraging rate of growth of the world economy, much of the Third World is sinking deeper into poverty. Per capita GDP in many developing countries, low as it is, is falling further. The net flow of capital from South to North continues, aggravated by capital flight. There is little reason to believe that this haemorrhage will end so long as the debt problem persists. Unemployment and underemployment still plague the South. Nor have they spared the North. For all the talk of recovery, the return to prosperity, to a golden age, will not come about spontaneously. Few seriously believed in the model based on the “trickle-down” effect; indeed, experience in every country and throughout the world has disproved this model. Growth in the North does not necessarily pull the South along in its wake. At the national level, growth in the GDP does not invariably extricate the “old” or “newly” poor from their misery, or provide jobs for those who are without one. In our multipolar world, capital
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and growth do not flow in optimal patterns. Instead it seems that the development of the industrialised centres leaves ever larger parts of the South adrift. Our world is more prone to fragmentation, leading to internal and external tensions that threaten our future.

And yet, there is cause for hope, and therefore cause to act. The constant but often unheeded reminder of interdependence at conferences and summit meetings may finally be coming into sharper focus, thanks in part to the spectacular development of the media, transport, tourism and the opening of long-closed borders. The work of the United Nations is increasingly characterised by consultation and dialogue. Although certain regional conflicts continue to undermine world peace, greater efforts are being made to reduce the threat and find lasting solutions. The steps taken towards disarmament are creating favourable conditions for addressing the issue of development in a new, long-term perspective. There is a growing recognition that the stop-gap financial and monetary remedies to the crucial problem of indebtedness must be complemented by a much deeper consideration of the social aspects of adjustment policies and of the ultimate goal of development—in other words, the well-being of man. Recent changes in the economic policies of Europe's socialist countries should promote their integration into the world economy, and thereby enable them to participate fully in laying the foundation for genuine development throughout the world.

Preparations for the United Nations Fourth Development Decade covering the 1990s offer an excellent opportunity to proceed with the necessary modernisation. It is gratifying to note that these preparations, which are just now getting under way, have clearly endorsed the human objective of development.

We must, however, make sure that we do not fail once more to go beyond a simple declaration of intention. These concerns, these objectives must be translated first into policies and then into realities. The ILO, in collaboration with the other organisations of the
United Nations system, is party to the formulation of this strategy; its participation should ensure that social ideals, always loudly espoused at the outset, are not sacrificed along the way, as has happened all too often in the past, to the perceived need to re-establish the major balances. Within the ILO's tripartite system, we must see to it that the mandate of institutions sometimes condescendingly referred to as "social" institutions, is placed on an equal footing with that of economic, financial, monetary and commercial institutions.

Now, more than ever, we must reaffirm the essential link between the economic and social spheres. In this connection the ILO has a central role to play in the area of employment. Contributing at once to production, to the distribution of wealth and to the self-fulfilment of the individual, employment is the expression of an often mentioned but too often neglected fact of life, namely that "human beings are both the means and the end of economic development". It is this fundamental truth that gives the Conference's general debate all its relevance and it will be for the Conference—through the combined efforts of governments, employers, workers, non-governmental organisations and the organisations of the United Nations system, including the Bretton Woods institutions—to turn it into reality.

9 February 1989

Francis BLANCHARD

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Note

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INTRODUCTION

As we mark the seventieth anniversary of the founding of the International Labour Organisation, the world labour and social situation gives rise to grave disquiet. The past decade has witnessed a severe setback in the quest for full employment and social progress to which this organisation has been dedicated since its inception.

While growth rates in the OECD countries have recovered from the recession of the 1980s and Eastern European and many Asian economies have maintained respectable growth rates, economic conditions in sub-Saharan Africa and Latin America have remained depressed throughout most of the decade. Unemployment rates in many industrialised countries have been at their highest levels since the last world war and a majority of developing countries have experienced rising unemployment and underemployment as well as increased poverty. Many developing countries have experienced sharp falls in living standards over the past decade. In many of the worst-affected countries in sub-Saharan Africa and Latin America per capita incomes are now lower than at the beginning of the decade.

These adverse developments have occurred in a context of severe imbalances in the world economy. The growth in world trade slowed down considerably in the early 1980s, weakening the mutually beneficial transmission of growth amongst countries. Severe imbalances in the balance of payments have persisted amongst both industrialised and developing countries, and many of the latter are still in the throes of a severe problem of external
indebtedness. Indeed the debt problem has now led to a perverse situation in which poor countries have become net exporters of capital which is desperately needed to revive development. There have also been worrying signs of rising protectionism which threatens to aggravate further the difficult development prospects of the developing countries. This disarray in international economic co-operation poses a grave threat for the future of continued social progress in both rich and poor countries alike.

It is against this sombre background that I have decided to adopt as the theme of Part I of my Report to the Conference the issue of how growth and social progress can be restored in the coming decade. It is by now clear that the resumption of growth and social progress cannot be attained without a serious effort of adjustment to new realities on the part of both industrialised and developing countries. The adjustments will be required not only in national economic policies but also in international economic relations since the two are interdependent. The promotion of more open trading systems and measures to solve the international debt crisis will contribute immensely to the solution of the economic and social crisis in developing countries, while at the same time helping to raise growth rates in industrialised countries. However, simultaneous adjustments will also be required in national policies if the full benefits of these changes are to be reaped.

Consequently the Report addresses both the international and national dimensions of the problem. It begins with a review of the adverse developments in the international economy during the 1980s and the negative impact they have had on social progress, especially in developing countries, The heavy social costs that have been borne in these countries and the importance of economic recovery for the restoration of continued social progress are highlighted in Chapter 1. Chapter 2 goes on to discuss the prospects of economic growth and employment creation in the 1990s, emphasising the importance of increased employment-promotion measures in order to meet the challenge of a large backlog of current
unemployment compounded by the massive growth of the labour force in developing countries. Chapter 3 tackles the central issue of the development strategies that will need to be adopted in developing countries in order to achieve the required structural adjustments with the promotion of equitable growth, outlining an approach which the ILO firmly believes to be both essential and feasible for simultaneously attaining structural adjustment, a revival of growth and greater social equity in a more participative society.

The issue of structural adjustment has loomed large in recent international discussions, but the social dimensions of the problem have consistently received less than the attention they deserve. This has for some time been a source of concern to the ILO and a major effort was made to redress the situation with the organisation of the High-Level Meeting on Employment and Structural Adjustment in November 1987. That meeting succeeded in raising awareness in the international community of the importance of paying due attention to the employment and social aspects of structural adjustment programmes. It also helped to advance the idea that structural adjustment can be attained at minimal social cost so long as there is strong commitment to doing so based on social consensus and tripartite consultations.

The present Report can be seen as an attempt to build on the momentum generated by the High-Level Meeting. Already, following upon the conclusions of the Meeting, structural adjustment has been adopted as a major organising theme for the work of the Office in the 1990s. There is a need to redouble our efforts to ensure that the way out of the most serious economic and social crisis faced by the world in recent times is attained without any sacrifice of the principles of social justice and the goals of social progress which the International Labour Organisation has stood for since its foundation. This Report should be seen as part of this new effort. It does not claim to provide all the answers, but it is to be hoped that it will make a significant contribution to maintaining the social
aspects of structural adjustment at the forefront of international concerns. It also needs to be recalled that the strategy for the Fourth Development Decade is in the process of being formulated; the ideas contained in this Report should be seen as part of the ILO's contribution to that process.

I very much hope that the discussion of Part I of my Report will lead to renewed awareness of the urgency of finding viable solutions to the economic and social problems which have cast an ominous shadow over the past decade. The toll in terms of wasted output and human potential has been exceptionally great. This must not be allowed to continue.
The present decade ends in a paradoxical situation. OECD countries are experiencing sustained growth for the sixth consecutive year. Rapid economic expansion is also seen in several countries of Asia of very different characteristics, from China and India to the small economies of the South-East. Eastern European countries were also able to keep the economies growing. However, growth in all these countries, except China and the United States, has been lower than in the previous decade and only in the former is it growing faster than in the 1960s (table 1).

Many of the countries that were able to maintain or to recover their pace of economic growth were also able to keep their labour force fully employed (as in Eastern Europe) or at least registered low and stable unemployment rates (as in Japan and in South-East Asia). In the United States employment growth was such that unemployment dropped to pre-recession levels. However, most of Western European countries members of the OECD, in spite of recent improvements in the employment situation, are still showing unemployment rates which largely exceed historical levels. Eastern European countries are going through a process of economic and social reforms which will probably enhance their longer-run capacity to grow but is at present affecting labour stability and working conditions.

The main paradox of the past ten years is that, for all these signs of dynamic activity, the 1980s have for most developing countries, particularly in Africa and Latin America, been a lost decade. These countries experienced a major recession in 1982 to 1983 and have
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Table 1. Annual average economic growth, 1960-86 (percentages)

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<td>1.8</td>
<td>3.8</td>
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<td>3.7</td>
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<td>3.6</td>
<td>3.2</td>
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<td>3.2</td>
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<td>0.6</td>
<td>3.3</td>
<td>1.1</td>
<td>-2.4</td>
</tr>
<tr>
<td>North Africa</td>
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<td>4.7</td>
<td>1.9</td>
<td>5.5</td>
<td>2.0</td>
<td>-0.7</td>
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<td>-0.5</td>
<td>1.9</td>
<td>0.6</td>
<td>-3.5</td>
</tr>
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<td>5.4</td>
<td>1.1</td>
<td>2.5</td>
<td>2.9</td>
<td>-1.2</td>
</tr>
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<td>6.2</td>
<td>3.7</td>
<td>3.6</td>
<td>3.8</td>
<td>1.5</td>
</tr>
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<td>6.1</td>
<td>5.3</td>
<td>2.7</td>
<td>3.8</td>
<td>3.2</td>
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<td>1.3</td>
<td>4.7</td>
<td>3.3</td>
<td>-1.6</td>
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had to cope with severe debt and balance-of-payments crises for most of the decade. The result is that in many of them per capita income is lower today than in 1980 and that social conditions have been badly affected as poverty and unemployment have increased. This should be a matter of great concern since growing international disparities affecting in particular those countries where the poor are concentrated cannot constitute a base for international economic development with peace and stability. For this reason this report will mainly focus on the needs and possibilities of those regions, although the solutions will require a global approach.
The economic facts of this decade are already well known. The growth of world trade decelerated sharply in the early years and developing countries faced deteriorating terms of trade. This was intertwined with increasing real interest rates which affected highly indebted countries and it was aggravated by the unwillingness of commercial banks to resume lending on any scale. As a result, most of these countries entered into an adjustment process geared towards restoring balance-of-payments equilibrium but also to ensuring a long-term capacity of growth in a changed international environment.

Adjustment in the balance of payments was highly successful since in a very short period developing countries were able to transform a current account deficit of US$86 billion in 1982 into a balanced account by 1987. This happened in most developing regions since Latin America was able to reduce its deficit to one-fourth and Africa to one-third while Asia passed from a deficit of US$17 billion to a surplus of a similar amount. The opposite happened in industrial countries, which by 1987 registered a deficit double that recorded in 1982. The most recent figures for 1988 show that the situation has remained without significant change since both Africa and Latin America have kept their deficits at

| Table 2. Balance of payments on current account, 1980-88 (billions of US dollars) |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| All developing countries        | 31          | -48         | -86         | -63         | -33         | -24         | -41         | +0          | -18         |
| Africa                          | -2          | -22         | -22         | -12         | -8          | -0          | -9          | -5          | -8          |
| Asia                            | -14         | -19         | -17         | -15         | -4          | -14         | -5          | 21          | 16          |
| Middle East                     | 93          | 50          | 3           | -20         | -16         | -3          | -18         | -5          | -15         |
| Latin America and the Caribbean | -30         | -43         | -42         | -11         | -3          | -5          | -17         | -11         | -11         |

manageable levels, but there is a sharp decrease in the surplus registered in Asia (table 2).

The substantial improvements achieved in the balance of payments on current account were mainly the result of a curtailment of imports, which rose at only 0.5 per cent annually in 1980-86 compared to 5.5 per cent during the period 1975-80. If China and India are excluded, the absolute volume of imports in all developing countries was smaller than in 1980. This affected consumption levels and hindered production capacity in those countries. It also meant reduced market possibilities for exports from developed countries. Between 1981 and 1986 the exports of the industrialised market-economy countries (IMECs) to developing countries declined by 3.7 per cent annually, compared to an expansion of around 18 per cent annually in the 1975-80 period.

The volume of exports of developing countries increased sharply, rising by 4.8 per cent annually in the 1980s compared to a long-term trend of 3.1 per cent. But deteriorating terms of trade absorbed much if not all of the additional resources provided by expanded exports. In 1987 they were 27 points below the 1982 level for all developing countries. The worst hit were the petroleum-exporting countries, but the others were affected too since, although the terms of trade of the major exporters of manufactures did not deteriorate between 1980 and 1987, the prevailing level during the 1980s was one-third lower than in the two previous decades (table 3). This change in terms of trade can be explained by short-term fluctuations and by structural changes in the international economy, where there are shrinking markets and increased competition for commodities and raw materials while the prospects for manufactured products are better.

On the financial side, after several years of case-by-case negotiations, the external debt problem is still awaiting solution. This inhibits growth possibilities since developing countries, particularly those with huge debts, are devoting a large share of their export earnings to interest payments without being able to reduce
Recession, recovery and adjustment in the 1980s

Table 3. Terms of trade indices (1980 = 100)

<table>
<thead>
<tr>
<th></th>
<th>1975</th>
<th>1982</th>
<th>1985</th>
<th>1987</th>
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<td>Developed market-economy countries</td>
<td>109</td>
<td>100</td>
<td>101</td>
<td>114</td>
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<tr>
<td>Developing countries and territories</td>
<td>79</td>
<td>104</td>
<td>95</td>
<td>77</td>
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</table>

By region:

- Latin America and the Caribbean: 107, 93, 90, 80
- Africa: 71, 103, 95, 68
- North: 66, 109, 99, 65
- Sub-Saharan Africa: 77, 97, 91, 72
- Asia: 72, 110, 98, 78
- West: 59, 120, 104, 61
- South and South-East: 111, 97, 93, 93

By major category:

- Major petroleum exporters: 60, 116, 101, 63
- Other developing countries and territories: 129, 90, 90, 92
  - of which:
    - Major exporters of manufactures: 157, 94, 94, 100
    - Least developed countries: 106, 91, 97, 85
    - Remaining countries: 122, 87, 86, 86


The policy guidelines followed in most of these countries allocated priority to reducing internal demand and to promoting a shift of resources through more adequate relative pricing. Demand contraction pursued by monetary and fiscal policies resulted in the already noted reduction in GDP growth and, in some countries, in an absolute contraction of per capita GDP. In addition, the savings-investment imbalance was mostly corrected by a reduction in
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investment. According to World Bank data, annual gross domestic investment has been falling at rates ranging from —0.4 per cent in Asian low-income countries (other than China and India) to —9.3 and —6.3 in sub-Saharan Africa and in the highly indebted countries. The investment coefficient (as a share of GDP) also fell, particularly in Africa and in Latin America where in 1986 it was between 20 to 25 per cent below the 1980 level. Lower investment meant an erosion of the capital base and postponing new capital needed for future growth. This is one of the negative long-term effects of developments in recent years whose importance has not yet been fully realised. Physical capital is today less adequate to meet the challenge of future growth. Developing countries in general emerged from the crisis with deteriorated infrastructure, transport facilities, communications, etc., whereas the changes in the international economy require increased capacity to be able to raise productivity.

THE SOCIAL COST OF ADJUSTMENT

The partial adjustment made by many developing countries has not been costless. The cost might have been largely unavoidable, but it was probably greater than it should have been because of the lack of any global solution and because of the domestic policies followed. It was precisely those segments of the population that were less well equipped to bear the cost, however, that were most severely affected.

The situation has not been the same in all regions, since each has its own specific characteristics (as we shall see in the next section). In general there are four main ways in which people have been affected by adjustment policies either in their welfare conditions or in their economic activity.

First, the deceleration of growth has meant less employment creation. As the labour supply has generally continued to grow very
rapidly, open unemployment has increased almost everywhere, including most industrialised market-economy countries (IMECs) especially during the first half of this decade. For developing countries this is a new dimension of the employment problem which, in middle-income countries in particular, derives in part from the intense process of modernisation prior to 1980. In other countries it suggests that the mobility of labour towards the modern sectors is not easily reversed. In addition there is evidence, particularly in Latin America, that the unemployed are now more than in the past composed of men in their prime with working experience, although in absolute terms the rate of unemployment is still much higher among vulnerable groups such as women and young people. As in previous decades, unemployment is still the tip of the iceberg for developing countries, but today the tip is becoming more and more visible; hence the need for urgent action.

The second effect is that the slow-down in employment creation was accompanied by a deterioration in the quality of jobs created. In the modern sector there is a marked decrease in employment creation in large private sector firms which have to adjust to demand contraction. Public employment, on the contrary, continues to increase its share in the modern sector despite the retrenchment policies pursued in many countries. Low-productivity activities in the informal sector increased both in absolute and in relative terms, as did the jobs created in small enterprises. Employment in the services sector expanded more rapidly than in manufacturing, where there was in many cases an absolute reduction.

A third effect has been a reduction of labour incomes, particularly wages. Wages in most developing countries declined by 20 to 30 per cent in real terms, whatever the indicator used. In some cases the deterioration in wages predates the adjustment period, while wage differentials show mixed patterns. Wages in the manufacturing sector fell less than minimum or unskilled wages, which suggests that organised groups were more successful in defending
Table 4. Central government social expenditure (percentages)

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<td>excluding China and India</td>
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<td>Middle-income countries</td>
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<td>5</td>
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their remuneration. However, this is contradicted by the fall in the wages of public employees which in most cases is the largest recorded in spite of their being better organised. Fiscal budgets seem to have been adjusted more by wage cuts than by a reduction in employment. Although this may be seen as more equitable, one consequence has been a general loss of government management capacity because of the lack of incentive and the emergence of multiple-job arrangements.

A fourth effect is the reduction of government expenditure in the social sector. Although the share of public expenditure in the GDP increased, this was accompanied by a reduction in the share of education, health, housing and welfare, particularly in highly indebted countries where per capita social expenditure was often reduced in absolute terms whereas it should have been increased in order to counter the negative impact of rising unemployment (table 4). Industrial market economics, on the contrary, have maintained their public expenditure structure and even managed to increase the resources devoted to unemployment insurance and to emergency employment schemes.
The outcome of this situation is that at the end of the 1980s the world is in a more precarious social situation than at the start of the decade. Poverty has increased. The number of people living in absolute poverty has risen from about 820 million in 1980 to an estimated 950 million in the late 1980s. More than half are in the densely populated regions of South and East Asia (about 350 and 150 million inhabitants, respectively), although fortunately these regions have not generally been as severely affected by the recession as Africa and Latin America where there has been a sharp increase in the number of people living in poverty. In Latin America the recent deterioration has been a major set-back to the long-term trend of economic growth and poverty reduction and the proportion of the population living below the poverty line, which decreased steadily between 1960 and 1980 from 51 to 33 per cent, rose again to about 39 per cent in 1985.

The share of income from labour in total income is today smaller than at the beginning of the decade. The decrease in real wages and the fewer well-remunerated jobs created during this recent period have meant in many countries that income from work has declined faster than per capita GDP.

Growing poverty and an increasingly unequal distribution of income will pose a further challenge for policy-makers in the future. Social imbalances are not merely unjust; they also affect the capacity for growth. Unemployment and low-productivity jobs result not only in low incomes but also in frustration, deskillling and negative behavioural attitudes to work. Low incomes mean less incentive to work, just when all social groups are called upon to make a special effort to overcome the economic crisis. The reduction in public expenditure on education, health, housing and nutrition lowers the quality of available human resources, especially among young people, and hence production capacity. Together with the need to recover the loss of physical capital, this will be a major challenge for any growth strategy.
THE NEED FOR GLOBAL RECOVERY

The 1980s were characterised by the widely differing experience and performance of countries and regions in confronting a universal phenomenon. The OECD countries underwent a shorter recession than developing countries and after 1983 were able to achieve sustained growth, albeit at a slower pace and for the most part without a return to full employment. Asia was less affected by the crisis than other developing regions, either because of the countries’ size and limited integration in the world economy (as in China and India) or because of the diversification of their manufacturing exports (as in South-East Asia). The regions most severely hit by the crisis were Africa and Latin America, not only because of its intensity but because hardly a single country was spared. Yet whereas for Africa the recent economic contraction was merely a further stage in a steady decline which started before the 1980s, for Latin America it reversed a long period of rapid growth largely sustained by foreign capital. As already noted in the case of Asia, many of the factors which influenced the outcome were structural in nature: size of internal market, degree of modernisation, extent of integration in the world market, greater or lesser diversification of external trade, etc. But the response to their economic difficulties also differed greatly from country to country and in some cases the adoption of unsound policies actually aggravated the situation.

In an increasingly interdependent world, however, all countries are sooner or later affected by a major change on the international scene and this heterogeneity must not be allowed to conceal the fact that the main factors in the economic crisis of the 1980s were universal in nature: the slow-down of the world economy as a whole, the deteriorating terms of trade of the developing countries, the general rise in interest rates, the introduction of new trade barriers and the decline in capital availability. The universality of these economic disturbances makes it necessary to explore common solutions.
The main lesson learnt during this decade is that without growth it is very difficult to tackle social problems. The first common objective should therefore be to restore the capacity for growth of those parts of the world which are still experiencing recession and to sustain growth in those parts that have already recovered. Experience has also shown that growth by itself does not automatically ensure the attainment of social goals. On the contrary, in such times of crisis certain segments of the population need to be given preferential treatment and active collaboration must be elicited of all social groups. This cannot be accomplished in isolation, however, since another lesson learnt in the recent past is that the prospects for autonomous and sustained growth are limited unless it is conceived as part of a global approach.

The slow-down in growth rates in most parts of the world and the deep recession in sub-Saharan Africa and Latin America have been a serious set-back to international and national efforts to reduce poverty and achieve social progress in developing countries. A new layer of poverty was added to the "structural poverty" which previous development had failed to eradicate. The emphasis in the 1980s on macro-economic problems of adjustment, external balance and fiscal deficits has distracted attention from the social dimensions of development, including poverty alleviation strategies. The new additions to the ranks of the poor are retrenched workers who have failed to find an alternative livelihood, low-wage earners who have experienced a fall in their real income, the self-employed in the informal sector facing increased competition from new entrants and reduced earnings, the small farmers confronted by falling commodity prices and vulnerable groups, such as the members of female-headed households, which have been pushed into poverty as a result of rising prices and cuts in social expenditure and subsidies.

This rise in poverty illustrates the close link between economic and social progress. Faster growth simplifies the task of reducing poverty and ensuring social progress; unemployment declines,
workers move into better jobs and workers acquire a stronger bargaining position on the labour market. As a result, wages and working conditions tend to improve without placing undue strain on the economy. There are more resources for anti-poverty programmes, more room for manoeuvre in implementing redistributive policies and a greater chance that economic progress will eliminate extremes of poverty. In time of economic recession the lower-income groups tend to suffer most since they are the least to be able to protect themselves against adversity. They have no reserves to draw upon, no means of protecting their interests, and often no access to social security.

Yet even during earlier decades of economic expansion the benefits of growth were slow in trickling down to the poor. It was for this reason that in the late 1960s and 1970s there was a major shift in development strategies towards employment creation and poverty alleviation. The ILO was at the forefront of much of this work when it launched its World Employment Programme in 1969. This Programme was instrumental in having the creation of productive employment declared a central objective of development strategies, as one of the most effective means of distributing income among the poor and enabling them to participate actively in the development process.

In the present depressed economic climate, the existence of considerable unused industrial capacity should to a certain extent facilitate recovery. But there is also a need to rebuild the human capacity for growth and to correct the social imbalances resulting from the unequal distribution of the cost of adjustment. This should receive priority attention not only to compensate for the past but to give a new meaning to the future. There is no room for simplistic solutions in which errors of diagnosis would simply compound long-standing social inequities, nor for short-lived demagogic solutions which would be defeated by their own misconception. Resource constraints should be taken into account as well as differing economic circumstances. There is no universal
Recession, recovery and adjustment in the 1980s

panacea, but recognition of the increased social debt towards the poor and the workers who have already contributed more than their share to finance the cost of adjustment should at least lead to increased dialogue between the social partners. Periods of economic decline are not the best time to call for additional effort and sacrifice, but they can help to introduce a note of realism into exaggerated demands.

Social dialogue is a priority, especially when economic growth depends on a nation-wide commitment, as experience has shown that it is impossible to impose unpopular policies on workers and employers and that the more the social partners are involved in decision-making the greater the chance of success. There must be a broad commitment to raise productivity, to generate savings and to increase investment. The best approach to economic recovery must therefore be one that combines growth, equity and participation, and in this employment and labour market policies certainly have an important role to play.

The challenges before the international community are clear. Meeting them will require adjustments in the international system as well as within countries. World interdependence in trade, financing, technology, production and labour migrations means that all countries are vulnerable to changes in the international economy. The need therefore is for a global approach to common problems—precisely the kind of approach that has been lacking in the past. True, there have been some promising advances in the Uruguay round of trade negotiations, but recourse to protectionism in industrialised countries, which does not even solve their own adjustment problems, is making it more difficult for developing countries to recover from the recession. Trade barriers hamper the healthy process of liberalisation and structural adjustment in the industrial world, and their reduction is an essential ingredient of any coherent approach to adjustment. As to the developing countries’ financial problems, these have been dealt with on a case-by-case basis, with no substantial increase either in
the allocation of new funds or in direct foreign investment. In particular no solution has been found to the debt problem of many developing countries and the general tendency so far seems to have been to place the main burden of resolving the issue and of making the necessary adjustments on the debt-crippled countries themselves, which in turn pass on the cost to the social groups at the bottom of the income scale. Of course, it is never easy to apportion responsibility fairly, but the fact remains that there can be little hope of any progress unless the effort of adjustment is shared by all.

For developing countries, then, a global solution is an absolute requirement. Debt and terms-of-trade problems cannot be overcome at the national level even if the political will to do so exists. The strategy of "growing out of the debt" is not working because the resources needed for such growth are drained away to service the debt. One way making such resources available is "debt discounting", whereby the debt is set at its market value. This involves the reduction of the face value of the debt, thereby taking into account the possibility of default. But there are many other avenues to explore. Only a global approach can ensure improved co-ordination of economic policies, more open markets, better prices and the solution of the debt problem.

However, for this approach to be successful, a genuine effort of adjustment is also required at the national level. The structure of production must be modified to take into account the changed situation as regards comparative advantage and far-reaching policy reforms must be introduced to increase the efficiency of resource utilisation and to promote equitable growth. These are historical challenges for the international community, but today they acquire a new dimension because of the urgency of alleviating suffering and of eliciting the commitment of all social groups to common objectives. The means of action are known. What is needed now is the recognition of mutual interests and the political will to act.
The reality of the past should not lead us to excessive pessimism about the future. There are brighter signs at present in some parts of the world. There is recovery in OECD countries and in a number of countries in the South. Although in such times of worldwide uncertainty economic projections are too unreliable to serve as anything more than illustrations, they do coincide in forecasting a more rapid growth of the world’s real GDP than in the first half of the 1980s. In particular, World Bank projections to 1995 point to an improvement in the economic performance of developing countries. The need for structural adjustment at the national level has been accepted by most countries a large number of them have ongoing agreements with the IMF and the World Bank for such purpose. There is also public recognition at the international and national level that the policy package usually suggested should be improved. There is, finally, an increasing political will to establish a dialogue between the social partners.

A more dynamic world unfortunately does not mean growth for all countries. The projections for increased growth in developing countries owe a great deal to expectations regarding the large Asian economies and nothing to the region which needs it most, Africa. Even the more optimistic scenario foresees only slow gains for sub-Saharan Africa, while the base scenario promises no gain at all (table 5). The highly indebted countries are expected to grow at a slow pace and their capacity to accelerate will depend on solutions to their debt problems. The future, then, is one of
increasing income disparities as in the recent past. This pattern is discouraging when seen in relation to the need for recovery in a global context.

The international mechanisms of transmission are weaker than in the past owing to the protectionism practiced in industrialised countries whereby roughly one-third of all IMEC imports are today affected either by non-tariff barriers (around 20 per cent) or by tariffs (nearly 11 per cent). Some key export products of developing countries (such as agricultural products and certain labour-intensive consumer goods) are also the object of protectionist measures in industrialised countries, whose consequences are therefore particularly serious. Moreover, the deterioration of terms of trade weakens the transmission of growth from industrialised to developing countries. The relative prices of the latter's exports are decreasing because of structural factors such as the introduction of synthetic substitutes or demand saturation; but their decline is also the result of increased competition among developing countries in order to satisfy their foreign exchange requirements and of the production in developed countries of previously imported agricultural products in a bid for greater self-reliance. As things stand,
therefore, the prospect is that the North will become increasingly rich and integrated while large parts of the South will be progressively marginalised. This cannot be a model for world stability and progress.

The rest of this chapter seeks the answers to certain fundamental questions in the hope that they might facilitate the design of policies for future employment creation. First, what is the magnitude of the employment challenge in the future? Second, how much employment is growth generating? Lastly, what kind of jobs will be created in the future?

THE CHALLENGE OF EMPLOYMENT CREATION

The challenge of employment creation is already known. It has two main origins: the need at least to diminish the distortions generated during the recent period, and the need to absorb new entrants on the labour market.

We saw in the previous chapter how rising unemployment, the slow-down in the rate of employment creation, the deterioration in the type of jobs created and the expansion of low-productivity and poorly paid jobs in the informal sector, have resulted in increased poverty. In the case of Latin America PREALC has estimated that 5 per cent of the GNP needs to be allocated to reduce poverty and inequality to the level of 1980. This is not an impossible task. Indeed, although the pace at which this can be achieved is bound to vary from one region and country to another, it is an absolute priority if we are to eliminate extreme suffering and to provide the necessary incentive for all social groups.

The second challenge, which is quite independent of the crisis, is the absorption of new entrants on the labour market. Since those who will be seeking new jobs are already born, labour force projections are more accurate than economic projections. The future, unfortunately, is bleak. The countries and regions already able to
Table 6. Economically active population of the world, 1980 and 2000 (millions)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>World</strong></td>
<td>1,957</td>
<td>2,753</td>
<td>41</td>
</tr>
<tr>
<td><strong>Less developed countries</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>1,416</td>
<td>2,138</td>
<td>51</td>
</tr>
<tr>
<td>North Africa</td>
<td>189</td>
<td>318</td>
<td>68</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>24</td>
<td>43</td>
<td>79</td>
</tr>
<tr>
<td>South Africa</td>
<td>156</td>
<td>259</td>
<td>66</td>
</tr>
<tr>
<td>South Africa</td>
<td>9</td>
<td>16</td>
<td>78</td>
</tr>
<tr>
<td>Asia and the Pacific</td>
<td>1,103</td>
<td>1,619</td>
<td>47</td>
</tr>
<tr>
<td>South Asia</td>
<td>333</td>
<td>501</td>
<td>50</td>
</tr>
<tr>
<td>South-East Asia and the Pacific</td>
<td>177</td>
<td>277</td>
<td>56</td>
</tr>
<tr>
<td>China</td>
<td>547</td>
<td>761</td>
<td>39</td>
</tr>
<tr>
<td>West Asia</td>
<td>45</td>
<td>80</td>
<td>78</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>123</td>
<td>200</td>
<td>63</td>
</tr>
<tr>
<td>South America</td>
<td>83</td>
<td>130</td>
<td>57</td>
</tr>
<tr>
<td>Central America</td>
<td>29</td>
<td>54</td>
<td>86</td>
</tr>
<tr>
<td>Caribbean</td>
<td>11</td>
<td>17</td>
<td>55</td>
</tr>
<tr>
<td><strong>More developed countries</strong></td>
<td>542</td>
<td>615</td>
<td>13</td>
</tr>
<tr>
<td>Market-economy countries</td>
<td>337</td>
<td>383</td>
<td>14</td>
</tr>
<tr>
<td>Europe</td>
<td>150</td>
<td>162</td>
<td>8</td>
</tr>
<tr>
<td>North America</td>
<td>122</td>
<td>147</td>
<td>20</td>
</tr>
<tr>
<td>Japan</td>
<td>57</td>
<td>64</td>
<td>12</td>
</tr>
<tr>
<td>Australia and New Zealand</td>
<td>8</td>
<td>11</td>
<td>38</td>
</tr>
<tr>
<td>Centrally planned economy countries</td>
<td>205</td>
<td>231</td>
<td>13</td>
</tr>
<tr>
<td>USSR</td>
<td>137</td>
<td>155</td>
<td>13</td>
</tr>
<tr>
<td>Other Eastern European countries</td>
<td>56</td>
<td>63</td>
<td>13</td>
</tr>
<tr>
<td>Albania</td>
<td>1</td>
<td>2</td>
<td>64</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>10</td>
<td>12</td>
<td>20</td>
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Offer good jobs or generally decent unemployment benefits will feel the least pressure, while it is in those staggering under the burden of poverty, unemployment, underemployment and debt that the labour force will increase most rapidly. Almost 40 million people a year will have to find new jobs until the end of this century if the
world as a whole is to keep up with the growth in the labour force; more than 36 million jobs a year will have to be created in developing countries. Although in absolute terms the increase will be greatest in Asia, the rate of expansion will be faster in Africa and in Latin America, especially Central America (table 6).

The profile of the population and labour force also highlights the need for specific policies to attend the most vulnerable groups. In developing countries the young will experience the greatest need for employment. The ageing population, too, is becoming a universal problem, though this is at present mainly the problem of developed countries. Women's access to better jobs will continue to be a priority, since they account for the majority of new entrants, while past imbalances resulting from differentiation by sex will need to be corrected. Providing a livelihood for the large numbers of refugees and displaced persons will also continue to pose a difficult challenge.

THE EMPLOYMENT CONTENT OF GROWTH

Though there is an evident need to generate adequate rates of economic growth, they do not automatically ensure an adequate level or quality of employment. The relationship between employment and economic growth is very complex. In some countries, particularly in Asia, growth has been associated with job creation, while elsewhere increases in productivity have been the main source of growth without having any significant effect on employment. Factual information at the country level is needed to analyse this issue at the various stages of the economic cycle.

The employment record of industrialised market-economy countries varies widely. Despite quite respectable growth rates in Western Europe in recent years, high unemployment remains an apparently intractable problem. By contrast, growth has been associated with rapid employment creation in the United States where
the employment elasticity with respect to GDP growth was double the average for OECD member States in the 1980s and ten times higher than in Western Europe (table 7). Although the employment effect of growth has always been greater in the United States than in other industrialised countries, the disparity has increased over the past decade, with employment falling between 1979 and 1986 in Western Europe (−0.1 per cent annually) but continuing to grow strongly in the United States (1.5 per cent annually). The employment elasticity was negative (that is, growth was made possible only by an increase in productivity) in the United Kingdom in the 1980s, and has been in the Federal Republic of Germany and in Spain since the beginning of the previous decade. Of course the rate of employment generation needs to be seen in terms of the rate of growth of the labour force. But here again, although the labour force grew faster in the United States than in Western Europe, the difference in employment elasticities was such that employment increased much more sharply in the latter (9.6 per cent in 1979-86 compared to 2.2 per cent in 1960-68) than in the former (7.8 and 5.0 per cent respectively in the same periods).
Many explanations have been offered for this phenomenon, one of the most common being the existence of rigidities which hinder the smooth functioning of markets at the micro-economic level, particularly the labour market. But all of the countries concerned impose some regulations on their markets, including the labour market, in the interest of human rights, social justice and minimum labour standards. The balance between equity and efficiency differs from country to country and is not amenable to abstract judgement. Nevertheless, the difference in the ability of growth to generate employment in North America and in Western Europe is sufficiently striking to warrant careful study.

The employment content of growth is naturally of relevance to most countries, not just the IMECs, but, because of the difficulty of obtaining reliable data, long-term trends in employment elasticity are hard to determine. Such fragmentary data as are available are nevertheless useful to illustrate regional differences. Several Asian countries showed during the 1980s that sustained growth makes it easier to generate employment in the region, even though the elasticity is moderate (0.2 in the Republic of Korea, 0.3 in China, 0.5 in Pakistan). Employment elasticity in the manufacturing sector of Latin America shows a more mixed picture and has varied according to changes in the economic situation. During the 1970s the coefficient was 0.45, while during the period of the most serious recession, between 1980 and 1983 it rose to 1.1. This suggests that firms adjusted to the downswing of economic activity by reducing employment levels, in spite of many regulations which in theory make it more difficult to do so. The hesitant recovery registered after 1984-85 did not lead to increased employment but rather the consolidation of productivity gains, with employment elasticity remaining at the very low level of 0.06. Finally, the experience of sub-Saharan Africa indicates that the elasticity of employment is really only relevant to wage employment, which is a small and decreasing portion of total employment.

In order to improve the employment-generating capacity of
economic growth—particularly the creation of remunerative jobs—a number of macro and micro issues have to be tackled in most countries. At the macro level they include economic policy management, wage policy, the sectoral composition of growth and the size of key enterprises, while at the micro level the relevant issues are flexibility and job security, education, training and retraining, income support during transition from one job to another and assistance in finding work. This will be examined in more detail in the next chapter.

EMPLOYMENT PROSPECTS

We can estimate the number of jobs that will be needed in the future to absorb the distortions of the recent past and the demand for jobs emerging from the newcomers to the labour market. But the quality of jobs is also an important consideration. Although in periods of massive unemployment priority is understandably given to employment creation *per se*, the ultimate objective must be fully productive and freely chosen employment. The problem in the 1980s is not only that growth is not generating an adequate volume of jobs; in many countries much of the employment created is less productive—and thus less remunerative—than in the past. This state of affairs and the fact that new technologies will increasingly affect the number and type of jobs created are briefly analysed in this section.

Recent employment creation, particularly in the faster-growing countries, shows the predominance of service activities over manufacturing. In fact the manufacturing sector lost jobs in many countries, more even than the agricultural sector in which lost jobs is a long established feature. In more advanced countries there are today fewer industrial workers than in the past, and even in developing countries manufacturing accounts for a smaller share of total employment. Employment creation during the period
1980-86 has been concentrated mainly in services, and particularly in three subsectors: community, social and personal services (which is the most important), the wholesale and retail trade, and restaurants and hotels.

Consistent with these sectoral shifts, but also as a result of changes in technology and in education levels, there has been an increase in white-collar occupations and in the demand for technical and professional skills. The substantial increase of the use of unskilled labour in service activities suggests a dual trend in which the modernisation of the job structure goes hand in hand with an increase in marginal activities in the informal sector. This is apparent from labour market studies which draw attention to the growing number of unstable and less protected jobs involving part-time and temporary work or self-employment. Of course, this is also the result of the search for more flexible labour arrangements in situations where existing regulations are too rigid to allow for production restructuring. In some cases, the new labour arrangements mean higher incomes but at the cost of less job security; in others, they bring not only greater instability but also lower incomes.

In several countries of Eastern Europe industrial restructuring and qualitative improvements in production are part of the reforms currently being introduced. A greater emphasis on efficiency has already led to the closing down or phasing out of certain uneconomic enterprises characterised by poor organisation and overmanning. The creation of new jobs, redeployment and retraining are essential if the reforms are to be achieved without affecting the level of employment.

The impact of new technologies on employment levels in the 1990s will of course depend on the rate at which automated production systems are introduced, the demand for the goods produced and the possibility of offsetting some of the employment effects. For although the increases in productivity made possible by new technology will diminish the future demand for labour, the
actual proportion of the labour force affected is likely to be very small, a view confirmed by a recent study in showing that labour displacement caused by rapid technological change can be largely compensated by the indirect employment to which it gives rise.

Another important aspect of the introduction of new technology is the anticipated changes in job contents, and hence in skill requirements. Some trends can already be identified. For example, the manual work generally associated with a basic educational background is tending to give way to tasks demanding a higher level of intellectual ability. There is, too, a two-way development in the hierarchy of jobs, as engineers and technicians become the key personnel in innovating firms, while on the shop-floor and in the offices the clerical staff (mainly women) are progressively de-skilled. Moreover, with the shift from operation to maintenance there is a growing need for highly skilled maintenance personnel. Finally, there is an increasing demand for workers with multidisciplinary skills who can cope with several different tasks.

The foregoing analysis is based largely on studies conducted in developed countries and the question remains how relevant they are to developing countries. This is an open issue since the net effect will depend on the prevailing economic and organisational structure, which differs from country to country. The key factor, in any case, will be the rate of diffusion of the new technology. There has been a tendency in the past to overestimate this factor in developed countries and, even more so, in developing countries where the introduction of new technology has been slower and more limited in scope. This is not to say, however, that the need for continuous analysis and the anticipation of policy decisions are any less urgent, since in such an interdependent world little can be done to stay the advance of technological progress.
The experience of the 1980s has left a new pessimism in development thinking and has drastically scaled down expectations about the possible contributions of alternative development strategies to economic and social progress in developing countries. Up till the end of the 1970s the possibility of steady growth in the developing world was taken for granted. The predominant concerns of development thinking centred around issues of how to steer this growth in more equitable directions in order to bring about a swift and durable alleviation of mass poverty.

Sharply reduced growth in most parts of the developing world and steep falls in living standard in many countries during the 1980s have changed perceptions of development possibilities. Far from being taken for granted, growth now seems an elusive target. Many countries feel trapped by severe indebtedness, tightening balance-of-payments constraints and deteriorating social conditions from which escape appears nearly impossible.

Is there a way out? The search for a solution must encompass a review of past mistakes as well as fresh thinking about new options.

The lessons of the past include the need for greater attention to efficiency in resource use, even in times of favourable economic conditions. In some countries a contributing cause of the debt crisis was the use of borrowed foreign funds for low-productivity activities or unwise investments, or for sustaining an over-extended level of consumption. There also tended to be a relative lack of attention to the need to maintain a high degree of efficiency and
productivity in state interventions in economic activities. Public sector activities in many countries expanded beyond the extent justified by economic and social considerations. There was a relative indifference in many cases to the micro-economic inefficiencies resulting from various forms of state intervention and regulation of economic activity. Indeed there were often examples of clearly irrational economic policies from which no one benefited. These past failings need to be recognised and corrected.

Partly as a result of recognising the laxity in standards of efficient resource use, much of the recent writing on development strategy stresses the importance of development policies which do not presuppose a substantial inflow of resources into developing countries, which place the highest premium on efficiency and stringent cost-benefit criteria in the use of investment funds, and which emphasise the importance of serious efforts at mobilising domestic savings. These are commonsense prescriptions which reflect the current difficult economic prospects and the persistent debt problem. These recent writings also stress the need for greater equity in the use of public expenditures, especially those allocated for social services such as health, nutrition and education. This is based on the observation that, during the economic crises of the 1980s (and indeed even earlier), in several countries government expenditures had been not only wasteful but also increasingly inequitable. As noted earlier, studies of the social impact of the recession have shown that the burden of declining living standards has fallen most heavily on the poor, that is, on precisely those groups that could least afford it, given their already wretched levels of income.

Social expenditures were one possible buffer against this perverse development, yet they failed to protect the socially provided consumption of the poor in developing countries. Although there were notable exceptions, social expenditures bore the brunt of reductions in public expenditures which occurred in the wake of stabilisation and structural adjustment programmes, with dire con-
sequences on the access of the poor to health services, nutrition and education. The conclusion which has been drawn from this experience is that there is a need for far greater selectivity and careful prioritising of government expenditures, firm targeting of social expenditures towards the poor and greater progressivity in the financing of social services.

Important as these new insights are, they do not add up to a comprehensive strategy which can lead the way to economic recovery. They are sensible guide-lines for general economic behaviour and for specific redressals of past mistakes, but by themselves they cannot point to a viable way forward. For that a re-examination of major policy options is required, and such is the objective of the following sections.

THE FRAMEWORK FOR STRUCTURAL ADJUSTMENT AND EQUITABLE GROWTH

A major change in the nature of development strategies in the late 1980s is that short-term policy considerations have come to the fore. The severe balance-of-payments problems faced by developing countries in the 1980s made short-term stabilisation programmes the most urgent concern of policy-makers. Depressed economic conditions and significantly reduced growth rates forced attention on issues of structural adjustment and on the necessary policies to bring about changes in the structure of production and improve the efficiency of resource use in general.

In many instances this preoccupation with pressing short-term problems had the unfortunate effect of diverting much attention from the need to generate employment and alleviate poverty. There seemed to be the assumption of an inevitable conflict between stabilisation and structural adjustment objectives on the one hand, and efforts to alleviate poverty on the other. Fortunately there has been a welcome shift away from this position in the past few years. The dramatic social costs of stabilisation and structural
Recovery and employment

adjustment programmes which paid little attention to social considerations have brought about a significant change in attitudes.

It is now increasingly accepted that greater attention needs to be devoted to alleviating the social costs of stabilisation and structural adjustment, and that adjustment through growth represents the most effective way out of the current economic and social crises of developing countries. The conclusions of the High-Level Meeting on Employment and Structural Adjustment organised by the ILO in November 1987 represent an important statement of this position.

The strategy which will be set out below is based on the conviction that it is possible to combine structural adjustment with the resumption of equitable growth, and that this will lead to increased employment and the alleviation of poverty. A central feature of the proposed strategy is the need to adopt measures which will facilitate the revival of production, so that structural adjustment may occur in a context of growth rather than stagnation or contraction. This will require attention to a wider set of issues than just adjustments in macro-economic policy. Equal attention will have to be given to a wide range of micro-economic interventions which will help to remove obstacles to increased production, facilitate the process of reallocating labour and other factors of production, and counteract the loss of employment and income of vulnerable groups adversely affected by structural adjustment programmes. The importance of such a comprehensive approach, covering both macro-economic and micro-economic policies, cannot be over-emphasised. Partial approaches based exclusively on macro-economic adjustments are likely to face serious constraints in increasing output; moreover, they entail high social costs. Likewise, an exclusive concern with micro-economic measures, which overlooks the need for macro-economic stability and supportive macro policies, is unlikely to succeed.

Another key feature of the proposed strategy is the need to give priority to investments directed at improving the productivity and
Development strategies for recovery

incomes of the poor. Such a strategy is likely to yield a high pay-off in terms of output growth while simultaneously leading to a reduction of poverty. The increase in the employment opportunities and incomes of the poor resulting from this investment strategy will provide a boost to overall demand and further stimulate economic recovery. At the same time, by biasing the benefits of growth towards the poor, the strategy will help to moderate the social costs of adjustment which have been borne by the poor and lay the foundations of equitable growth in the future.

FACTORS AFFECTING ADJUSTMENT POSSIBILITIES

The extent of structural adjustment that is required and how easily it can be brought about in a particular country is influenced by past development strategies, the degree of flexibility in the structure of production and the mobility of factors of production. In general, the greater the degree of flexibility in production structures and the higher the mobility of factors of production, the easier it is to implement structural adjustment programmes. It is also usually the case that countries with a high degree of flexibility and factor mobility are unlikely to be faced with an abrupt and drastic need for structural adjustment, since they tend to adjust routinely to shifts in comparative advantage and changes in international economic conditions. Even such countries, however, can occasionally face a large exogenous shock which requires a deliberate structural adjustment.

The degree of flexibility in an economy is influenced by its level of development and the type of development strategy that has been pursued. In very low-income countries with inadequate infrastructure and poorly developed markets and other economic institutions, the capacity to adjust is often very limited. With non-existent or incomplete markets for products as well as factors of production, price changes are transmitted only imperfectly. Moreover, the response to such signals as are transmitted is likely to be slow,
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uncertain or altogether lacking. This tends to happen where, for instance, there are no new entrepreneurs to respond to new market opportunities, where new and existing producers cannot increase output owing to a lack of complementary productive inputs, or where the necessary infrastructure and local skills are lacking.

The other major influence on the degree of flexibility in an economy is the type of development strategy that has been pursued. Prices in an economy which is highly insulated from international trade by high levels of protection and controls over trade tend to be severely out of line with prices prevailing in world markets. Countries which have followed such an import-substitution or inward-looking strategy have also tended to have a high degree of government control over the allocation of investment and other resources: entry into certain lines of production is regulated through licensing and the selective granting of subsidies, and certain domestic prices are controlled, evidencing the State's substantial regulatory role over economic activity. As a result there is a relatively low level of domestic competition; many producers would find it difficult to survive international competition.

Such economies face a much more difficult process of structural adjustment than those which have pursued more open economic policies and have allowed market forces to play a greater role in the allocation of resources. In the first place the structural adjustment programme will have to correct severe and long-standing disequilibria stemming from past policies and the real structure of incentives, even at the cost of much disturbance to the system of production and the distribution of income. Secondly, the adjustment programme will have to extend significantly beyond macro-economic management: it will have to include trade liberalisation, a reduction in the amount of state regulation of economic activity, the removal of subsidies and adjustments in relative prices, and in some cases the phasing out or privatisation of loss-making state enterprises. Thirdly, the effects of past protection are likely to be reflected in a lower level of adaptability to change as
vested interests seek to preserve the status quo. Hence, both the ability and the willingness to respond will be low. For these reasons the task of bringing about structural adjustment in such economies will be a difficult one.

In addition to the level of development and the impact of past development strategies, there are two other important factors which influence the degree of difficulty in bringing about structural adjustment: the weight of the initial debt-servicing burden and the market prospects of the existing and potential exports of a particular country. The heavier the initial debt burden, the more difficult will be the task of achieving successful adjustment. Similarly, the bleaker the export prospects, the more difficult it will be to adjust through higher growth. When a country is faced with both a heavy initial debt burden and bleak export prospects, the task of attaining structural adjustment and economic recovery becomes immensely difficult. Unfortunately this is a situation in which many heavily indebted primary producing countries find themselves.

The factors which influence the need for structural adjustment and the differential capacity of countries to adjust have to be recognised in order to avoid rigid, simplistic or generalised prescriptions. Due allowance has to be made for the level of development of a country, its past development strategy and the resulting structure of production; consideration must also be given to its debt burden and export prospects. It should be noted that these factors can operate either singly or in some combination. In some sub-Saharan African countries all four unfavourable factors apply. The lack of flexibility in the structure of production, which can be traced to underdeveloped infrastructure, institutions and factors of production, is compounded by problems created by an inward-looking development strategy and extensive state regulation of economic activity. In addition these countries are heavily indebted and highly dependent on agricultural exports with declining market prospects. The more developed and industrialised countries of
Latin America, have a more diversified productive base; the challenge confronting them arises mainly from the effects of past development strategies and the heavy debt burden. Asian economies span a wide range of situations. The least developed countries (such as Bangladesh and Nepal) suffer from similar handicaps of underdevelopment as those faced by sub-Saharan African countries. At the other extreme are the four newly industrialising countries and territories (Hong Kong, Republic of Korea, Singapore, and Taiwan, China) which are often held up as examples of the benefits to be derived from export-oriented growth policies and of the virtues of early and continuous adjustment to changing international economic conditions.

While recalling the need to make allowance for differences in economic structure in framing country-specific policies for structural adjustment and recovery, it is still useful to set out the general types of policy interventions which will be required.

MACRO-ECONOMIC POLICIES

Corrective adjustments in macro-economic policies are a necessary but by no means sufficient condition for attaining the objectives of structural adjustment and economic recovery. They will need to be supplemented by micro-economic policies directed at improving resource allocation and the efficiency of resource use. In addition there will need to be direct interventions in the form of employment-generating schemes and targeted poverty relief programmes to deal with the social distress generated in the process of structural adjustment.

Stabilisation policies

The main instruments of macro-economic policy, that is, monetary policy and fiscal policy, will need to be deployed to correct the imbalance in external payments and curb excess domestic consumption. A common problem in many developing countries is
that the level of demand for both domestic and foreign goods is higher than what is justified by the productive and export capacity of the economy. This implies the need to reduce consumption through tighter monetary and fiscal policy. The growth of the money supply has to be checked through credit restrictions and the raising of real interest rates, and fiscal deficits have to be reduced. This type of macro-economic correction is usually classified under the heading of stabilisation policy, but it should also be seen as an integral part of the sequence of policies deployed to achieve structural adjustment and economic recovery.

Indeed it could be argued that it has been the isolation of the stabilisation problem from its overall developmental context that has sometimes caused needless economic disarray and social hardship. It is now increasingly recognised that the correction of balance-of-payments deficits should never be seen as an end in itself but only as a means of contributing to the attainment of broader development objectives. Within this wider perspective it becomes clear that the social costs and benefits of alternative courses of action have to be carefully weighed, balancing the apparent financial and accounting imperatives against the costs in terms of human suffering. Doing this will shift attention towards the more humane and productive alternative of correcting the imbalance through growth rather than by means of a drastic and abrupt reduction of output and living standards.

A major pitfall to be avoided in macro-economic adjustment is a substantial and abrupt deflation of output, such as has occurred in a number of recent stabilisation and structural adjustment programmes, with at least three undesirable consequences. The first is at the level of investment. The fall in investment levels associated with such a stabilisation programme can be so severe that long-term damage is done to productive capacity. Minimal replacement and maintenance of capital goods can no longer be sustained and productive capacity deteriorates. Secondly, the resulting recession may be deeper than warranted by the initial macro-economic
imbalance. At the same time, a lack of attention to the need to protect the incomes and socially provided consumption of the poor results in a worsening of income distribution and poverty. Stabilisation measures, such as the removal of subsidies on essential commodities and cut-backs on social expenditures, often result in a fall in incomes and welfare below the minimum levels required to sustain life. In such cases infant mortality rates and malnutrition rise and the life expectancy of the poor falls. Here the cost of adjustment is measured "not only in terms of lost output, but also in terms of lost lives and lost human potential". This violates the basic human rights of the poor and is therefore unacceptable.

Thirdly, a conventional macro-economic adjustment package may overshoot the desired adjustment in wages and incomes, causing them to fall below "efficiency levels" and thereby reducing productivity and output. Something to this effect is likely to have occurred in some sub-Saharan African countries where drastic falls in public sector wages have led to a sharply reduced productive capacity. The sharp fall in the incomes of the poor and in their access to basic social services has probably contributed to a fall in the productive capacity of the poor. Similarly, an increase in social tensions and political unrest directly linked to a sharp fall in incomes can be seen as counter-productive.

These problems indicate how difficult it is to attain both growth and equity when starting out amid extremely difficult conditions. The task, however, is not impossible. In situations where the downward adjustment in investment and incomes has overshot the desired levels and become counter-productive, there is a good chance that raising investment and wages will yield output gains in excess of what might be expected in normal circumstances. Policies designed to tap this potential for growth, while contributing to the required structural adjustment process, lie at the heart of a viable strategy for economic recovery.

Within such a general framework the precise policy interventions and their sequence will, as noted earlier, need to vary
according to the level of development, economic structure and the degree of structural adjustment required in a particular economy.

Exchange rate adjustment, trade liberalisation and the role of government

While the macro-economic policies that have just been discussed have a central role to play in a strategy for structural adjustment with growth and equity, other policy issues also need to be addressed at the same time. The question of exchange rate adjustment is an important part of stabilisation and structural adjustment programmes. Currency devaluation is typically required to restore international competitiveness and to increase the incentive to produce tradeable goods. Exchange rate adjustment thus straddles both stabilisation and structural adjustment policies. A devaluation will affect the level of total demand and create incentives for a shift in the structure of production. The extent of a devaluation is often a contentious issue since a large devaluation has immediate and strong repercussions on income distribution. For instance, the rise in import prices adds to inflationary pressures and leads to a fall in real wages. If workers are successful in defending real wages, an inflationary spiral is set in motion and the effects of the initial devaluation will in part be negated.

Depending on the structure of a particular economy, the shift in relative prices between tradeables and non-tradeables may be slow in changing the structure of production. As was pointed out above, countries in which a low level of development or past development strategies have led to a high degree of rigidity in the structure of production will be unable to adjust quickly and smoothly to the change in relative prices. For instance, in a low-income country dependent on the export of primary products, export producers may not be able to increase production easily owing to various constraints arising from a lack of supporting infrastructure and inputs. Moreover, there may be severe constraints on export pos-
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sibilities in world markets, and an increase in exports may cause a further deterioration in the terms of trade. For these reasons, when framing exchange rate policies, it is important to take into account export market prospects and the feasibility of shifting resources towards the production of tradeables. The immediate and significant income distribution effects of a devaluation, and the social tensions and distress it may cause, also need to be taken into account.

This should not, of course, be taken as an argument against adjustment, since an overvalued exchange rate may have worse consequences than an abrupt and substantial devaluation. Rather, the point is that it is necessary to deploy a whole range of supportive policies to facilitate the reallocation of resources and factors of production and to ease the constraints on increasing output in the tradeable goods sectors. These policies constitute the bridge linking stabilisation to structural adjustment and development policies. They are central to a strategy for attaining structural adjustment with growth. The way these policies are designed and implemented is also crucial for meeting the challenge of reducing poverty, increasing employment and promoting greater equity. This challenge can be met by influencing the pattern of investment and growth in such a way as to secure more equitable results.

Another basic consideration in the context of structural adjustment and growth policies is that of the general orientation of the overall development strategy. In general there is a need to liberalise trade in order to reduce inefficiencies arising from excessive controls over trade and to increase the degree of competition in the domestic economy. Conventional structural adjustment programmes also tend to emphasise the need to reduce the role of the State in the economy. This is based on both the need to reduce fiscal deficits as well as a general presumption that minimal state intervention in economic activity is the best recipe for economic progress. The main implications of this view are that public sector employment needs to be kept to an essential minimum, that econ-
omic activity should be deregulated and public sector enterprises privatised. These policies have been applied in some industrialised countries as well as in developing countries undergoing structural adjustment. In the latter group of countries there have been retrenchments of public sector employees in order to reduce public expenditures and correct the excessive previous expansion of such employment. There has at the same time been action to shut down or privatise public enterprises and to restrict future state involvement in economic activity. A wide range of deregulation measures, from the removal of subsidies to the elimination of price controls, has also been attempted.

While some measure of liberalisation and some reduction in the role of the State in economic activity are likely to be necessary in countries facing a major structural adjustment problem, it is important to avoid a simplistic and doctrinaire approach. It is especially important to recognise that in countries with very low levels of development or with rigid production structures, the State must play an important role in providing essential investments in infrastructure and social overhead capital to ease constraints on increased production. There is also a need in many situations for purposive state action to facilitate the reallocation of resources and factor mobility through the development of appropriate institutional arrangements and the direct support of priority activities.

Where markets are poorly developed and where local entrepreneurship is weak, it is inappropriate merely to deregulate and leave the outcome to market forces. In these situations there is a clear need for state intervention in managing key aspects of the transition process. This is especially important in dealing with the adverse distributional consequences of the adjustment process. Where production shows limited responsiveness to price signals, major changes in market prices are required to induce a reallocation of resources, even though they may magnify the adverse income distributional changes. When labour and capital are slow to move from old to new industries, significant unemployment is
likely to prevail for a prolonged period unless direct policies to facilitate the adjustment are successfully applied.

It is also important to note that in many situations state investment is complementary to private investment. Far from "crowding out" private investment, state investments in infrastructure and human resources are essential for creating the preconditions for an increase of private investment, both local and foreign. For these reasons it is important to avoid a rigid approach to the question of the role of the State in promoting structural adjustment and development. In many case it is true that the State has been part of the problem, but it is equally true that it has to be part of the solution. The issue is not so much the size of the public sector per se, but the usefulness or otherwise of public sector activities in supporting development, and the degree of efficiency with which they are carried out.

There is clearly a need to base prescriptions for the role of the State on a thorough empirical analysis of country-specific situations, and to avoid applying simplistic solutions indiscriminately.

Resource mobilisation and investment

A key set of interventions will need to centre around the increase in productive investment, the maximisation of the returns on these investments, and particularly the need to concentrate them in activities that will increase the demand for labour. The latter condition is especially important in view of the recent intensification of unemployment and underemployment in many developing countries. The creation of productive employment is in fact the most effective means of distributing incomes to the poor in developing countries.

An obvious question is that of how to mobilise the necessary investment funds in a context where there are heavy claims for debt-servicing and greatly reduced possibilities for the inflow of
foreign funds, and where there have been sharp reductions in consumption. The latter would appear to rule out any possibility of further squeezing consumption in order to finance investment. The answer lies in the fact that there is some margin for action which could be exploited through imaginative policies. One such opportunity lies in the potential for reducing waste in existing public expenditures and redirecting these expenditures from low to higher priority uses. Reducing defence and related expenditures and redirecting them to investment is an obvious example. Improving the yields of existing taxes provides another avenue for harnessing additional resources. Likewise, greater targeting of social expenditures, improvements in the productivity of delivery systems and progressive, benefits-related funding of public services all have the potential for yielding savings which could be directed to investment.

While consumption as a whole may have fallen as a result of deflationary policies, it is not likely that all income groups have suffered equi-proportionate declines. For instance, there is evidence that in some countries the share of profits in total income increased during the recession. It is also possible that income from property is better protected during a slump, perpetuating a high level of luxury consumption. Where this is the case, it will be important to restrain luxury consumption in order to support the effort to mobilise investible resources. Such a policy can also allow for a desired increase in the consumption of the poor. It will also help to reduce import requirements since luxury consumption is import-intensive.

Other measures to raise domestic resource mobilisation can be implemented within the framework of macro-economic reforms. Positive real interest rates are a necessary condition for mobilising domestic savings. They will also help to stem capital flight and attract the return of earlier capital outflows. Policies for reducing inflation and uncertainty over exchange rates also have an essential role to play.
It should be noted, however, that great care must be taken in raising real interest rates. While the desired positive effects may be achieved in the medium term, there may be significant short-term losses. A rise in the real rate of interest will discourage investment, increase the burden of servicing internal public debt and possibly contribute to inflationary pressures by increasing the cost of working capital. Moreover, savings are typically slow to respond to increases in interest rates.

Innovative savings schemes can, however, help resource mobilisation efforts. Savings schemes related to the development of housing offer one possibility. Another is the promotion of savings among workers through various incentives, including perhaps, in appropriate circumstances, the acquisition of shares of the enterprises in which they are employed.

The magnitude of additional investible resources that can be generated through these measures will vary from country to country, depending on the extent of the initial disequilibrium and on the force of constraints imposed by external factors. For very heavily indebted countries facing unpromising prospects for export growth, the expected increase in investible funds is likely to be insufficient. There will clearly be a need to complement domestic resource mobilisation efforts with some form of debt relief or rescheduling. Measures to revive or increase the inflow of direct foreign investment, either in the context of debt-alleviating measures or otherwise, will also be important.

The allocation of available investment funds constitutes a strategic means for influencing the pattern of recovery and subsequent growth. Apart from the obvious need to follow stringent investment criteria and pay attention to the employment effects, a major opportunity for ensuring recovery with greater employment and equity lies in redirecting a substantial proportion of new investments to enhancing the productivity and productive base of poverty groups. Public expenditures directed at strengthening the productive capacity of small and marginal farmers, at supporting
productive income-generating activities for the urban and rural poverty groups, at improving the access of small enterprises and the self-employed in the informal sector to credit and other productive inputs, constitute effective means of guiding the pattern of recovery and subsequent growth in a more employment-intensive and equitable direction.

The pattern of state investment and the channelling of private investment in the required directions are key variables for implementing the strategy for structural adjustment with growth and equity.

Investment in traditional agriculture is an important means of reaching the major poverty group in many low-income countries. A basic requirement in many cases is to correct the bias which favours modern and large-scale agriculture. This is over and above the need to correct for the relative neglect of agriculture as a whole in the allocation of investment. Investment in rural infrastructure—roads, marketing and storage facilities, irrigation and water control facilities—is especially important for promoting agricultural growth. Comprehensive support measures covering extension services, the provision of productive inputs and credit, and the organisation of services for the collection, processing and sale of produce are also important. These measures need of course to be supported by adequate price incentives. In the same way that price incentives alone may not be sufficient to induce the required increase in production, comprehensive measures to support production will have limited impact unless they are complemented by the right price incentives.

Support to traditional agriculture, with a special focus on small and marginal farmers, will not only contribute to reducing poverty but will also help to ease demand management problems in the economy. An improvement in the performance of traditional agriculture will increase the availability of food. This will make it easier to remove subsidies on essential foods (a usual requirement in public expenditure reduction programmes) since the increased
supply will help to moderate subsequent price increases, dampen inflationary pressures and hence moderate the impact of inflation-induced falls in real wages. The relationship between an increase in food production and the easing of economic constraints during the structural adjustment process provides a clear illustration of how appropriate growth-promoting policies can help countries to grow out of their structural imbalances while contributing to a reduction in poverty. More generally, there will be a need to ensure a shift in the structure of production to increase the supply of wage goods, in order to match the shift in the pattern of demand which will result from policies to increase the employment opportunities, productivity and incomes of the poor.

Parallel to investments to support small and marginal farmers are investments required to support the growth of small industries and rural non-farm activities. These will include investments in basic infrastructure and assistance in the provision of productive inputs.

This investment strategy will need to be supported, where necessary, by appropriate pricing, institutional and regulatory reforms in order to ensure that the intended effects are not thwarted by contradictory incentive structures or barriers to markets, credit and other productive inputs. Indeed, such reforms will play more than a mere supporting role. The repeal of laws and regulations which make it difficult for the poor to help themselves can be expected to have a wide positive effect on the economic prospects of the poor. The poor farmer will benefit from improved price incentives and improved access to land and credit, and the small producer in the urban informal sector will gain from easier conditions for starting up and operating an income-generating activity and for obtaining credits and other productive inputs.

This combination of investment and institutional and regulatory reform will make several important contributions to recovery and employment. At one level it will raise the incomes of the direct beneficiaries of the investment programmes as well as of
those who have benefited indirectly by virtue of this positive response to the improved incentives and institutional environment. At another level, these new incomes will stimulate aggregate demand and help in generating recovery. Given the typical consumption patterns of poverty groups, there is also the added bonus that the increased demand will be directed towards products which are labour-intensive and sparing in their use of imports, thus saving on scarce capital and foreign exchange. There is thus a virtuous circle to be exploited; the sum total of these effects can make a significant contribution to stimulating recovery with job-creation and poverty alleviation.

Another important potential source for stimulating recovery exists where there has been an excessive deflation of output and wages. An excessive fall in output can be said to have occurred, for example, where precipitate import strangulation has reduced or eliminated production which would otherwise be economically viable. In such situations there is a strong case for absorbing excess productive capacity by relaxing import constraints and implementing other supportive measures. Similar arguments for reviving production could be made in cases where resource immobilities, unfavourable export markets, and the lack of supportive infrastructure and institutions indicate that more time would be required for a shift in the structure of production towards tradeables.

Similarly, in situations where the fall in real wages has gone below efficiency levels, there could be a case for raising wages in order to reap output and productivity gains. Such a restoration of wages to efficiency levels could also yield additional benefits in terms of an increased stimulus to demand. Where appropriate, enterprise-level reforms in work organisation, payments systems and training could yield further increases in productivity. Wage increases directed at raising aggregate demand may also be warranted when there is a situation of Keynesian under-consumption, but such situations are likely to be rare in heavily indebted coun-
tries facing a severe balance-of-payments constraint. Nevertheless, the greater the extent to which wage restraint has been applied in the past, the more likely it is that a Keynesian situation prevails. Moreover, where real wages have declined precipitously and disproportionately, a commitment to prevent further falls and to restore wages gradually may alleviate discouragement, reduce social conflict and restore confidence in the continuing expansion of demand. National tripartite agreements on wages and related economic policies can also help to ensure that increases in demand are channelled into real employment growth rather than dissipated through price increases.

Wage policy needs to be particularly sensitive to its incentive and productivity effects since these are crucial for motivating workers to contribute to the task of economic recovery. In many developing countries productivity-related payments systems have proved to be an effective instrument for bringing about improvements in productivity and increased efficiency in resource use. Maintaining appropriate wage differentials is another important instrument for ensuring the desired mobility and reallocation of labour in the context of structural adjustment. It is important to avoid an excessive compression of wage differentials, for it inhibits the required reallocation of labour. Equally important, however, is to avoid an extreme widening of wage differentials which may increase polarisation among the workforce and demotivate the lowest-paid workers. Great sensitivity is therefore required in the framing of these aspects of wage policy; a tripartite participatory approach may prove to be an essential pre-condition for successful policy formulation in this area.

MICRO-ECONOMIC POLICIES

As noted above, the strategy for promoting structural adjustment with equitable growth requires a combination of both macro-
economic and micro-economic interventions. A number of the policy interventions discussed in previous sections, such as policies to improve production conditions in specific sectors of the economy and price adjustments, are also micro-economic in character. The distinction between macro and micro policies is not always clear-cut.

A convenient way of classifying micro-economic policies is to include all those measures which are aimed at improving the allocation of resources and the efficiency of resource use. The rationale for these policies is the need to remove distortions in product and factor markets which result in inappropriate incentives and a misallocation of resources. Inefficient activities are propped up by subsidies or artificially maintained prices, thereby creating incentives which divert resources into unproductive activities such as smuggling and black market operations. Similarly, other forms of state regulation of economic activity such as restrictions to entry through licensing, rationing of productive inputs such as credit, and labour market regulations, also limit the degree of competition in markets.

Sometimes the distortions in product and factor markets reflect imperfections in the institutional structure, and are not the direct result of government regulations. Examples of this type of distortion may be found where a high degree of concentration in land ownership creates distortions in rural land, labour and credit markets; where restrictive practices by enterprises create a high degree of industrial concentration and restrict competition; where labour markets are segmented by social customs and practices; and where barriers to the flow of information hamper the smooth functioning of markets.

It is clear therefore that micro-economic policies designed to improve the functioning of markets have to rely on a wide range of interventions. They may have to remove price distortions by eliminating or reducing subsidies, price controls, quantitative restrictions on trade, ceilings on interest rates, and exchange rate dise-
equilibria. They may have to include deregulation in order to increase freedom of entry into industries and the extent of free competition. They may also have to include institutional reforms such as land and tenancy reforms, the breaking up of cartels and the promotion of equal opportunity in labour markets.

Micro-economic interventions, as means of improving the functioning of markets, thus cover a complex set of issues. They involve more than simple price adjustments and the removal of subsidies to reduce budget deficits. In practice the task of improving the functioning of markets involves major difficulties. In the first place the overall effect of micro-economic interventions is difficult to predict. Even in economic theory it is not clear that the correction of some distortions, to the exclusion of others, will necessarily yield a net improvement. Yet micro-economic interventions typically deal only with a sub-set of all distortions. It should be noted in this context that thorough efforts to improve the efficiency of market functioning may require difficult institutional reforms and that these are rarely mentioned in policy prescriptions urging countries to “get prices right”.

Another major practical difficulty lies in the possibly slow and uncertain response of producers and workers to changes in relative prices and incentives. Transitional policies to facilitate the process of change and to deal with interim social problems are likely to be required. This point was discussed earlier in connection with the differing capacities of countries to adjust to changed economic circumstances. It also needs to be noted that many government policies responsible for price distortions were designed with welfare and income-distribution objectives in mind. Consumer subsidies and price controls on essential commodities, for instance, are designed to increase the access of the poor to a basic consumption basket. Similarly, some interventions are intended to correct the price distortions associated with imperfect markets. Minimum wages, for example, mainly aim to protect the most vulnerable workers from exploitation through the payment of unduly low
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wages. Thus, the removal of these interventions will initially have strong negative income-distribution effects. There are also likely to be productivity losses, since existing policies which favour the consumption of the poor result in a better-fed, healthier and more productive labour force. The abandonment of such policies without compensating arrangements is likely to reduce productivity and impair the future development of human resources.

Another set of micro-economic policies relate to supportive action to improve the performance of economic units. Encouraging and facilitating enterprise-level reform in work organisation, management procedures, payments systems and labour-management relations are major examples of such policies. Programmes to improve efficiency in the public sector also figure prominently among these policies, as do improvements in investment planning and project implementation procedures. Perhaps the most important set of policies of this type are those dealing with education and training, since these activities hold the key to upgrading the quality of the labour force.

Training and retraining policies are especially important in the context of structural adjustment. Retraining programmes are essential for helping displaced workers to acquire the new skills needed to find alternative employment. The training of new entrants to the labour force is an important part of the process of adapting to changed comparative advantage, new technologies and new pressures to increase international competitiveness. Training can also contribute to an increased ability and inclination to set up self-employment activities. Above all, training and retraining contribute to a generalised increase in productivity and are thus central to efforts to increase efficiency of resource use and raise the rate of economic growth.
Labour market policies

Active labour market policies are an important means of supporting the structural adjustment process. Labour reallocation can be facilitated by institutional mechanisms which supplement market adjustments. Subsidised training and retraining programmes need, for example, to be major elements of a conscious programme of managed redeployment. Other policies also need to be adopted to make the labour redeployment process more orderly and less traumatic for those affected. For instance, the burden of adjustment on mid-career workers could be made lighter by concentrating as much as possible on the adjustment of new entrants to the labour force. A greater emphasis on efforts to retrain and reassign workers within existing enterprises would also reduce the extent of retrenchment.

If such institutional mechanisms are strengthened there will be less need to rely on the widening of wages differentials and frictional unemployment to bring about the reallocation of labour. As a result the social costs of structural adjustment will be lowered. It is important to avoid abrupt and substantial retrenchments until adequate safety nets for the affected workers have been set up.

Recent retrenchment of public sector employees in some African countries has shown how important it is to avoid hasty and drastic action in an area where the human costs are likely to be high. Orderly and more gradual programmes are not only more humane, they are ultimately more efficient. Especially in low-income countries without systems of social security it is imperative to make adequate plans for assisting retrenched workers to find an alternative livelihood. This can take the form of retraining programmes to help with redeployment, or assistance in the development of self-employment activities. In order to realise its full benefits, the retrenchment exercise also needs to be accompanied by measures to increase efficiency in existing operations.

These measures are clearly at odds with free-market theories which advocate a radical deregulation of the labour market. Theo-
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Theoretically, the freest interplay between supply and demand should pave the way to optimal economic development and production, thereby providing the basis for lasting social progress. From this perspective, there should be minimal interference with the functioning of economic forces.

Of course, social progress is contingent on economic progress; however, the fact that consumption is limited by production does not mean that economic growth must precede social progress. In fact, economic growth and social progress must advance together. To conclude otherwise would be to ignore the obvious fact that economic and social issues are inextricably intertwined: just as social programmes and policies necessarily have economic implications, so all economic decisions necessarily have social consequences, and these should be taken into account from the start. This symmetry is unavoidable. Social legislation cannot be economically neutral, nor should it be; rather, the question is to know if, and in what conditions, it will promote economic and social progress, and in what conditions it will slow down development, as some charge it does.

The answer to this question is necessarily complex, owing on the one hand to the extreme diversity of possible social policy measures, and on the other to the fact that the impact of a given regulation will vary, depending on the environment in which it is applied: the characteristics of the countries concerned (size, economic structure, level of development), the current economic situation (expansion, stagnation, crisis), and the extent to which social conditions may have deteriorated owing to economic developments. At any rate, what matters in taking decisions which affect the social environment, and especially the conditions of work, is not to misunderstand the positive impact of social measures on economic development.

It may be useful to classify the objectives of labour legislation and regulations in three major groups, in order to appreciate their economic impact: the guarantee of a minimum level of protection...
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for workers, the guarantee that workers will share in the fruits of
development, and the participation of workers in steering the
course of development to ensure that it will satisfy their aspira-
tions. Of course, these three objectives are complementary; but,
even so, each is individually able to contribute to optimising
economic development, as we will attempt to show below.

Economic and social development and the
minimum protection of workers

The minimum protection of workers concerns the protection
of their basic rights (protection against oppression, freedom of
association, prohibition of forced labour, equal treatment, etc.), as
well as the protection of their physical well-being (occupational
safety and health, legislation concerning child labour, etc.). At first
glance it might seem that these regulations are essentially restric-
tive, and therefore entail the underutilisation of labour, thus
casting social legislation as an antagonist to productivity.

But this is not necessarily so. The protection of the physical
well-being of workers, for example, tends to enrich the community,
since measures to prevent employment accidents and occupational
diseases help to avoid costs which are considerably higher than
those of the preventive measures. According to very rough statis-
tics for a handful of industrialised countries, the direct cost of
employment accidents represents between 1 and 3.25 per cent of
the GNP. These figures, however, are based only on expenses
incurred; they do not take into account the potential loss of pro-
duction and therefore understate the true cost. It should not be
objected that in developing countries, where unemployment and
underemployment rates are high, and where there may be little
social insurance, the cost of occupational accidents and diseases is
negligible in terms of its impact on the GDP, inasmuch as the
victims of industrial accidents are immediately replaced thanks to
the large pool of jobseekers. Aside from the fact that such an
objection is somewhat cynical and certainly indefensible from an
ethical standpoint, it neglects a double economic reality. In the first place, most occupational accidents occur in the modern sector of the economy, where most workers have acquired a certain level of training, and whose replacement thus implies a cost. Secondly, the community or family of the unprotected worker in question must bear the cost of the accident or disease; therefore, there is a real cost, even if it is not reflected in economic statistics.

The state of health of the population at large—the source labour—is itself a source of productivity; as Winston Churchill was fond of saying, “there is no finer investment than putting milk in babies”. Specific measures which ensure a minimum standard of living to workers and their families (minimum wages, housing programmes, etc.) contribute indirectly, but effectively, to economic development.

The protection of the fundamental rights of workers also contributes to economic development: the constraints which arise from the failure to respect these rights are incompatible with the motivation, and therefore with an acceptable level of productivity, of workers. It is always more profitable to convince than to compel. What better way is there to convince than by means of dialogue between the parties concerned? However, in order to be successful, this discussion must take place within a suitable climate, respecting the fundamental rights of the participants; and the freedom of the weaker party, that is the workers, to organise and bargain. These are the conditions which promote consensus, which is indispensable to social peace and the proper functioning of the economy, and to motivating those concerned to contribute fully to economic prosperity.

The participation of workers in the fruits of development

The participation of workers will necessarily contribute to a climate which promotes co-operation. Consensus is impossible unless each of the parties concerned can draw some benefit; bargaining can certainly play a role in this respect by introducing these
considerations in any agreement. It has been shown beyond ques-
tion that a proper system of industrial relations is a more profitable
alternative than violent confrontations between workers and
employers, than strikes and lock-outs which entail the loss of pro-
duction and wages, and occasionally damage to equipment.

The direct stimulation of economic development

Social legislation not only creates a favourable context for
economic development, but can also have a direct and positive
impact on development, especially by promoting a better use of
national resources and human resources, in particular. As an
example, let us consider the common example of countries facing
the delicate problems arising from heavy foreign debt, inflation,
unemployment and serious problems in their balance of payments.
It would seem that in such a situation the implementation of
employment policies such as those advocated by the ILO's Con-
vention and two Recommendations might well alleviate the con-
straints on development. An essential task would then be to give
work to unemployed and underemployed workers in the produc-
tion of goods and services meant for local consumption. In Africa
this would usually mean the production of foodstuffs, with a view
to reducing the need for imports and diminishing dependence on
the fluctuation of international markets. Of course, such an
approach could be extended beyond foodstuffs, and the develop-
ment of employment could go hand in hand with energy savings. In
Brazil, for example, it has been estimated that better maintenance
of trucks and buses could reduce the consumption of fuel by 5 to 10
per cent, and that these savings could be used to pay the wages of
the 100,000 or so mechanics needed for this operation, thereby
increasing employment while reducing the cost of oil imports.
Elsewhere, Mexico City derives much of its water supply from a
system which pumps water from an altitude of 1,000 metres to
2,000 metres, with significant loss of water due to the system's old
age and poor state of repair; here again, the wages of crews assigned to locate and repair leaks would certainly be more than compensated by the savings generated by their work.

Many other examples could be cited. They clearly illustrate the fact that economic objectives and social objectives can reinforce each other. However, the analogy can be extended beyond employment to educational and vocational training activities, in the sense that the lack of skilled technicians and managers often constitutes a bottleneck which slows down development and limits employment; an investment in human resources is certainly one of the most productive, as is clearly borne out by the social benefits of training. For example, the rate of return of the INACAP (the National Vocational Training Institute of Chile), as calculated a few years ago on the basis of expenses incurred by this programme, was 10.4 per cent, on the conservative estimate that only 70 per cent of trainees would find a job in the area in which they had been trained.

This in no way argues against the need for “flexibility in the labour market”; quite the contrary.

The advocates of labour market deregulation argue that state intervention in the labour market raises the cost of labour above its market price thereby reducing the demand for labour. Minimum-wage legislation and trade union activity are often singled out as major factors causing artificially high wages to prevail for a privileged minority of the labour force. Apart from being detrimental to the majority of workers who are outside the protected sector by reducing their employment prospects, artificially high wages are also said to reduce the international competitiveness of the economy, and hence its growth prospects. Public sector wage and salary policies are also often cited as a contributory cause. The proponents of labour market deregulation argue that employment security legislation discourages labour hiring and encourages a preference for less labour-intensive techniques of production.

It has also been argued that existing labour legislation consti-
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tutes a barrier to necessary structural adjustments. Labour mobility is a key element of the structural adjustment process, but according to this argument it is hindered by labour legislation. It is argued, for instance, that minimum-wage legislation narrows wage differentials, thus weakening the incentives for labour mobility. Similarly, employment security legislation is said to make it difficult to shed labour or to reassign workers to new jobs in line with the requirements of structural adjustment. Moreover, some contend that strong trade unions pose an obstacle to changes in labour allocation.

From this particular perspective labour market deregulation and the forging of greater labour market flexibility are seen as crucial pre-conditions for successful structural adjustment and for raising the rate of economic growth and employment creation.

The ILO does not oppose the objective of greater labour market flexibility, but this flexibility has to be subject to fundamental principles of human rights and the protection of minimum labour standards. For example, freedom of association and trade union rights are basic human rights which should remain inviolable. The same applies to provisions against injurious working conditions and the exploitation of labour. It also needs to be clearly recognised that labour standards cannot be evaluated only from a narrow economic standpoint which ignores their contribution to social justice and equity.

In this context it is important to note that while in some instances legislative and other interventions in labour markets may have created distortions, they were in fact introduced to correct fundamental weaknesses in the operation of completely unregulated labour markets. The issue is thus not a simple dichotomy between complete “deregulation” and distorted markets. Rather it is a question of how labour market regulation systems can be made to operate more effectively, correcting market imperfections and providing necessary protection, without in turn creating new distortions or impeding necessary adjustments.
Subject to these fundamental considerations there may be room to examine necessary reforms in labour policies to improve the functioning of labour markets. However, as pointed out below, the objectives of such reforms are best attained through a process of tripartite consultation and collaboration.

On the issue of labour costs it should be noted that the standard supply-side argument is based on partial and inconclusive evidence. In the first place protective labour legislation is rarely the sole or indeed the most significant cause of market distortion and reduced demand for labour. Other factors such as possible distortions in capital markets which result in a cheapening of capital relative to labour can be a more important cause of greater capital intensity and reduced demand for labour. Similarly, the structure of industrial production and the degree of market power enjoyed by producers may also strongly influence the choice of technique and the demand for labour. The case of labour market deregulation therefore needs to be based on a careful consideration of all relevant elements, and not on a blanket indictment of protective labour legislation as the source of the problem.

The arguments are also often one-sided in that the positive effects of labour legislation are rarely balanced against their alleged negative effects. For instance, minimum wages may serve to improve labour performance and productivity by raising unnecessarily and unduly low wages which would otherwise result from severe labour market imperfections. In addition, due allowance has to be made for the productivity-enhancing effects of an adequate level of minimum wages and employment security provisions. Minimum wages may in fact be helping to bring wages up to efficiency levels, that is, to levels at which the average worker works with optimal effort. They can also be useful in breaking a vicious circle in which low wages lead to a perpetuation of low productivity. Similarly, employment security can raise productivity by increasing commitment to the job and providing stronger incentives for the worker to undertake training. Similar productivity
benefits are also likely to be derived from the "social wage" of subsidised food, transport, health and other social services. It is thus by no means obvious that cutting these benefits will necessarily lead to better economic performance.

The social wage in fact helps to lower the cost of labour to employers and represents a productive investment in human resources. Where problems of fiscal sustainability have arisen in connection with these social expenditures, the answer does not lie in their wholesale elimination. Rather, a preferable alternative would be to seek to achieve improved efficiency in delivery systems and better targeting of benefits to those most in need.

It is also important to be sensitive to differences in labour market structures which have arisen as a result of past development strategies. Labour market deregulation will be needed to different extents and will have different effects in countries with different labour market structures. As in the case of structural adjustment policies in general, there can be no uniform, doctrinaire prescription which is applicable to all countries. In several countries the economic recession of the 1980s has already resulted in severe erosion of labour standards even without deliberate policies of labour market deregulation. The number of workers in low-pay and insecure jobs has increased sharply. Real wages have fallen substantially and in some sub-Saharan countries the conditions of employment in the modern sector, both public and private, have deteriorated greatly. In such cases it seems inappropriate to call for deregulation and greater labour market flexibility. Where such a terrible toll has already been exacted the priority should be to rebuild a minimum of social protection rather than to dismantle the little that is still left.

Direct employment creation programmes

Even with the best plans for structural adjustment with growth and equity there will be a need for measures to relieve unemploy-
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ment and poverty. Unlike the industrialised countries, few developing countries have systems of unemployment insurance and poverty relief to deal with the victims of economic recession. Direct employment creation programmes, especially in the area of public works, offer the best means of providing relief from social distress.

Labour-intensive public works projects have long been a feature of development programmes. They have been designed to mobilise surplus rural labour to construct basic infrastructure such as village roads, small irrigation works, low-cost housing and schools. They have also been used for soil conservation and reforestation. The experience with such programmes has shown that they yield high returns and are an effective means of generating considerable employment at low cost. They have also been used as a means for providing emergency relief during droughts and in the aftermath of natural calamities.

Analogous to their use for drought relief, public works programmes can be mobilised as an emergency mechanism for dealing with the rise in unemployment and loss of livelihood resulting from recession and the implementation of structural adjustment programmes. The needs which now have to be met are considerably greater than during periods of normal economic growth. The number of the openly unemployed has increased significantly in the urban areas of developing countries as a result of retrenchments, a reduced ability to absorb new entrants to the labour force and an increase in the numbers looking for work as part of survival strategies in the face of falling incomes. For a large part of this new urban labour surplus the alternative to relief organised through emergency employment schemes would be destitution.

There is a great need not only to provide relief but also to mobilise surplus labour to improve infrastructures. In the context of extreme difficulty in mobilising investible resources, the mobilisation of surplus labour assumes even greater importance. Public works projects can be used to rehabilitate infrastructure which has
deteriorated as a result of cuts in public expenditure, and to undertake small-scale projects which can contribute directly to strengthening productive capacity. Moreover, the multiplier effects of the new income streams that are generated will reinforce the overall strategy for economic recovery.

In order to meet this new challenge a number of actions will have to be undertaken urgently. First, the size of public works programmes will have to be expanded. This requires that the stock of potential projects be increased and that the capacity to plan and implement such projects be strengthened. In many countries this will require increased technical assistance and training of national staff in project design, evaluation and implementation. Secondly, the range of direct employment creation schemes will have to be expanded to include non-infrastructure projects. In some Latin American countries various forms of minimum employment programmes have been instituted. Unlike infrastructure projects, these have been targeted on the urban poor and feature a number of simpler activities which are easier to start up. Such activities have included the construction of pavements, the repair and painting of schools and hospitals, vegetable gardening, the running of day-care centres and the manufacture of toys and garments. Although some of these programmes have been criticised for paying sub-minimum wages, they have been important in ensuring the basic survival of the poorest segments of the population.

Thirdly, the design and implementation of direct employment creation programmes have to be improved. As far as possible the programmes should be integrated into overall long-term development programmes. Ad hoc and uncoordinated projects can turn out to be very wasteful of scarce resources. Even when relief is the primary objective, the potential for contributing to improved productive capacity has to be fully exploited. Such programmes should aim at creating durable streams of income, produce outputs which meet priority needs and ensure that there is net employment creation rather than substitution for employment which would
otherwise have occurred in any case. Another crucial aspect of programme design and implementation is the need to ensure that the benefits of the projects reach the intended target groups. Evaluations of past programmes have shown that the "leakage" of benefits to the non-poor is a serious problem. Moreover, deficiencies in project design and implementation are wasteful of scarce resources. Finding ways of improving the targeting of programmes is thus a priority issue.

Fourthly, in addition to programmes which provide jobs to the unemployed, there will also need to be action to raise the incomes of the working poor, that is, those working long hours but still earning incomes which keep them in poverty. In the same way that recession has led to an increase in unemployment, it has also led to an increase in the numbers of the working poor and a deterioration in their average incomes. Reduced employment opportunities in the modern sector have forced more people to seek refuge in low-income activities in the informal sector, where average incomes are likely to have fallen because of greater competition and the general fall in demand. The major instruments for helping the working poor are credit and training programmes to promote self-employment, investments to improve productive infrastructure, and institutional reforms to remove obstacles to their ability to provide for themselves. Most of these issues have been discussed above.

Lastly, it is appropriate to recall that the welfare of the poor is determined not only by the private income they can obtain but also by their access to socially provided basic-needs services. The relief provided through direct employment creation measures has to be matched by conscious efforts to ensure that social expenditures to support the basic needs of the poor are maintained at adequate levels. Health, nutrition, housing and education programmes targeted on the poor are essential for containing the social costs of adjustment and alleviating poverty.
PARTICIPATION OF THE SOCIAL PARTNERS

For the ILO, tripartite dialogue is a key ingredient for economic growth. The participation of the social partners in the decision-making process will provide a dual benefit. It will enhance the political feasibility of economic decisions and ensure a more equitable distribution of the benefits of such policies.

The ILO's long-standing promotion of tripartite dialogue is especially relevant today because periods of economic crisis call for greater commitment, and also open new possibilities for understanding. The current degree of dialogue could be increased by providing more opportunities for the social actors to debate national issues and by allowing greater access to economic and social information which is usually monopolised by government.

Labour market structures and institutional arrangements allow more possibilities for dialogue in the developed countries, but dialogue in the developing countries is also crucial given the strategic importance of the modern sector, the substantial economic policy changes which are usually introduced as part of the adjustment process and the role that both employers' and workers' organisations can play in these countries as institutions for democracy and as partners in development. Given their stage of development, it is necessary to upgrade their technical capacity and ensure their political influence as free and independent organisations.

In both cases a crucial issue relates to the items which should be included in an agenda for the development of greater dialogue. The dialogue should include national issues, since rapid economic and employment growth, price stability and greater equity are common goals of all members of the population. The social partners allocate priority to these issues, understand the benefits that can be derived from fulfilling common objectives and should be able to convince their constituency of the existence of such benefits. Micro-economic issues should also be on the agenda, including wage policies in
particular, but also other areas of government policy that can affect living standards, such as social security, health and education. The agenda could also include labour market policies, the promotion of greater flexibility and methods for increasing productivity. The list of items can then be expanded to include training needs, policies for labour mobility, labour institutions, sources of productivity gains and the effects of technological change.

A key issue in the dialogue should be employment. Both workers and employers have a direct interest in ensuring that wage increases are set at levels which provide incentives for increasing productivity and avoid higher unemployment. They also have an interest in achieving the greatest possible level of employment in the modern sector, as this is the most effective way to ensure greater equity in the economy as a whole. In developing countries, where a large share of the labour force is working in the informal sector and the traditional rural sector, greater employment in the modern sector would tend to improve living conditions in general.

Adequate levels of participation should also be promoted for those who are not in the more organised sectors. Their claims are usually referred to the local level and their interests can be enhanced by improving their organisation through co-operatives, producers' associations, consumers' organisations, etc. Employers' and workers' organisations should also play a substantive and direct role of representation by reinforcing both the ability of these groups to present their claims and the delivery capacity of government and community programmes at the local level.

LONG-TERM DEVELOPMENT ISSUES

The strategy for structural adjustment and recovery discussed above is fundamental for the restoration of more equitable growth. Yet it cannot be the sole basis for self-sustaining growth in the long term.
While the growth of the productive activities of the poor, including those in the urban informal sector and traditional agriculture, is important for raising employment and alleviating poverty, it alone cannot provide a sufficient engine for sustained growth. These activities currently constitute a small proportion of the total productive base, and even a large increase in investments is unlikely to boost overall growth sufficiently. Moreover, many of these activities are small-scale, low-productivity activities with limited prospects for substantial capital accumulation and growth.

The strategy for increasing the productive capacity of the poor will therefore have to be planned in the context of long-term development strategies designed to promote modernisation and industrial development. While industrial development and the expansion of the modern sector are essential for sustained growth, past experience has shown that inappropriate policies can damage the prospects for equitable growth. An excessive allocation of resources to inefficient and capital-intensive industries has contributed in many cases to current problems of low growth, limited employment opportunities and heavy foreign indebtedness. What is needed is an efficient pattern of industrial growth which exploits the comparative advantage of developing countries and makes a significant contribution to labour absorption. The development of labour-intensive industries and those linked to local raw materials is particularly important.

Industrialisation policy assumes particular significance in the context of African and Latin American countries. Between 1980 and 1985 Asian developing countries (excluding China) increased their share of world manufacturing value added by nearly 30 per cent, whilst African production stagnated and Latin America’s suffered a 10 per cent decline. A breakthrough towards a sustained industrialisation process is central to the long-term development prospects of African countries. A major cause of the economic vulnerability of African countries is their very limited industrial
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base and consequent heavy dependence on the export of primary commodities. The weakening global demand for these commodities and the declining terms of trade faced by primary commodity producers in recent years probably presage a secular decline the demand for these products. Changes in technology, especially the development of new synthetic materials, have reduced the demand for many raw materials per unit of output. Low income elasticities of demand for tropical food and beverages, coupled with agricultural protectionism in the industrialised countries, is an additional limiting factor. There is thus very little basis for relying on the export of primary commodities as an engine of growth. The problem is compounded by the fact that the simultaneous adoption of such a strategy by many countries will result in over-supply and declining marginal returns to increased output. For these reasons a shift towards manufacturing is imperative both for recovery and long-term development.

While the arguments for industrialisation are clear, the means for promoting it in Africa are not. A basic requirement is to develop the infrastructure and human resources necessary for industrial growth. Although this has to be viewed as a long-term development issue, rather than one for the immediate agenda for recovery, there is none the less a need to include it as a major development objective in the design of the strategy for recovery.

A recovery programme which focuses almost exclusively on agricultural output and exports and on informal sector production would overlook one of the central development issues facing sub-Saharan Africa. Some of the policy changes accompanying structural adjustment are likely to have helped in removing obstacles to manufacturing growth and exports. The extreme over-valuation of exchange rates has been corrected and other price adjustments and deregulation have probably helped to ensure a better incentive framework for guiding new industrial investments. But other changes, such as the deterioration of physical infrastructure due to cutbacks in repair and maintenance expenses, the disarray caused
in the public services by drastic wage cuts and retrenchments, and
the cutback in human resource development expenditures, have
undermined the potential for industrialisation. Corrective action
in these areas is clearly required not only for improving the
preconditions for industrialisation but also for development in
general.

Another consideration which assumes greater significance in
the current global economic situation is the flow of direct foreign
investment. Sub-Saharan Africa and other heavily indebted
countries, which could benefit greatly from inflows of direct foreign
investment to alleviate their debt burden, have in fact received
very little. In contrast, several Asian countries, especially the
second wave of newly industrialising countries such as Thailand
and Malaysia, have experienced a recent acceleration of growth in
manufactured exports, thanks mainly to a sharp rise in direct for­
eign investment. There is clearly a need to examine contrasting
experiences with respect to the inflow of direct foreign investment
in order to derive lessons for industrial policy.

Among the major policy issues that need to be addressed are
the role of the State in promoting industrial growth, the degree of
openness to be sought in the economy, the extent to which a pro­
export bias needs to be introduced in the incentive structure in
order to reap dynamic gains through rapid export growth, and the
policies for increasing international competitiveness and penetra­
tion of export markets. The varied experience of the Asian newly
industrialising countries and territories with regard to the role of
the State in industrial promotion argues against the adoption of a
simplistic advocacy of minimal governmental involvement in
industrial development. Especially in countries at the initial stage
of industrial development there is likely to be a need for state
involvement in developing essential infrastructure, in stimulating
investment through appropriate incentives and the guarantee of
stable expectations among investors, in undertaking institutional
reforms and in ensuring adequate supplies of managerial and
skilled manpower. Far from crowding out private investment or stifling the private sector, state action in these areas has an essential role to play in ensuring the essential pre-conditions for the emergence of a strong private sector.

Policies with regard to new technologies are often a neglected dimension of structural adjustment programmes, yet they are a potentially important means of promoting enhanced productivity, increasing international competitiveness and ensuring that the restructuring of production remains in keeping with the true dynamic comparative advantage of a particular country. Although the diffusion of new technologies and their impact on comparative advantage have been less significant than was predicted some ten years ago, it is likely that their effects will accelerate in the near future. Developing countries have therefore to anticipate the changes that will be required in the structure of production, in the pattern of employment and in skill requirements, and implement the necessary adjustment policies.

The principal benefits which can be reaped by developing countries lie in the areas of micro-electronics and biotechnology. In micro-electronics, several developing countries have already reaped considerable benefits in terms of new employment by serving as an off-shore source of production for a rapidly growing industry. A few countries have also managed to participate in international subcontracting for computer software development. The "gene revolution" associated with new biotechnologies holds significant opportunities for increasing agricultural yields. Moreover, the new technology is likely to reduce dependence on petro-chemical inputs for agricultural production; this development will not only help many low-income countries to save on imports but also reduce the disadvantages faced by poor farmers. Another potential advantage is that the new biotechnologies are likely to be easily diffused and will thus contribute to raising the incomes of the rural poor.

The application of new technologies in existing or new indus-
tries will increase the export competitiveness of developing countries. Similarly, the upgrading of infrastructure for information handling and other services will also strengthen their competitive position.

However, several costs have to be taken into account. These include the possibility that the new technology will erode the comparative advantage enjoyed by developing countries in certain labour-intensive industries, the possibility that existing industries in developing countries will be undermined by producers in developed countries enjoying vast technological superiority, and the possible loss of employment in the service sector resulting from the application of new technology. The latter is particularly worrying in view of the importance of the service sector as a source of employment growth.

Rural development policies are another key aspect of development strategies for promoting recovery while alleviating poverty. As set out in the report on the discussion of rural employment promotion at the 75th Session of the International Labour Conference, an employment-oriented strategy of rural development that aims at promoting labour absorption in both the farm and non-farm sectors is required. In many countries devaluation and the consequent shift in the internal terms of trade in favour of the agricultural sector has removed a major obstacle to agricultural growth, but as noted earlier, this, by itself, is insufficient. In low-income countries, especially those in sub-Saharan Africa, there is a need to strengthen rural infrastructure, improve marketing systems and develop improved technology packages and extension services before a significant supply-response to improved price incentives can be expected.

Among the other major policy issues to be addressed in order to ensure greater output and employment growth in rural areas are those relating to rural institutions, technology, access to credit and other productive inputs and the promotion of stronger inter-sectoral linkages. In some countries some measure of land and tenancy
reform will be required in order to ensure both the revival of growth and the alleviation of rural poverty. Shifting the structure of production in favour of small farms has the potential for raising labour absorption and increasing the intensity of resource use. Income distribution will be shifted in the required direction and poverty will be reduced. This will make an important contribution to the attainment of recovery and structural adjustment objectives. The promotion of institutional arrangements and production technologies which can ensure higher labour absorption is another priority area for action. Programmes for improving access to credit on the part of the marginal farmers and the rural poor will be important not only for boosting agricultural production but also for increasing self-employment in non-farm rural activities. Finally, the promotion of stronger inter-sectoral linkages will strengthen both agricultural and industrial development.

Note

The preceding chapters have shown that there is a way to redress the dangerous imbalances of the world economy while reinforcing the adjustment policies incumbent upon all countries, regardless of their level of development. This Report has sought to show that growth — and more particularly, growth which creates employment and fights poverty — is a precondition for progress. In this sense, the major industrialised countries have an eminent responsibility, not only to themselves, but towards the Third World. Their recovery and the benefits of expanded trade should not lead them to lose sight of the stagnation and negative growth of large regions of the world. These regions desperately need the solidarity of the wealthier countries. Developing countries in general, and heavily indebted countries in particular, need time to put their house in order, to develop their exports without asking their poor to bear the tragic weight of the adjustment process.

In this Report we also hope to have shown the importance of devoting the necessary resources to health, education and training. It should be possible, through a judicious choice of macro-economic and micro-economic policies, through institutional reforms in the economic sphere and through greater budgetary and monetary discipline, for developing countries to extricate themselves from the crisis that still engulfs so many of them. In this respect the conclusions of the High-Level Meeting on Employment and Structural Adjustment held in November 1987 are as relevant and important as ever. Member States must be committed to a scrupulous application of its recommendations, which have been fully
endorsed by the Governing Body's Committee on Employment. It is also important for international organisations, and especially those which participated in the High-Level Meeting, including the Bretton Woods institutions, to join efforts with the ILO. Contacts with these institutions are now being strengthened. At the same time, the World Employment Programme, which for 20 years has been playing a larger role than many suspect, has been intensifying its research activities, standard-setting action and technical cooperation over the years.

In conclusion, I wish to come back to some of the comments made in the Preface and formulate a concrete proposal. If the new climate described in the first pages of this Report proves genuine and lasting, the last years of this century may well offer us an unexpected chance to make great strides in the history of mankind. Will we seize this chance? Can we live up to the challenge which confronts us? The world is changing daily, right before our very eyes. Technology is moving ahead by leaps and bounds. New forces are coming into play. Communities hitherto subjugated or passive are beginning to voice new aspirations. Our planet's centres of gravity are shifting, as the relative weight of countries and regions evolves. Demographic patterns are also changing and migration flows are now continental in scope. Even governments must adapt to these changes for they pose great challenges to the public authorities. As the Report has endeavoured to show, these changes have awakened a strong sense of our common destiny. This sense of common destiny is evident in the response to major natural and ecological disasters, and in the fears aroused by the deterioration of the environment; the effects of human activities long considered harmless now weigh heavily on communities and individuals. No one denies the urgent need to take strong measures to safeguard our environment.

The ILO must be especially sensitive to these trends. In the coming years they will require the full deployment of labour-intensive sectors (soil conservation, reforestation, the tapping of
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water resources), and therefore promote growth and create employment. In a wider sense, economic infrastructures (roads, railways, canals, airports, warehouses, ports, telecommunications, power plants) as well as social infrastructures (housing, water supply, hospitals, schools, etc.) are no longer adapted to our current needs, much less to those of tomorrow. This is true even in the most economically advanced countries, as evidenced by the objectives set by the EEC countries, on the eve of the single market, to modernise and strengthen their infrastructure, in particular through the expansion of a high-speed rail network. In the developing countries the situation is critical, and in some almost desperate. Existing infrastructures, already woefully inadequate, have deteriorated considerably owing to two decades of crisis, and to the lack or inadequacy of maintenance.

Conservation and restoration of the environment, construction and modernisation of needed infrastructure—these are the immense tasks that must be undertaken without delay, especially since the construction and maintenance of economic and social infrastructures are largely labour-intensive. There is a great need for labour in the industrialised North as well as in the Third World, as was noted recently in the Kreisky Commission report. Of course, the need itself will not create markets or employment, and the programmes to be carried out will require substantial financial resources. The notorious lack of funds for investment in the countries of the South is a major constraint. The idea of a global Marshall Plan has already been advanced by a number of respected authorities. Though the idea is enticing, its realisation appears difficult, for current conditions are vastly different from those which enabled Europe to benefit from the assistance offered by the United States following the Second World War. Does this mean that this ambitious plan is not feasible? I do not think so. But perhaps we should cast it on a more acceptable scale and give it a more concrete sense. Recent developments on the international scene, such as the settlement of regional conflicts
and the first steps of the major Powers towards disarmament, are encouraging. Indeed, there is reason to hope that this process will continue and gather momentum, and dissuade large and small nations alike from wasting their resources on often overestimated defence needs.

The International Labour Conference could take pride in launching an appeal for concrete and highly symbolic action by calling upon the member States of the United Nations and its specialised agencies to use the savings realised thanks to disarmament in a joint effort to finance a series of operations at the regional or subregional level to create or refurbish essential infrastructure within the framework of a major works programme, much of which would be devoted to the conservation of the environment.