The role of employment and work in poverty eradication and empowerment and advancement of women

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THE ROLE OF EMPLOYMENT AND WORK IN POVERTY ERADICATION AND EMPOWERMENT AND ADVANCEMENT OF WOMEN

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Introduction

The Asian economic crisis which began with the floating of the bhat by Thailand on July 1 1997 is still having devastating effects on the livelihood and the well being of millions of people in many parts of the world. The financial crisis spread from Thailand to other Asian countries, subsequently to Russia and more recently to Brazil. Fortunately, timely and decisive action by the US Federal Reserve last autumn (instituting three successive reductions in interest rates) has enabled advanced countries to escape the crisis so far. Nevertheless it is estimated by the World Bank that as a consequence of the crisis the rate of growth of world GDP is 2 percentage points lower both in 1998 and in 1999 than it would otherwise have been. A rough calculation shows that this amounts to a huge loss over these two years of $120 per capita in production or income for each man, woman and child in the world. This also suggests indirectly that hundreds of millions of people in poor countries who live on a dollar a day or less are likely to have become considerably poorer still as a result of the crisis.

The burden of this lost output, employment and incomes is of course not evenly distributed. Rather it has fallen disproportionately on the poor and especially on the women in the countries most affected by the crisis. Hence there has been a massive increase in poverty, unemployment and under-employment as well as huge reductions in real wages in countries like Indonesia and Thailand as we shall see in the following sections.

However despite the current serious problems in the world economy and its negative implications for poverty and jobs, if we look at these phenomena in a longer term perspective the picture is rather different. During the last half century humanity has achieved historically unprecedented increases in nutrition, health, education, life expectation and reduction in material poverty. Experiences differ between countries and have varied over time but on average it is arguable that people in the developing world have recorded more material economic progress between 1950 - 1980 than they did in the last three thousand years.[1]

Although economic growth has slowed down after 1980 in Latin America and Africa, it continued apace in Asia until the present crisis. However it is important to remember that despite the increase in poverty caused by the debt crisis and the so-called 'lost decade' of the 1980s in Latin America, there has been significant progress in democracy and empowerment of the people on that continent.

[1] This point is discussed in detail in Patel (1995); see also section II below.

The last fifty years have yielded many important lessons about poverty, its consequences, its relationship to other variables such as employment and economic growth. There have also been outstanding success stories in poverty reduction as well as abject failures. But the important point of this historical experience, and the associated analytical efforts to explore poverty in its various dimensions, is that poverty can be greatly diminished and indeed eliminated altogether throughout the world in a relatively short time. Humanity in principle has the resources and the capacity to do so. This paper will discuss the conditions necessary and the policies required to achieve this vast and worthy objective.

In his recent proposal for a comprehensive framework for development the President of the World bank, James Wolfensohn, has observed: " While macroeconomic management is never perfect - there will always be some fluctuations in output and employment - the most effective safety net is a policy which maintains full employment. Deep recessions and depressions have adverse effects on virtually every one of the elements of the development strategy: health deteriorates, schooling is interrupted, and poverty increases. Formal safety nets are but an imperfect stop-gap measure in addressing the failures of effective macro policies to maintain the economy at full employment".

Wolfensohn is right to stress the role of employment as the most effective way of dealing with poverty. Indeed in the way that our societies are presently organised most people would accept that unemployment is not only an economic waste, but also leads to social degradation with serious consequences for the individual and society. It lowers self-esteem, is demotivating, creates insecurity, resistance to technical change, among other things. Unemployment is deeply damaging to the status of the citizen. The question of unemployment is crucial because of its all-pervading, comprehensive economic and social linkages. Moreover, history tells us that if unemployment reaches a high level, it often gives rise to economic and political strife.

Although unemployment has been greatly exacerbated in many developing countries by the present crisis, it is an extremely important continuing long-term problem for almost all developing countries. It is also a central policy concern in many advanced countries.

In view of the above considerations, this paper concentrates on the question of employment. It focuses on the key issues of the inter-relationship between growth, employment and poverty, and pays particular attention to the gender dimensions of employment and poverty. These topics are considered here in the context of the globalisation and the liberalisation of the world economy. The emphasis of the paper is on policy: what should be done to eradicate poverty, to provide remunerative jobs to all those who want them.

The rest of the paper is organised as follows. The next section considers in historical perspective the achievements of the developing world with respect to reducing poverty and outlines the nature and dimensions of the task that remains to be accomplished. Section III reviews evidence on the salient characteristics of labour markets in both developed and developing countries, paying particular attention to issues of unemployment, underemployment and real wages. Section IV outlines the consequences of the Asian crisis for poverty, unemployment and real wages. Section V identifies the short- and long-term policy issues and examines, both analytically and empirically, the interrelationship between poverty, employment and economic growth. Section VI considers other relevant issues, specifically the relationship between technological change and unemployment; it also considers factors other than economic growth that may have a major affect on poverty, such as income instability, inflation and fiscal policy. Sections VII and VIII outline policy measures for creating adequately remunerative work opportunities to aid in the elimination of global poverty and its attendant instability, insecurity and extreme deprivation.

Finally it may be useful to note that although this paper considers conditions in both developed and developing countries, it pays greater attention to the latter as they comprise 80 per cent of humanity and their economic condition is far worse than that of advanced countries.

II. POVERTY AND EMPLOYMENT: ACHIEVEMENT AND CHALLENGE

Confronted with the enormous current and accumulated developmental problems of the poor countries, it is easy to lose sight of the achievement which humanity has made in alleviating poverty and deprivation during the last half century. It is therefore important to consider the economic and social progress which has been made during this period in a historical perspective. This is not just an academic point but one which has a enduring policy relevance. Apart from drawing policy lessons from past experience, historical perspective can also point towards possibilities for the future.

II.1. Economic and social progress in developing countries in historical perspective

During the second half of the twentieth century developing countries as a whole made unprecedented economic progress. Taking advantage of the propitious circumstances which opened up at the end of the Second World War, these countries embarked effectively on an industrial revolution.[2] Between 1950 - 1980 they made remarkable economic and industrial progress. In statistical terms during this period, the 130 or so developing countries (the South) with over 3.5 billion people expanded their production at an annual growth rate of nearly 5.5 per cent per annum, thus achieving a nearly fivefold increase in total output. The South's growth rate during this period was ten times higher than its own growth rate in the previous half century; it surpassed the growth rate achieved in the advanced countries' (the North's) industrial revolution in the 19th century (1820 - 1900). The South recorded the same proportionate increase in production as the North did during its period of rapid industrialisation, but the South accomplished this in half the time, at twice the growth rates and with five times the North's population in the 19th century.[3]

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[2] The propitious circumstances included political independence of a large number of developing countries; the contention between two systems - the US-led liberal capitalism and the USSR-led state-planning system under party direction - which provided aid as well as space for developing countries to industrialise quickly and achieve faster economic growth. See further Singh (1995).

[3] The source of the statistics used in this and the following paragraphs is Patel (1995, 1996).

Patel (1995) provides data to show that, in the four decades following World War II, the South as a whole achieved an even more spectacular advance in the social field than in the economic field. This is evidenced by the following:

1. Infant mortality rate (IMR) in the South fell in the past four decades from about 250 to 70 per thousand. Eighteen South countries with a combined population of 1.5 billion have already reached the IMR of only 30 per thousand, current in the West up to the 1950s.

2. Life expectancy rose from around 35 years to 60-70 years by the late 1980s. The South has thereby added 25-35 years to the average life of each of its newly born citizens - or doubled the average life span. Everywhere women's life expectation rose more than that of men.

3. In the mid-19th century, literacy rates in the North ranged from about 60 per cent in England and the US to a low of 20 per cent in Spain and 10 per cent in Italy. The average in the North was probably not more than 25 per cent in 1850 and 50 per cent in 1900. The comparable level in the South was approximately 30 per cent in 1950. However by the 1980s, it had risen to 50 per cent in Africa, 70 per cent in Asia and 80 per cent in Latin America.[4]

4. In 1960 the advanced countries had 56 per cent of the world total gross number of literate persons with only 44 per cent in the developing countries. By 1985 the South's share had risen to 69 per cent and that of the North had reduced to 31 per cent. It should be pointed out that within the afore-mentioned statistics there was a far larger proportion of male literates than female literates - a fact which is still true nowadays and needs to be addressed.

II.2. Regional differences and changes over time in poverty levels

Although economic growth is not the only determinant of poverty, there is nevertheless a negative relationship between the two variables. The fast growth of GDP in developing countries during this post WWII period resulted in sizeable reductions in poverty. Chart 1 shows the impressive results for the most populous Asian countries in reducing "income poverty" - the proportion of people whose income fall below the official poverty line.[5] Particularly striking in this respect is the record of Indonesia. In 1970, over 60 percent of the Indonesian population was living below the poverty line; by 1996 the proportion had fallen to 12 percent. This is quite remarkable, especially if one considers the fact that the country's population rose from 117 million to 200 million during this period.

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[4] Literacy levels are of course difficult to compare over countries and over time, and literates in the North may be much more literate than those in the South. Nevertheless, the statement in the text is indicative of more trends.

[5] Poverty and social deprivation can be defined in many different ways. The simplest and the most widely used measure is the proportion of people whose income fall below the cut off income level. In their empirical work reported in the *Human Development Reports*, the UNDP provides a more comprehensive definition of poverty which includes deficits in three areas: longevity, knowledge and a decent standard of living.

The Latin American countries also achieved sizeable reductions in poverty during the 1950s, 1960s and 1970s. However, in the 1980s poverty increased in Latin America as a consequence of the prolonged debt crisis. Poverty also rose in that decade in Sub-Saharan Africa. These inter-regional differences as well as inter-temporal changes in poverty levels broadly reflect the regional differences in GDP growth rates as well as how they have changed over time (see Chart 2). Chart 2 indicates that the GDP growth rate of Latin America and Sub-Saharan African countries collapsed in the 1980s whilst those of East Asian countries rose even higher from their already high levels.

Despite the rapid progress made by Asian countries in reducing the incidence of poverty, South Asia continues to have the highest incidence of poverty in the world with over 40 percent of the people living below the dollar-a-day poverty line. After South Asia, the highest incidence of poverty is in Sub-Saharan Africa. What the most recent estimates show is that the 266 million of its 590 million people are living below the national poverty line. UNDP (1997) reports that the depth of poverty, i.e. how far incomes fall below the poverty line, is greater in Sub-Saharan Africa than in other regions.

The information provided in Table 1 suggests that the immediate challenge of poverty before humanity is the 1.3 billion people who earn less than a dollar-a-day per person at 1985 purchasing power parity. Table 2 indicates the social dimension of this challenge: there are close to a billion adults who are unable to read or write; three quarters of a billion people have no access to health services; 1.2 million people lack access to safe water and more than half a million people have a life expectation of less than forty years.

II.3 Gender Gap

Table 3 provides information on some indicators of the gender gap for different regions, for all developing countries together and for the world as a whole. Focusing on developing countries the table indicates that the adult literacy rate is sixteen percentage points higher for men than for women. UNDP (1997) notes that female school enrolment even at the primary level is 13 per cent lower than the male enrolment. Women's share of earned income is a third of the total whilst that of men is two thirds. Importantly in UNDP (1997) reports that gender inequality is not always associated with "income poverty". It is however strongly correlated with "human poverty" which, as noted earlier in footnote 4, is a more comprehensive measure than "income poverty", as it includes in addition indicators of social deprivation. Other aspects of the gender gap will be taken up below.

III. World Employment, Unemployment and Under-employment

The ILO's World Employment Report for 1998-1999 estimated that prior to the Asian crisis there were 140 billion people in the world who were involuntarily unemployed, i.e. they were available and willing to work but could not find employment. In addition, a quarter to a third of the global labour force of three billion were thought to be under-employed - "either working substantially less than full time, but wishing to work longer, or earning less than a living wage". (ILO 1998, p.9).

III.1 Advanced Economies

The employment situation in advanced countries comprising the EU is very serious. Sixty years after the Great Depression, during the last decade, many of these countries have again been experiencing mass unemployment. There are 18 million people unemployed in the EU countries, constituting 10 per cent of the labour force. There is double digit unemployment in leading EU countries - Germany, France, Italy and Spain. Further it is estimated that if the workers who are too discouraged to even seek jobs because of large scale unemployment, as well as those who are working short hours involuntarily are added, it would raise the unemployment figures by another 50 per cent.

In the context of this mass unemployment it is important to remember that not too long ago, during the 1950s and 60s, countries like France and Germany not only enjoyed full employment but, in fact, had over full employment. Table 5 shows, for example, that the average rate of unemployment in the ten years 1964 - 73 was less than 1 per cent of the labour force. Moreover in addition to employing their own indigenous labour force, France and Germany also provided employment to a very large number of immigrant workers who constituted almost 10 per cent of the labour force. This raises an obvious but nevertheless extremely important question: if full employment was possible twenty years ago why is it not possible today in these countries?

III.2 Developing Countries

Turning to developing countries, Table 4 would seem to suggest that the recorded rates of unemployment in these countries are quite low. This is literally true but the inference that there are very few people who are involuntarily unemployed is misleading. This phenomenon arises from the fact that these countries are unable to provide public provision of insurance against unemployment, so that those who are unemployed are obliged to work (often in the informal sector) however unremunerative the work may be. Thus for developing countries the problem of unemployment manifests itself mainly in the form of 'disguised' unemployment (i.e. work with very low productivity or return) or under-employment. Therefore, the question of unemployment in the case of the developing countries must be considered in conjunction with that of productivity growth and under-employment.

These points are well illustrated by Table 6 which provides information on economic activity, employment and real wages for Latin American countries from 1980 - 1995. The table indicates that although the rate of open unemployment has only been 7 - 8 per cent in the 1990s, there has been huge increase in informal sector employment. Tokman (1997) estimates that 8 out of every 10 new jobs created during this period have been low paying jobs in the informal sector. There has thus been an informalisation of the Latin American labour market, with a proportion of informal sector jobs increasing from about 40 per cent in 1980 to over 55 per cent in 1995. It is interesting that although the Latin American economies have been growing during the 1990s following the resumption of capital flows, there has been no increase in real wages since 1980. Minimum wages in 1995 were 30 per cent below what they were in 1980.

The contrast with the evolution of the East Asian labour markets during the same period could not be more striking. In these countries as Table 7 indicates there has been a sizeable increase in real wages, to the order of 5 per cent per annum. Further, evidence suggests that the increase in employment which has occurred has taken place the formal sector and the size of the informal sector has in fact shrunk as a consequence in some countries. Thus the East Asian countries before the present crisis were able to create not only enough jobs for those who needed them but created good jobs with rising real wages. Indeed, prior to the crisis, some of these hitherto labour surplus economies found themselves with labour shortages and began to employ a considerable number of immigrant workers from neighbouring countries.

III.3 Gender Gap

The more reliable and more complete information on the gender gap in the labour markets is unfortunately available only for advanced economies. (See Tables 8 and 9). The most relevant points for this paper may be summarised as follows:

1. Over the last twenty years female employment has increased at a much faster rate than male employment. Nevertheless a greater proportion of women are involuntarily unemployed than men.

2. There has been a huge increase in labour force participation rates of women while that for men has declined. Between 1973 - 1992 the average male participation rates in OECD Europe fell by nearly a quarter while the female rates increased by a quarter. (See Table 8).

3. The earnings gap between men and women is considerably lower now in industrial countries than it was twenty years ago. (see Table 9).

Thus, though there has been progress over the last two decades in closing the gender gap, important differences in the treatment of men and women in the labour market in all these areas still remain.[6]

It has been suggested that the fact that men have been losing jobs or withdrawing from the labour market while women have been increasing participation and gaining jobs implies that women's gains have been at the expense of men. However as Howes and Singh (1995) note this generalisation is not valid. They argue that given a persistent gender division of labour, mass unemployment in advanced countries is due to

[6] The above summary of the gender gap in the labour market refers only to a few areas central to the subject of this paper - the issue of poverty. For more comprehensive analyses of the gender gap, see among others UNDP (1997, 1998), Beneria and Feldman (1992), Dex (1985), Folbre (1994), Jenson, Hagen and Reddy (1988a), Rowthorn (1992) and Singh (1987a).

different forces operating on men and women. The rate of the growth of men's jobs has fallen because of de-industrialisation but men have not withdrawn from the labour force at a comparable rate. Women have been entering the labour force in "feminised" jobs, usually in the low-paying service sector, at a faster rate than such jobs have materialised.

Turning to developing countries, in an influential paper, Standing (1989) advanced the theory of the "feminisation" of the labour force in the South. The essential argument is that much as in advanced countries, in the poor countries as well, there has been an appreciable increase in female participation rates while male rates have declined. Standing attributes this to increased international competition as well as structural adjustment policies in developing countries which he believes have worsened income distribution. This has obliged women to enter the labour force to supplement the family income. Employers have been equally keen to substitute cheap, non-unionised and more flexible female labour for the more expensive male labour. The feminisation thesis, however, is controversial; there is some dispute about facts but more so about the interpretation of the evidence.[7]

III.3. Conclusion

To sum up, this analysis and review of the available information on poverty and employment issues, particularly in relation to the developing countries (prior to the Asian crisis), has shown that these countries, when considered from an historical perspective, have made enormous economic and social progress in the last fifty years. There is, however, a great deal still to be done if the minimum standards of decent life are to be provided to a billion people who presently fall below that standard. The complementary task of providing adequately remunerative jobs for all those who need them is also a large one. But neither of these objectives is hopeless, as the record of developing countries as a whole during the period 1950 - 1980, and that of Asian countries in the last two decades before the crisis, suggests.

The next section will discuss the effects of the Asian crisis on poverty and employment. It will be seen that the analysis of these effects makes the task of poverty alleviation and meeting the employment needs of the people more complicated but it does not change the essential picture outlined above.

IV The Asian Crisis: Consequences for Poverty and Employment

Due to the proximity of the crisis, precise information on its social consequences in the most affected Asian countries will not be available for some time. Nevertheless some of the best available estimates from the World bank on poverty, real wages and employment are summarised in Table 10 and Chart 3. These suggest that assuming no change in the distribution of income and using $1 a day poverty line for Indonesia and the Philippines and $2 a day for Malaysian and Thailand, 17 million more people in Indonesia will have fallen below the poverty line in 1998, 2.3 million more in

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[7] See further Elson (1995), Cagatay and Ozler (1995), Hughes and Singh (1995).

Thailand, 665,000 in the Philippines and just under half a million in Malaysia. Poverty figures are very sensitive to deterioration in income distribution as well as to the definition of the poverty line. Since many people in a country like Indonesia live only slightly above the $1 a day poverty line, an increase in the poverty line to $1.25 a day would raise the number of additional poor people to 22 million, bringing the total number to 56.5 million. The World Bank also estimates that a 10 per cent worsening in the distribution of income, which past experience with crises in other countries suggest is more than likely, would bring the incidence of poverty in most countries back to the level of the early 1990s, practically eliminating the effects of ten years of growth.

With respect to unemployment, the bank estimates suggest that the number unemployed will have risen to about 13 million in Indonesia by the end of 1998, 3.5 million in Thailand and 1.6 million in Korea, a total of 18 million. This may be compared with a pre-crisis figure of 5.3 million for the three countries together in 1996.

It may also be worth noting that these figures may well turn out to be the lower bound estimates, e.g. the Indonesian government itself thought that there would be 20 million unemployed by the end of 1998. Estimates of unemployment by different agencies and organisations vary in part due to the different assumptions which are made as to what proportion of the workers laid off are absorbed in the informal sector in the rural and urban areas.

As one would expect, not only has the crisis led to increased open unemployment and a sharp decrease in wages, there will also have been a huge increase in the already high incidence of under-employment. Real wages are expected to fall in Indonesia by 40 to 60 per cent in 1998 and by over 10 per cent in Thailand. The Indonesian figure is considerably higher than that suffered by the worst affected Latin American countries after the debt crisis of the 1980s. (See Table 10)

Apart from these effects of the crisis on poverty, employment and real wages, areas in which governments typically collect statistical data, there are other social consequences, just as important, on which less data is available or which are not quantifiable at all. For example it would not be an exaggeration to suggest that the crisis in Indonesia has been so deep that it has damaged the social fabric of the whole society. There has been serious unrest and severe persecution of the Chinese minority which may have repercussions well beyond Indonesia.

Further, even relatively short periods of economic contraction can have long term effects on people's well-being. It is well documented that brief periods of malnutrition for children may result in long term damage to their mental and physical potential, even if after economic recovery nutrition improves. Joseph Stiglitz, the Chief Economist of the World Bank, cites reports from Indonesia and Thailand that millions of children are not returning for the 1998 school year, as their parents are unable to afford the school fees, other educational costs or even spare their children's time. Similarly the destruction or degradation of human capital involved in prolonged lay-off is yet another social cost. This cost is not properly measured, if at all, by economists and government statisticians.

Turning to the gender implications of the crisis there is evidence that women in the affected countries, despite all the discriminations to which they are traditionally subjected, did share in the economic and social gains arising from fast economic growth for a long period. There are studies which suggest some improvement in women's position in the labour market. However as the World Bank (1998) observes:

"But women and girls may be disproportionately hurt by the financial crisis. Women lose their jobs first, and families pull their daughters out of school before sons. The particularly hard pressed may sell daughters to brothels. Even before the crisis, girls in Indonesia were six times more likely than boys to drop out of school before the fourth grade. Once girls are removed from school, they rarely go back. Social organisations also point to a rise in domestic violence and prostitution. Though gender inequality is not a new problem in the region, the crisis situation has exacerbated the difficulties faced by poor women and girls in East Asia".

Finally, the Asian Crisis is not only not yet over even for the Asian countries but its reverberations are still spreading to other developing countries and regions. The latest victim is Brazil where the value of the *real* has fallen 40 per cent over the last two months. *The Economist* (6th March 1999, p.99) reports that even the normally optimistic Brazilian officials estimate that GDP will shrink this year by 4 per cent. The January 1999 unemployment figure of 8 per cent was the worst since 1983, when records began. Further, despite a deep recession, prices rose by nearly 4 per cent in February 1999. In addition, the new agreement between the Brazilian government and the IMF is likely to call for a bigger fiscal squeeze to ensure a public sector 'primary' surplus (before interest payments) of more than 3 per cent of GDP this year. This would entail more spending cuts probably including important items in the social sphere.

V Poverty, Employment and Long Term Economic Growth

V.1 Short and Long Term Policy Issues

The policy questions raised by the previous discussion are:

a. What should be done in the short term to cope with the economic and social consequences of the Asian crisis;

b. What kind of policies are required in the long term to promote employment and to eliminate human poverty around the globe at least in the narrow material sense indicated earlier?

It will however be best to start first with the analytical and empirical issues connected with poverty alleviation and the expansion of adequately remunerative employment. Short term policy issues will be considered later.

V.2 Poverty - Employment - Growth Nexus: Analytical and Empirical Considerations

At the microeconomic level there is an obvious relationship between poverty and employment. A reasonably remunerative job will help keep a family out of poverty. At the macroeconomic level, the relationship between these variables is still close but much less obvious. It is indirect and the linkage is provided through the intervening variable of economic growth. The creation of sufficient employment opportunities with adequate levels of real wages requires a reasonable rate of economic growth; so does the eradication of poverty and meeting the minimum basic needs of the people. The causal mechanism in each case is however somewhat different; these will be elaborated below.

V.2a Poverty and Growth

Although at any moment of time a redistribution of incomes may enable a society to better meet the basic needs of its poorest people, this can only be done on a sustainable basis if there is a continuing expansion of the national economy. Economic growth increases household incomes, and as will be explained in greater detail below, it also generates more jobs. Further, it increases government revenues which may be spent on health, education, clear water supplies and other basic needs of the people.

Empirical evidence indicates a robust negative relationship between poverty and economic growth. This was an important reason why the East Asian region experienced such a sharp reduction in poverty over the last two decades. This is also the reason why with slow growth during the 1980s poverty rose in Latin America as well as Sub-Saharan Africa.

Although there is an overall negative relationship between poverty and economic growth, it is by no means a perfect relationship. The responsiveness of poverty to growth varies between countries. Assuming distributional neutrality, studies suggest that in the late 1980s, in Malaysia and in Thailand, a 1 per cent increase in growth in mean incomes was associated with a 3.5 per cent reduction in poverty; in Indonesia the corresponding value of elasticity was 2.8 per cent; it was less than 2 per cent in most of Sub-Saharan Africa and less than 1 per cent in Brazil. The essential reason for the differences in the values of these elasticities is that growth is not the only determinant of poverty: the latter also depends importantly on a host of other variables including for example: distribution of income, inflation, and employment elasticity of growth (i.e. whether growth is more or less labour intensive). Thus it is not growth alone, but also its characteristics which affect poverty. [8] Factors other than growth which also influence poverty will be commented on in the next section.

V 2.b Employment, Growth and Productivity in Developing Countries

[8] See further World Bank (1998),see also World Bank (1993), Demerey, Sen and Vishwanath (1995), Ahuja et al (1997), Watkins (1998), Ranis and Stewart (1999)

Turning to employment, for developing countries, as noted earlier, the problem of unemployment manifests itself mainly in the form of low productivity, low wage, "disguised" unemployment or under-employment. Nevertheless, many countries in Latin America and SSA have been experiencing relatively high rates of open unemployment as well as massive under-employment. The main employment challenge facing these countries is however much more formidable than just meeting the employment needs of those who are currently unemployed or under-employed. The challenge lies in the fact that the labour force in many of these countries in these two regions is growing at approximately 3 per cent a year.

Before the Asian crisis, the employment situation in South East and East Asia was much more promising. The labour markets were tight, productivity was growing at a fast pace and workers were enjoying rising real wages. Moreover, the expected rate of growth of the labour force was considerably lower than in Latin America and the SSA. But even here there are potentially difficult problems for the populous countries such as Indonesia and China. These arise from the fact that in these countries a large proportion of the population is still employed in low productivity agriculture. To raise productivity agriculture needs to shed labour but it can only do so if there is a sufficient increase in remunerative employment opportunities in urban industry and services.

Thus even before the Asian crisis most developing countries faced an awesome employment problem. Although in general there is a positive relationship between employment and growth, in the case of developing countries, it must be carefully interpreted. Employment in the formal sector normally expands only in response to the growth or the expected growth of output; in the informal sector, however, it may expand without any expansion of output. Informal sector employment may indeed expand even more with a decline in output which lowers incomes and obliges more people to engage in informal employment in order to maintain family income. It is therefore important in considering the relationship between output and employment in developing countries to also consider the inter-relationship of the two variables with productivity.

The aggregate data on output, employment and productivity in Table 11 for three developing regions illustrates some of these points. It shows that employment expanded at a faster rate in Latin America than in Asia during both periods (the mid 1970s - 1984, 1985 - the early 1990s) but in Latin America it was associated with falling or more or less stagnant productivity, whereas in Asia productivity rose at a creditable rate of 3 per cent or more per annum. In the second period in SSA, the rate of growth and employment was only 1.5 per cent compared with a labour force growth rate of about 3 per cent and productivity was stagnant. This would suggest that African countries had the worst of both worlds: neither sufficient employment expansion even in the informal sector nor any productivity growth.[9]

Studies based on the period 1950 - 1980 when developing countries as a whole enjoyed fast economic growth suggest that in order for employment to increase at a

[9] This data pertains to a sample of eight countries in SSA, ten countries in Latin America and the Caribbean, nine countries in South and East Asia. See further Pieper (1998).

rate of 3 percent per annum to meet the needs of new entrants to the labour force, GDP must increase on average at about 5-6 per cent per annum so as to be able to maintain the share of labour in total income. This would entail a rise in the long term rate of growth of productivity and real wages of the order of 2-3 per cent per annum. This conclusion is also compatible with the more recent data in Table 11. Coincidentally, UNDP (1997) has estimated that in order to eliminate poverty over the next two decades, developing countries need to grow at a rate of 6 per cent per annum.

These considerations suggest that a trend rate of growth of 6 per cent per annum for developing countries may be regarded as the *minimum socially necessary rate* which would both remove poverty and meet the employment needs of a rapidly growing labour force. However, if the existing unemployment and under-employment is also to be reduced, the growth in GDP would need to be higher still.

V.2.c *Unemployment , Labour Markets and Economic Growth in Advanced Countries*

It was seen earlier that European countries are experiencing mass unemployment in the 1990s, yet less than twenty five years ago they had a prolonged period ('golden age') of not just full employment but over-full employment in a number of countries. The main difference between these two periods is not labour market which some international financial institutions claim as being the main reason for the current mass unemployment in Europe. The labour markets were if anything less flexible in the 'golden age' than they have been subsequently. The essential reason for Europe's outstanding employment performance in the earlier period was the much faster growth of the West European economy. Between 1950 - 1973 these countries expanded at a historically unprecedented rate of nearly 5 per cent per annum whilst since 1974 the long term trend rate of growth of the European economies has fallen to half that figure.

The international financial institutions also invoke the flexibility of the US labour market compared with that of the West European market to suggest why there is more or less full employment in the US and high unemployment in Europe. There is a kernel of truth in this argument in that the lower US unemployment rate is indeed partly due to the lack of public provision for the relief of unemployment in the US relative to Western Europe. US workers are therefore obliged to take jobs, any jobs, regardless of how remunerative they may be. It is notable that there was no increase in the real wages of manual workers in the US between 1973 - 1993.

A little reflection will show that nevertheless the labour market flexibility argument is inadequate to account for the differing unemployment experiences of Western Europe and the US. To see this, consider for example labour markets and employment in West Germany and the US. The former has a comparatively inflexible labour market, but this is not only true today, it was also so in the 'golden age'. However, in the 'golden age', West Germany managed to achieve full employment while the US did not. Moreover, the growth of real wages in West Germany in this earlier period was considerably faster than in the US. The key to this puzzle lies in the fact that West Germany in that period was growing much faster than either its current rate, or that of the US (whether now or in the earlier period).

As noted in Singh (1995), the same difficulty with the labour market flexibility hypothesis arises in explaining the differences in levels of unemployment between the Great Depression and the Post War period. The labour market was much more flexible in the earlier compared with the subsequent period . Matthews and Bowen (1998) show that real product wages rose far more in the 1950s and 1960s in the UK compared with the 1930s, yet the earlier period had the Great Depression and the later period more or less full employment.

Returning to the present case of the US economy, it is important to note that a major blemish in the US economic record is that, although labour markets appear to be tight and there are high levels of unemployment, real wages have hardly risen at all in the last twenty five years. Both productivity growth and per capita income growth, though not as slow as wage growth, have been well below that of the major OECD countries. (Howes and Singh,1995) This has meant that the normal expectation of the American people, that each generation's standard of living will be twice that of the previous one, is no longer being realised.

Howes and Singh (forthcoming) argue that the main reason for the stagnation of real wages in the US, like that of the high unemployment rates in Europe is that the economy in the post - 1973 period has been expanding at a lower long term rate than before.[10] Between 1960 and 1973 US GDP grew at an annual rate of 4 per cent, compared with 2.3 per cent since 1973. The higher growth rate of the earlier period not only enabled the country to have a better employment record than it has done subsequently; more significantly it also made it possible for real wages to increase at a rate of about 2 per cent per annum in that period.[11]

Thus to meet the historic aspirations of US citizens, it is not enough for the economy to generate high levels of employment, it must do so with growing real wages. This can, however, only be accomplished if there is a trend increase in the post-1973 long term growth rate of the US economy, to the rates that were experienced in the 1950s.

Lastly and incidentally it is also useful to reflect upon the fact that the broad experience of developing countries since 1980 also provides little support for the labour market flexibility thesis. During the 1980s, workers in Latin America saw sizeable reductions in their wages and also increasing unemployment. In Mexico, for example, real wages fell by 50 per cent between 1980 and 1988. This was accompanied by a much slower, rather than a faster, growth of modern sector employment than before and increasing informalisation of the economy. In contrast, in

[10] Due to the fact that productivity growth is so much higher in Europe than in the US, the consequence of equally slow rates of growth in the two regions has been high unemployment in Europe and full employment with stagnant real wages for the US. Given the differences in labour market institutions, to achieve full employment in Europe would require rates of growth comparable to those of the 'golden age' in the range of 5 per cent annually. The US can achieve full employment at lower rates of growth productivity growth is so low. However, rising standards of living will require higher rates of productivity growth.

[11] The average real earnings for non-supervisory workers in the US declined at a rate of 0.6 per cent per annum in the 1970s, I per cent in the 1980s and 0.6 per cent per annum between 1990 and 1995. In contrast in the 1950s and 1960s the corresponding average real earnings rose at a rate of 2 per cent per annum (Mishel, Bernstein and Schmitt, 1997).

the East and South East Asian newly industrialising countries, in the last fifteen years real wages increased at a rate of 5 per cent a year and so did modern sector employment. It would be difficult to ascribe the very different employment records of the Asian and Latin American newly industrialising countries (NICs) in the 1980s and 1990s to the relative flexibility or inflexibility of their labour markets. Rather these differences arose from the fact that the Asian NICs expanded at a much faster rate than the Latin American ones during that period.

VI Technology, Jobless Growth and other Determinants of Employment and Poverty

VI.1 Technology and Employment

The thesis outlined above suggests that in order to meet the employment needs of the people and to reduce poverty it is necessary to have a trend increase in the rate of growth of production in both developed and developing countries. There is however a very important objection to this thesis which needs careful consideration. This relates to the role of technology.

With widespread redundancies ,the "downsizing" of businesses and job insecurity throughout the industrial world, it is commonplace to blame technology for these events. It is argued that the main reason for unemployment is the much faster pace of technological progress which results in replacing people by machines.

However, evidence at least at the aggregate macro-economic level suggests that this argument is hard to sustain either for developed or developing countries. The following points are relevant.

1) Evidence for industrial countries suggests there has been a trend reduction in their rate of growth of productivity during the last fifteen to twenty years rather than a trend increase. Productivity growth during this period has been half of what it was during the 1950s and 60s when there was full employment. Had the pace of technical progress been actually faster, there would have been an improvement in the average productivity growth rather than the substantial observed decline. So although in individual industries faster technical progress may have caused redundancies, this factor cannot account for the overall observed increase in unemployment in industrial countries.

2) A variation on the above theme is the argument about "jobless growth". The suggestion here is that because of the nature of technical change, economic growth no longer creates jobs. This proposition may be put in a less extreme form in the economist's jargon as suggesting that the employment elasticity of growth has fallen. Evidence, however, does not back up this claim.

   The data for industrial countries shows that the growth rate required before the economy starts creating net new jobs has been less in the period 1974 to 1995 than during 1960 to 1973. This reflects the lower average productivity growth of the later period.[12] In the US for example the annual growth rate required for the economy to start creating net additional jobs during 1960-1973 was 2.3 per cent; between 1974-1995, the corresponding rate has only been 0.7per cent.

Further, cross-section econometric evidence for advanced industrial countries suggests, if anything, an increase over time in the employment elasticity of output growth rather than a decrease, as the hypothesis of jobless growth would imply. Boltho and Glyn(1995) report that employment elasticity of GDP growth for advanced industrial countries rose from 0.49 per cent during 1975-82 to 0.63per cent during 1982-93. The reason why unemployment or under-employment has increased so steeply in all these countries is not that 'growth' does not create as many jobs as before, but that there has been much slower growth than before.

3) The above argument about the alleged negative role of technology is much more plausible for advanced countries than for developing countries which are not on the cutting edge of technology. Nevertheless, in developing countries there is no evidence of any significant reductions in the employment elasticity of output over time. There are however some anomalies in this area which require comment. First, in the case of Latin American countries it has been noted that although economic growth resumed in the 1990s employment has not increased at the same rate as before. This implied reduction in employment elasticity is however not attributed to technology but to liberalisation of trade which these countries have undertaken (Frenkel 1998). The other case of apparently falling employment elasticity relates to India where this elasticity is estimated to have fallen quite considerably in the formal manufacturing sector. This phenomena has not been adequately studied. But a reasonable hypothesis would be that it is due to internal liberalisation and de-regulation of the Indian economy. There has also been external liberalisation in the 1980s and 90s but this has not been any where as extensive as in Latin America. However, the internal de-regulation and the end of the "permit Raj" has been more far reaching.

4) Finally, there is a paradox about the role of technology with respect to current economic events. Scholars in this area regard information and communications technology as representing a new technical paradigm, on a par with the steam engine and electricity, as being among the most significant technological revolutions of the last two centuries. The fact that despite the availability of this revolutionary new technology, productivity growth has fallen rather than improved, suggests that its potential is not being realised. Closer analysis indicates that this can be ascribed to insufficient growth of aggregate real demand and output.[13] If the rate of growth of real aggregate demand was higher, this technology would have more widespread use in most branches of industry and services, reducing their prices and as in the case of previous technical revolutions leading to a virtuous circle of increased demand and increased growth of productivity. In short, the unutilised potential of the ICT revolution suggests that the rate of growth of GDP in industrial countries is certainly not constrained by supply. If there are constraints, it is to the factors on the demand side that we should look.

[12] See further, ILO(1996).
[13] For a fuller discussion of these issues see Singh (1997), Howes and Singh (forthcoming)

VI.2 Determinants of Poverty other than Growth

As noted in Section V there are important determinants of poverty other than growth which need to be considered in formulating policy. Research on questions of poverty suggest that the most important of these are the following:

a. Rate of inflation.
b. Income distribution.
c. Initial distribution of land and other assets.
d. Stability of economic growth.
e. The governments fiscal policies.

Briefly, studies for both Asian and Latin American countries suggest that other things being equal, inflation and specifically unanticipated inflation hurt the poor. In the recent period there is evidence from Latin America that stabilisation of prices leads to an increase in the standard of living of the poor, which accounts for the electoral popularity of stabilisation programmes such as those undertaken in Argentina under President Menem and in Brazil under President Cordoso when he was the Finance Minister in the previous government.

Arguably from a gender perspective, the most significant of these additional factors which affect poverty is economic instability, i.e. the frequency and the amplitude of the economic cycles. Most developing countries do not have, and are unlikely to have for a long time, a publicly provided social security system. The burden of coping with unemployment and reduced wages in cyclical downturns therefore falls on the families and hence on women.

Finally, public policy and government expenditure patterns with respect to education, health and other social fields clearly have a major impact on poverty and deprivation.

VII Long Term Policy to Achieve Full Employment and Eliminate Poverty

The above analysis has shown that in order to reduce global poverty, unemployment and under-employment it is necessary to have fast, stable (i.e. non-fluctuating) and non-inflationary economic growth. It is also important to have a re-distributive fiscal policy. The important long term policy question is therefore how developing countries can achieve such socially necessary minimum growth rates as well as the right kind of growth. Similarly, in order to remove the scourge of mass unemployment and to restore full employment, what policy and/or institutional changes are required for industrial countries to return to the pace of growth they achieved in the golden age? However before these policy questions can be satisfactorily addressed, there is a prior question of feasibility. Are such growth rates feasible for either group of countries? It has been demonstrated in detail elsewhere that the answer to this question is in principle an affirmative one. (See references in footnote 13.)

As noted earlier, because of the existence of the large backlog of unutilized ICT technology and its unrealised potential, the constraints on industrial country growth lie on the demand rather than the supply side. Thus there is the technology and the resources to achieve these crucial objectives. To the extent that failure on the demand side prevents the achievement of these objectives, it is a self-inflicted wound arising from the lack of success in creating the necessary economic coordinating mechanisms and institutions. Similarly, the socially necessary growth rates are perfectly feasible *on the supply side* for developing countries in Asia and Latin America.[14] Despite their underdevelopment, most of these countries now have the necessary organisational capacity and technical skills to achieve such growth. The fact that they have a lot of catching up to do may also be to their advantage. However, under liberalisation and globalisation, the main constraints on achieving socially necessary growth rates for these countries lie also *on the demand side.*

To implement this programme of increasing the trend rate of growth of real demand in the world economy on a sustainable basis requires action and institutional changes at the international and national levels.

VII.1. *International action to achieve faster growth of world production and employment*

VII. 1. a *Industrial countries*

While the nation state has the primary in formulating and implementing development policies, they are greatly influenced by the activities of the IFIs and the WTO, and to a lesser extent by other international organizations, such as the ILO. The key policy question is how these institutions can help to raise the trend rate of world economic growth, as well as ensure that this growth is of the right kind, namely, that it is non-inflationary, stable and one which creates work and benefits the poor?

In discussing this issue, the first important point to note is that the international organizations can make a positive contribution in this endeavour by either doing the right things or, equally significantly, by refraining from doing the wrong things. This is particularly relevant for some of the IFIs whose main policy programme for dealing with the world employment problem has been based on the doctrine of labour market flexibility. They have, in effect, been fighting the last war (against inflation), and a fundamental change in their intellectual and policy perspectives, as well as their corporate culture, is required.

Apart from the shortcomings discussed earlier, the labour market flexibility doctrine has unfortunately even more serious implications at the international level. To the extent that significantly lower wages in one economy generate greater export demand from higher wage economies, this may pit workers in one country against those elsewhere and erode labour standards. Importantly, it is likely to generate a conflict between workers in advanced countries and those in poor countries. Even among the advanced countries, it could also ultimately lead to competitive devaluations of the

[14] The supply side constraints are morelikely to be applicable in the case of African countries.

kind which occurred in the 1930s and hence to greater instability in the international economy.

Rejecting labour market flexibility as the most important response to the employment problem does not imply that certain specific rigidities such as high pay-roll taxes should not be relaxed. However, even if one accepts that there is a downard sloping demand curve for labour, what is being suggested here is that a superior alternative strategy from a global perspective exists involving a shift of the curve to the right rather than moving along it. This alternative strategy is the “high road” which international institutions should favour, rather than one moving down the demand curve which has dangerous potentialities for conflict.

Unlike labour market flexibility, the alternative strategy of seeking a substantial increase in real world demand in order to increase world employment and production is a positive sum game. Faster economic growth in rich countries would help poor countries in a variety of ways, for example, through increased demand for their products which should lead to faster output growth and employment. The latter will in turn assist the advanced economies by positive feedback through, for example, greater demand for these countries’ products.

It is, however, important to appreciate that increasing the growth of *real* demand today is not a matter of simply instituting expansionary fiscal and monetary policies. It involves a much more complex and difficult task in the present circumstances of the world economy, as the experience of Japan and that of the crisis affected developing countries indicates.[15]

Research indicates that the faster expansion of real aggregate demand and production in industrial countries cannot be achieved without deep institutional changes at both the international and national level. Briefly, what is required at the international level is for:

> chief priority to be given to the employment problem, rather than to inflation;
>
> symmetrical adjustments to be made between deficit and surplus countries;
>
> macro-economic policy coordination to take place between leading industrial countries via a multilateral mechanism.

On the last point, it will be appreciated that this was the role originally intended for the IMF. Instead, the organization has devoted itself over the last several decades to disciplining the South, rather than the main economic actors on the world stage. A new international monetary institution today should be seeking the coordinated expansion of industrial country demand.

However, to ensure that such multilaterally coordinated growth of world demand does not result in inflation as happened in the 1970s, it is necessary to have pay

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[15] For a detailed discussion of this issue, see Krugman (1999).

coordinating mechanisms within the industrial countries, instead of policies of labour market flexibility and deregulation. Experience suggests that such pay policies only work if they are seen not simply as a device to reduce workers' real wages but are long-term and regarded as fair and redistributive in a progressive direction.

VII.1.b *Developing countries*

In relation to the crisis affected countries in Asia, it is now generally agreed that they are subject to an acute demand constraint. The external financing constraint to which these economies have become subject following the melt-down in financial markets has resulted in large parts of the productive capacity of these economies -- human as well as physical -- becoming unutilized. An important and welcome change occurred in IMF policies, when rather late in the day, when they recognized the existence of a demand problem in the crisis affected countries. Their consequent relaxation of tight fiscal conditionality, as well as the acceptance of large safety net spending, does however also imply that the earlier policies imposed unnecessary hardship on the people.

As far as long term policies are concerned, the IFIs need to go much further in this direction. Specifically, it should be recognized that, faced with an acute financial crisis, in achieving adjustment it may be much less costly for production and employment to impose exchange and/or import controls, than rely on fiscal deflation. This point is acknowledged in the Articles of Agreement of the IMF, but in its enthusiasm for market supremacy over many years it has strongly discouraged resort to such policies. As economics is not an exact science, the IMF should be willing to allow countries to adopt the measures they deem appropriate, particularly when faced with an acute crisis.

It follows from this analysis that the IMF should be seen to be supporting and be helpful to the current Malaysian policy of mild capital controls. It is arguable that had similar policies been followed in Indonesia at the outset of the crisis -- that is, the imposition of exchange and import controls -- rather than the IMF policies, the ensuing tragedy in that country may have been avoided. The important point here is that there are long term lessons to be learned from IMF interventions in the Asian crisis. International organizations which have a vital concern with economic and social development, and employment and welfare, need to continually analyse and assess objectively the macroeconomic policies pursued by different countries in varying circumstances.

VII.2 Stability of economic growth

Economic instability, let alone the melt-down which has occurred recently in East Asia, Brazil and Russia, has serious short and long term repercussions, particularly for the most disadvantaged sectors of the population. As emphasized earlier, the main burden of instability in developing countries generally falls on women. How can developing countries therefore achieve the necessary stability in economic growth?

One of the most important reasons for instability in the recent period has been the operations of the international financial markets and specifically freer international capital flows between nations. The IMF has been pursuing the objective of capital account liberalization in developing countries with missionary zeal. Two years ago it sought a change in its Articles of Agreement which would have formalized this objective and allowed it to pursue it with even greater vigour. This is not withstanding the fact that leading economists, even in advanced countries, regard capital account liberalization as being of dubious value, carrying a palpable risk of harming developing countries.

The IMF believes that capital account liberalization, by allowing markets to freely allocate capital, will help both rich and poor countries, especially the developing countries which in general are short of capital. However, empirical evidence shows that, under free competition, private capital does not flow into the developing countries that need it, but has flowed rather to those which already have a high savings ratio as well as export orientation and therefore need it least. African countries which really do need external finance are unlikely to get it from this source.

Financial markets today move at an incredible speed and are subject to alternating but unpredictable bouts of pessimism and optimism. This behaviour has been increasingly evident on stock markets, the foreign exchange markets and indeed asset markets of all kinds in recent years. Alan Greenspan's analyses of the 1987 US stock market crash and the Asian meltdown of the 1990s are worth quoting at some length as they provide important insights:

> At one point the economic system appears stable, the next it behaves as though a dam has reached a breaking point, and water (read, confidence) evacuates its reservoir. The United States experienced such a sudden change with the decline in stock prices of more than 20 percent on October 19, 1987. There is no credible scenario that can readily explain so abrupt a change in the fundamentals of long-term valuation on that one day. Such market panic does not appear to reflect a simple continuum from the immediately previous period. The abrupt onset of such implosions suggests the possibility that there is a marked dividing line for confidence. When crossed, prices slip into free fall -- perhaps overshooting the long-term equilibrium -- before markets will stabilize.
>
> But why do these events seem to erupt without some readily evident precursors? Certainly, the more extended the risk-taking, or more generally, the lower the discount factors applied to future outcomes, the more vulnerable are markets to a shock that abruptly triggers a revision in expectations and sets off a vicious cycle of contraction.
>
> Episodes of vicious cycles cannot easily be forecast, as our recent experience with Asia has demonstrated. The causes of such episodes are complex and often subtle. In the case of Asia, we can now say with some confidence that the economies affected by this crisis faced a critical mass of vulnerabilities; *ex ante*, some were more apparent than others, but the combination was not generally recognized as critical.

This irrational exuberance and pessimism of the markets and the structural factors present in most developing countries combine to make developing countries subject to very great downside risks of free capital movements.

This does not mean that these countries do not need foreign capital. Quite the contrary. But what they require for their industrialization and the development of the real economy is "patient" long term capital. This can only be achieved through capital controls. (See further Chang and Singh, 1999.)

The poorest of developing countries require, on the other hand, higher levels of concessional finance on a sustained long term basis and a halt to large reverse transfers occurring through debt servicing and depressed commodity prices and poor terms of trade.

As far as long term aid and debt relief is concerned, an important issue concerns that of the conditionalities imposed by international organizations and by advanced countries. In view of the fact that there are many different paths to development, international organizations should let developing country governments determine their own social and economic policies and trajectories.

VII.2.c Safety nets and social insurance for the long term

After the 1994 Mexican crisis, the IFIs suggested that they had learned how to avoid similar meltdowns in the future. However, in the light of the Asian crisis, it is now implicitly acknowledged that under a regime of relatively free capital flows, such meltdowns may recurr and cannot be predicted. It has become commonplace, therefore, for IFIs to suggest that the onus is on developing countries to establish safety nets and social insurance systems. Briefly three points need to be made. First, as Ranis and Stewart (1999) point out, World Bank schemes of "targeting" have been unsuccessful in providing safety nets for the poor, particularly for the poorest. Second, common sense and experience tells us that Mr. Wolfensohn is correct in his basic perception that the best safety net is still that provided by full employment. Hence the primary focus of international institutions and governments should be on policies to generate full employment.

The third point concerns what lessons are to be drawn from the current financial crises by the international organizations regarding their preferred schemes for old age pensions and social insurance, involving privatization, in developing countries. One of the claims of the World Bank's proposals on this subject was that these would not only help provide better protection for old age, but that they would also help overall economic growth by promoting the growth of stock markets. The meltdown which has occurred in the stock markets in many emerging economies would suggest that this claim needs to be reassessed and developing countries advised accordingly. Similarly, the ILO should have carried out a serious actuarial analysis, for which it had the staff and adequate resources, before proclaiming that it was a relatively simple matter to provide unemployment insurance for the populations of the fast growing Asian countries.

VII.3 *Non-inflationary growth*

Most people would accept the IFI's objective that countries and governments should live within their means and not have unsustainable balance of payments or budget deficits. The experience, however, is that often there is disequilibria caused by external events over which a typical small open economy has no control. Therefore a more stable international economic environment achieved through international and national regulation of international capital flows should help to further these national goals. There is a great deal of controversy, however, over IMF adjustment programmes to deal with a crisis once it has occurred. Critics claim that these progammes are more costly than necessary, as noted above. Equally significantly, the IMF programmes may make countries adopt structural measures which are inimical to their long term economic and social, even political interests. To restore international confidence in these programmes and to achieve proper international accountability, such IMF programmes need to be independently reviewed and assessed. One important way to achieve this could be for international agencies to establish a joint review mechanism under the aegis of the United Nations for such purposes.

VII. 4 *Employment friendly growth*

There are two important policy issues to consider regarding employment friendly growth. First, there is the question of the broad economic strategy to be adopted by a couuntry to promote long term growth and employment. This requires careful study of the historical and current specific economic and institutional circumstances of each country which must involve local expertise. International agencies can do no more than convey their own perceived wisdom of comparitive experience.

The second relates to projects carried out by international institutions in developing countries to generate paid work, such as public works, and food for work schemes, labour intensive infrastructure initiatives. Here the agencies need to co-operate with a view to devising best practice solutions which can be recommended to national governments.

VIII. Short Term Policy Responses to Financial Crisis

It will be immediately recognised that there is a potential conflict between short and long term measures to cope with the social consequences of financial crisis. Short term measures such as government transfer payments to the poor may relieve immediate hardship but these may be at the expense of long term investment which creates jobs in the future. There are clearly trade-offs here which must be explicitly taken into account by policy makers. It is also important to recognise that the inter-temporal choices between current and future consumption may be rather different for the poor and the not-so-poor, the former giving greater weight to current consumption.

There is international concensus that the immediate response in the wake of financial and economic crisis should include measures of social provision, such as subsidized food, or schemes for ensuring that the children of those seriously affected continue to go to school. There is also common agreement, the IMF included, that such measures require a large expansion of the role of the government and direct intervention in market processes. A number of international institutions, particularly the World Bank, are carrying out schemes to help the poor directly. The World Bank provides considerable financial assistance for this purpose. The important question here is whether such help is going to be adequate to cope with the extent of the human deprivation brought about by the crisis. While welcoming such financial assistance and the IFI's present willingness to accept measures such as food subsidies, it must be pointed out that the size of these programmes do not seem adequate to the short term needs. This is evident in Indonesia, where the social fabric of the whole society seems to have been deeply undermined by the crisis and lack of adequate measures to deal with its social and economic impact on the people.

The second point is that social safety net arrangements should not be regarded as just a momentary humanitarian gesture but are an essential part of the measures needed in order to build a way out of the crisis. In view of the enormous magnitude of the crisis, the affected societies will only be able to overcome this episode if they can maintain a degree of social cohesion and political unity. There is a huge task of restructuring and adjustment to be carried out in the various sectors of the economy and this requires a strong and bold government, backed by broad social concensus. The latter, however, will only materialize if the costs of adjustment are as far as possible equitably shared and seen to be so.

It is also important for the success of the adjustment programme that it be arrived at and implemented in a democratic way. This is particularly so for the far-reaching structural adjustment programmes that the IMF has required these countries to implement. For example, they are required to change labour laws, corporate governance and traditional relationships between government, business and finance. Leaving aside the question of the morality of an international agency engaging in such interference in the internal affairs of a nation state, as important a question is whether the programme has the willing assent not only of the Ministry of Finance but also of all sectors of the population.

In a financial crisis the IMF's main immediate concern is to reassure the international financial community rather than be too sensitive to the resulting difficulties and hardships of the people of the affected countries. But for any programme to stand a chance of success under a non-authoritarian regime, it is essential that there be transparency and wide consultation and involvement through local processes and institutions in the formulation and implementation of these programmes.

IX. Conclusion

The main points made in this paper emphasize the

1. Enormous economic and social progress has been made in the last half century in reducing poverty and raising the standard of living of people around the world and arguably even of women.

2. However, there is still a very long way to go if minimum standards of a decent life are to be provided on a sustainable basis to the billion or so people who presently fall below that standard.

3. To achieve this objective requires there to be remunerative work for all those who need or desire it, which in turn necessitates fast, stable and non-inflationary growth. The main constraint on this growth does not lie on the supply side but rather on the side of demand.

4. The policies and institutional changes required to achieve a trend increase in the rate of growth of real world demand are outlined, as are those which are needed to ensure that the growth is stable, non-inflationary and employment friendly.

5. International financial institutions and other international organizations can play a vital role in this process, both by positive actions and, perhaps more significantly, by refraining from doing what they do at present.