Strategies for Creating Transitional Jobs during Structural Adjustment

Stephen L. Mangum
Garth L. Mangum
and
Janine Bowen

Work relief is critical to any structural adjustment program, so long as the skills needed to provide public works match the skills held by the (mainly) manual workers needed. Women and displaced white-collar workers may be better served by public service employment or subsidized private employment.
This paper — a product of the Education and Employment Division, Population and Human Resources Department — is part of a series of state-of-the-art studies of employment and labor market issues and reform programs in the department. Copies of this paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact PHREE, room S6-035, extension 33680 (August 1992, 31 pages).

Mangum, Mangum, and Bowen review world experience with creating transitional jobs through public work relief, public service employment, and subsidized private employment.

They argue that work relief is a critical component of any structural adjustment program, so long as the work relief projects are consistent with the capabilities of the targeted workforce. The effectiveness of public works depends on timeliness, financing, providing good managers, choosing high-priority projects, and matching the skill needs of the project with the skills of the targeted workers.

Public works and work relief tend to provide transitional jobs mainly for male manual workers. Women and displaced white-collar workers may be better served by public service employment or subsidized private employment.

Public service employment is relatively easy to administer and quick to implement and disband, but it is difficult to focus geographically, rarely leaves anything permanent behind, and expands the public payroll — at least temporarily.

Subsidized private employment is easily targeted and is compatible with efforts at privatization. Its chief weakness is that its success, both quantitatively (in number of jobs placed) and qualitatively (how good they are), depends on the private sector’s willingness to increase hiring.
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A. Introduction

Structural adjustment is common to developing and industrial countries, whether stemming from the changing international division of labor, the privatization of formerly public activities, debt repayment, anti-inflation policies, or shifts from planned to market economies. In all countries, the effects include displacement of labor -- differing widely by industry, occupation, socioeconomic level, and geographical location. Such displacement inevitably creates social hardship and political opposition, requiring ameliorative measures tailored to the type of displacement, its consequences, and the desired adjustment.

Labor markets play an important role in stabilization and structural adjustment. Successful stabilization depends on the responsiveness of real wages to national expenditure reductions to maintain output and employment levels. Successful structural adjustment requires the flow of labor toward some sectors and away from others. Examples include the need to shift away from inefficient import-substitution industries in which the country has no competitive advantage and toward areas of efficient import substitution and export promotion, and the need to shift from public sector-led growth and fiscal imbalance toward growth through private sector investment. The ability of labor markets to support these objectives depends on the processes guiding the allocation, use, maintenance, and development of human resources -- characteristics that vary widely among countries.

The challenge is to facilitate stabilization and structural adjustment while managing the side effects such policies may induce. One strategy for this challenge is targeted transitional job creation -- policies and programs to provide temporary aid to the displaced in circumstances and locations acceptable and viable to them. The worldwide experience with targeted transitional job creation is substantial, having been applied in the form of (i) public works and work relief, (ii) public service employment, and (iii) subsidized private employment. The mix among these various measures and their explicit applications will vary by nation and circumstance, but generalizations are possible.

The distinctions between these measures may blur. For example, there are two types of public works programs: those for which direct employment generation is important but secondary and
those in which job creation is the main intention. Distinguishing between the two is problematic because most projects are of dual parentage -- where provision of public works and the creation of work relief jobs are both used in justifying expenditures. As a result, while focusing on job creation aspects, this review may include programs that some observers would classify in the first category.

While all public service employment (PSE) programs are transitional to the extent that the goal is to help move the participant to permanent employment, some distinctions are warranted. Countercyclical public service employment assists individuals unemployed as a result of fluctuations of economic cycles. Structural public service employment seeks employment opportunities for individuals affected by longer-term structural shifts or adjustments in economic activity. In a third type of public service employment program, the government as "employer of last resort" attempts to extend economic franchise to the disadvantaged who are unreachable by other means. This paper is most clearly interested in countercyclical and structural public service employment.

Work relief job creation strategies and structural public service employment programs have similar objectives, but different modes of delivery. Public service employment programs depend almost exclusively on governmental or quasi public agencies for their delivery, while work relief is often delivered via private sector firms selected through competitive contracts.

B. Public Works and Work Relief

Every organized society has created some essential public facilities that are beyond the reach of private activities, or for which incentive for private provision is lacking. Examples are basic transport, communication, irrigation, flood control, sanitation facilities, and buildings dedicated to public use. The interest in this paper, for structural adjustment purposes, arises when efforts to meet the need for public works are used as sources of transitional employment. The building of public works is treated here as providing transitional employment. The operation of such facilities, once built, is treated as permanent job creation and outside the current discussion.
Programs in Developing Countries

The possibilities and challenges posed by the coexistence of surplus labor and pressing public infrastructure needs have not escaped indigenous and expatriate policy-makers in less developed countries. In the words of the International Labor Office, the objective is to "transform surplus labor into new capital formation" (Advisory Committee Rural Development 1983). In many developing countries, overvaluation of local currencies, tax incentives for industrial investment, trade policies favoring capital-intensive technology, and policies designed to keep consumer prices low have discriminated against agriculture (Rural Employment 1986). Continued high birth rates accompanying declining mortality, the introduction of labor-saving machinery, and the reduction of tenant farming have swelled the ranks of the rural nonfarm poor, creating a rising demand for wage work in rural areas. Labor-intensive public works are one means of meeting that need, whether annually in the agricultural off-seasons, temporarily in response to such emergencies as floods and droughts, or on a longer-term basis to combat structural or chronic unemployment, supplement inadequate farm income, or provide needed infrastructure at low cost (Surarerks 1986).

The amount of work provided by public works projects has often been immense -- 97 million person-days per year in Bangladesh and 4 million in Kenya at times during the 1970s, for instance (Advisory Committee on Rural Employment 1983:chap. 5). But the labor surplus is so extensive that the absorption of underutilized labor ranges from less than 1 percent to no more than 3 percent. Nevertheless, the income gains to those involved have been substantial and the public works constructed have resulted in significant improvement in the returns to agriculture and the viability of rural life. On the other hand, the projects chosen have not always been of the highest priority, planning has been inadequate, the recipients have not been well-targeted, management and site supervision has often been weak, quality has frequently been substandard, and results have occasionally proved temporary. Much is left to accomplish in both quantity and quality of employment, income and output.

A mid-1970s review found public works programs typically to be restricted to developing countries where the population was large relative to basic resources, the primary dependence was upon
agriculture, and the cultivation of marginal lands created special vulnerabilities to natural disasters. The countries, while poor, manifested administrative competence without which the mounting of major public works programs would be impossible (Thomas and others, 1975:13-21). Generally, the programs had emerged in response to some crisis but, once begun, tended to become permanent, although with substantial turnover among participants (Thomas and others 1975:39-41).

Most of the programs reviewed were designed to serve landless laborers, small tenant farmers, and small farmers whose landholdings were not adequate to provide sufficient income. Rarely was there any attempt to determine eligibility. Careful planning was required to assure that the public works activities did not preempt the labor pool needed for agriculture at certain times of the year. Wages below agricultural norms were used to avoid preempting the seasonal needs of landowners. That conflicted with the income needs of target workers, however. Where the problem was structural unemployment or natural disaster, however, seasonality was not a consideration. The projects were generally labor-intensive, involving considerable physical exertion, making them generally unattractive to women, youth, the aged, and those of reduced physical capacity (Thomas and others 1975:37-40).

To assess the employment and asset-creating ability of public works projects, the review divided projects into three categories: directly productive projects such as irrigation and land reclamation; economic infrastructure projects such as road building, reforestation, or market development designed to stimulate local economies; and, social infrastructure development, such as schools and medical facilities. All projects reviewed listed the dual purpose of job creation and asset creation, but the relative priorities varied widely. Jobs were created in the project construction and through increased activity in the economy. But there were often incompatibilities between the two types of job creation and the beneficiaries of the direct and indirect employment effects also differed. Direct employment was allocated primarily to program target groups, but the secondary employment effects were likely to be much more widely distributed. But while maximizing direct employment effects required using the most labor-intensive techniques, those techniques did not necessarily provide the greatest contribution to asset creation and secondary employment.
Labor-intensive projects such as construction of dirt roads or water-management earth works allocate as much as 60 to 75 percent of expenditures to wages but did not always contribute long-lasting economic assets. Irrigation, conservation, building, and highway construction often created more-productive assets, but required relatively more capital and raw materials for construction and allocated smaller proportions of expenditures to wages. Generally, the higher the technical sophistication of the project, the higher the expenditures on materials and skilled labor, the lower the ratio of wages to total expenditures, and the less direct employment generated. Reviewers found large national differences in the degree of labor intensity, depending upon custom and the level of decision making. Asians had more familiarity with and ability to use labor-intensive techniques than, say, Latin Americans who had learned their construction techniques from North Americans and Europeans. Local elected officials generally tried to spread employment as widely as possible, using a maximum of unskilled labor. Appointed officials and civil servants were likely to put more emphasis on quality of construction, advocating more skilled labor. Contractors preferred more capital intensive methods, perhaps for the ease of administration (Thomas and others 1975:41-52). As a result, wages ranged from 16 to 75 percent of total expenditures and the direct employment consequences varied similarly.

Similar problems exist in skills development and income distribution. The higher skill requirements of the more capital-intensive projects offer more favorable training opportunities. Directly productive projects such as irrigation, drainage, land reclamation, and fisheries -- after their immediate construction employment effects -- provide benefits more directly to the large landowners than to the poor. Yet those projects also have the most substantial long-term job-creation potential. The long-term job-creation effects of economic infrastructure projects are more speculative, however, because they provide conditions for economic development, but cannot assure it. Social infrastructure may improve the quality of life while offering little in the way of employment opportunities to other than scarce medical, educational, and similar personnel. Decision-makers must balance their choices according to their ultimate objectives.
Public works projects in developing countries have been financed through foreign aid, national or local resources with markedly different consequences. Foreign aid funds are scarce for this purpose but do not detract from other uses as much as domestic finance does. Because many rural public works projects have provided food for work, foreign aid food programs have been particularly important sources of public works support (Thomas and others 1975:88).

The volume of public works employment and wage payouts has been insufficient anywhere to have inflationary consequences for a national economy as long as the work has not been tax exempt. Redistributive effects depend on the tax structure. Where taxation is progressive, public works programs can be a significant force in transferring income from the rich to the poor. But where the tax structure is regressive, as it often is in developing countries, the income transfer may be from the nonparticipating poor to the participating poor. If urban and rural dwellers are taxed proportionately, urban to rural transfers could occur. Because rural dwellers tend to be more heavily taxed, nonparticipating rural dwellers are more likely to support public works employment of other rural residents. If public works participants are employed creating assets useful to the community while receiving wages below those normally paid in agriculture, they are subsidizing the community. If rural dwellers are more heavily taxed, a rural project functions in part as an unemployment compensation system. When the focus is land reclamation, the benefits are redirected to the poor to the extent that the newly productive land is allocated in their favor. But, as noted above, to the extent that the public works assets are created on private land, the redistribution flow is in the opposite direction - to the private sector. What actually happens depends upon the political balance of power, but user taxes are one way to equalize the burdens and benefits of public works projects.

Managerial capability is a major restraint on the viability of public works projects in developing countries. When supervisory capacity is in short supply, incentive schemes can help motivate productivity. For instance, contracting whole work gangs from the same locality with payment based on the amount of earth moved or the number of trees planted may be an effective incentive for output - although supervision may still be necessary for quality control.
But before management, there must be planning. For example, in the mid-1970s the United Nations Development Programme, with the International Labor Office as the executing agency, began promoting labor-intensive special public works programs (SPWP). A 1987 review of these programs, which had spread to 22 countries within a decade, concluded that:

SPWPs do indeed fulfill their mission in creating short-term employment whose positive effects on the distribution of wage income are immediate and tangible. SPWPs leave behind them infrastructures capable of significantly improving production conditions, and hence the standard of living of the local populations, if the initial choice of the works and project sites has been judicious and if the local inhabitants and authorities maintain the works in good condition and show sufficient dynamism to multiply their effects.

But, the International Labor Office warns:

Too much stress cannot be laid on the need to devote enough time to their preparation, the choice of personnel, infrastructures and sites, and precise identification of the potential beneficiaries. The diversity of the national and regional contexts rules out savings made by forgoing detailed preliminary studies. Carry out small-scale works in order to try out the various technical solutions for the types of works...to permit the local people to take charge...[and assure] that maintenance costs [will] match the capabilities of the village or commune (Gaude and others, 1987:423, 443).

Four noteworthy programs. Four programs merit special mention. The Employment Guarantee Scheme was introduced in the Indian state of Maharashtra during a severe drought in the 1970s (Acharya and Panwaller 1988). The scheme guarantees the right of every adult -- age eighteen and above -- to employment at unskilled manual work at a piece rate equivalent to the state minimum wage. Although the guarantee falls far short of fulfillment, that default is softened by the payment of unemployment compensation if employment is not provided within fifteen days of application. Employment Guarantee Scheme projects include minor irrigation works, road building, soil conservation, and reforestation, with jobs consisting primarily of breaking stone and digging and transporting earth, all with hand tools. The workers have no choice of the nature or location of the work, although the guarantee calls for employment within a five-km radius of residence. The employment is provided directly and supervised by state government units rather than contractors. Funding is provided from earmarked taxes and at least 60 percent of project costs must consist of wages.