

ACTIVE LABOUR MARKET POLICIES FOR RURAL REGIONS INITIATING A SUSTAINABLE DEVELOPMENT PROCESS

Winfried Manig
Institute of Rural Development
University of Goettingen, Germany

1. The Issue

In the past, **development policies** were relatively successful in many developing countries and are still if measured on the basis of the growth of the GDP and the structural changes between sectors. This is particularly true in the case of the urban-oriented growth and industrialisation policies in these countries.

The question is, however, have these policies been **sustainable** and the effects stable? The first major economic and financial crisis in 1997/98 led, for example, to a general economic depression in many countries, specifically in Southeast and East Asia, as well as to an immense increase in unemployment and poverty among broad sections of the population. The shocks, which were generally externally triggered, with the resulting increasing interest rates on capital, decreasing terms of trade and sudden massive exodus of capital hit an extremely vulnerable economic and political structure and led directly to a crisis in these countries.

A few other countries had, due to a lack of economic reforms, only very limited economic growth (LUSTIG/STERN, 2000, p. 4) and at the same time little success in combating poverty.

Furthermore, **rural development programmes and projects** had only very limited impacts with respect to reducing poverty in the rural regions. A recent analysis of rural development programmes in Indonesia demonstrated, for example, the fact that even equity-oriented approaches primarily produced income increases only for the already well-to-do households. Poor households did not have access to the measures. These programmes did not have any influence on the creation of new job opportunities in the rural regions. Despite these programmes, poverty did not decrease; in fact, it generally increased (ZAINI, 2000).

The lack of success of rural development programmes along with the effects of external shocks allows us to draw the conclusion that the **vulnerability** of the economic system – specifically regarding the situation of the poor – tended to increase, as the depression at the

end of the 90s showed. A few parameters will be presented here to illustrate the point (see Table 1):

In 1998 with a worldwide population of 6 billion people, 24% of the population (1.2 billion) in developing and transitional countries had to survive on less than \$1 per day and 56% (2.8 billion) on less than \$2 per day – based on Purchasing Power Parities (PPP) – and, thus, belonged to the groups classified as poor. The largest absolute numbers and highest relative percentages were discovered in South Asia, East Asia and the sub-Saharan Africa (World Bank 2000/2001). The development of the poverty during the past fifteen years is also important in this context. Following the decrease in the number of the poor, which took place up to approximately 1996, the absolute number of poor increased once again until 1998 as a result of the economic and financial crisis that took place in that year.

Income poverty by region

	Population covered by at least one survey (percent)	People living on less than \$1 a day (millions)				
		1987	1990	1993	1996	1998 ¹
East Asia and Pacific	90.8	417.5	452.4	431.9	265.1	278.3
Excluding China	71.1	114.1	92.0	83.5	55.1	65.1
Europe and Central Asia	81.7	1.1	7.1	18.3	23.8	24.0
Latin America and Caribbean	88.0	63.7	73.8	70.8	76.0	78.2
Middle East and North Africa	52.5	9.3	5.7	5.0	5.0	5.5
South Asia	97.9	474.4	495.1	505.1	531.7	522.0
Sub-Saharan Africa	72.9	217.2	242.3	273.3	289.0	290.9
Total	88.1	1,183.2	1,276.4	1,304.3	1,190.6	1,198.9
Excluding China	84.2	879.8	915.9	955.9	980.5	985.7
		Share of population living on less than \$1 a day (percent)				
		1987	1990	1993	1996	1998 ¹
East Asia and Pacific		26.6	27.6	25.2	14.9	15.3
Excluding China		23.9	18.5	15.9	10.0	11.3
Europe and Central Asia		0.2	1.6	4.0	5.1	5.1
Latin America and Caribbean		15.3	16.8	15.3	15.6	15.6
Middle East and North Africa		4.3	2.4	1.9	1.8	1.9
South Asia		44.9	44.0	42.4	42.3	40.0
Sub-Saharan Africa		46.6	47.7	49.7	48.5	46.3
Total		28.3	29.0	28.1	24.5	24.0
Excluding China		28.5	28.1	27.7	27.0	26.2

Source: World Bank, *World Development Report 2000/2001: Attacking Poverty* (New York: Oxford University Press for the World Bank).

Note: The poverty line is \$1.08 a day at 1993 purchasing power parity. Poverty estimates are based on income or consumption data from the countries in each region for which at least one survey was available during 1985–98. For further details on data and methodology, see Shaohua Chen and Martin Ravallion, 2000, "How Did the World's Poorest Fare in the 1990s?" Policy Research Working Paper (Washington: World Bank).

¹ Preliminary.

In Latin American countries, the absolute number of poor increased continually, but at the same time, the percentage of poor among the

population remained constant at approximately 16% (PPP \$1), or fluctuated between 38% and 36% (PPP \$2).

Rural poverty is the dominant form of poverty worldwide. Throughout the world, 63% of the poor live in the country, whereby the percentage of poor people living in rural regions in China and Bangladesh is 90% and ranges in sub-Saharan Africa between 65% and 90%. Latin American countries are the only countries in which the majority of the poor live in urban regions (KHAN, 2000, p. 27); however, there are considerable regional differences.

The **stability of the economic systems** in many developing countries is diminished by the dominant economic policies and globalization effects. This is reflected in the vulnerability of the poor when faced by crises. What types of economic and development policies in the countries of the Third World can stabilize the economic systems and how can the position of the poorer groups be improved in the long run? The **viewpoint of these groups** and how they judge their position would undoubtedly be of help in this context. On the basis of the relevant literature, it is possible to draw up the following picture:

Poor people regard their poverty as a lack of opportunities to participate in and profit from the social processes and the lack of security makes them aware of their status. Participation is in their opinion defined primarily by the material participation in economic processes, whereby income and material security are only part, although unquestionably essential factors. Material participation is also determined by the inadequate access to **job opportunities** (and thus income). There are, however, other additional important factors such as access to health services, education, sanitary facilities and the infrastructure.

The access of the poor to more employment and income is determined within the context of classical economic policies by the volume of investments and the utilization of technological innovations (LUSTIG/STERN, 2000, p. 5). Capital-intensive, urban-biased and import-subsidizing investments are given priority thereby (KHAN, 2000, p. 26). This type of economic policies start, however, primarily with already **existing economic units** which increase their capacities by means of investments and the utilization of technological innovations. This leads to the creation of additional job opportunities. This type of economic growth is indeed a necessary prerequisite for "a-bigger-slice-of-the-pie" policies (KHAN, p. 27), but is not an adequate policy for creating secure job opportunities for the poor (cf. RODRIK, 200, p. 8) because the structure of the economy and employment makes the poor the most vulnerable group and eliminates them from the process first in the case of an economic crisis.

A lance will be broken here for **active employment-oriented economic and development policies** for the rural regions which do not consider an increase in job opportunities to be merely a passive result of growth-oriented policies. Instead, the active creation of new economic units is necessary, which then subsequently create new job opportunities. Such a policy can contribute to greater socioeconomic **stability** and, thus, **sustainability**. An adapted structure can considerably alleviate the negative influences of international economic tumults.

The extreme **population growth** in development countries and, in particular, in the rural regions of such countries increasingly calls for more intensive efforts to create new job and income-earning opportunities. Otherwise, it will not be possible to reduce the sizeable migration of the economically most active segments of the population to the urban centres. This leads to economic problems arising from social polarization in the urban centres with all of the ensuing consequences, including the necessity to subsidise the poor (JAZAIRY et al., 1992, p. 161). The inclusion of the economically active population in the development process within the society can be, furthermore, appropriately achieved by **integrating them economically**. Unemployed manpower is also unproductive production capacity, and this calls for **active employment policies** in the rural regions, and not only as a side-effect of growth policies. Social justice can be more easily achieved by such policies than by the common practice of merely redistributing the purchasing power, a policy which always stimulates political counter-movements.

2. Active Employment Policies

How can one conceive active employment policies for rural areas? In which sectors can significant effects be expected? Let me emphasise once again, I do not consider employment policies to be positive side-effects of growth and other approaches only, but rather a key rural development politics approach.

As manifold factors lead to poverty, there are also many different groups of rural poor (KAHN, 2000, pp. 27 f.) which are surely not all equally accessible by means of the proposed employment-creating measures. The most important group for an active employment policy are in this context solely **economically active poor population groups**. Other, very different measures are necessary for old or ill people and children such as, for example, the direct transfer of purchasing power, etc.

The **very small farmers** who have their own or rented land at their disposal have a small material basis for securing their basic needs by

cultivating that land. They can improve their situation by intensification measures, by gaining access to more land and by carrying out additional income-earning activities outside agriculture. The surplus manpower in the household can be used to generate income. The non-agricultural earnings in this group lead to wide-spread multi-employment structures in rural regions.

As a rule, the only thing that the groups of poor not involved in agriculture have to offer in order to generate income is their own labour. In order to secure their survival, they have developed a large number of strategies at the household and individual levels (ELLIS, 1999). The groups of these generally very poor people in the rural regions need, in other words, productive employment opportunities to earn an income which demand only very limited formal educational qualifications. On the other hand, they are especially hit by increases in the prices of food as they are forced to buy their entire subsistence requirements. In their case, the best solution would be a combination of state policies supporting increases in agricultural production in order to improve the supply of food along with measures to stabilize the prices together with an active employment policy.

An active policy with the goal of creating additional employment opportunities for the two above-designated groups would appear to be the best solution in order to take advantage of the only production factor available in surplus, **labour**, and as a consequence **generate income**. The economic rationale lies, thus, in labour-intensive employment, whereby pluri-activities offer more stability to the poor and, hence, decrease the risks.

This active employment policy can naturally be supported by other, more traditional measures to combat poverty such as improving the public health services, education and food programmes, among others. Such measures increase the productive capacity of the poor that can, subsequently, be taken advantage of by an active employment policy.

2.1 Agriculture

The agricultural sector is generally regarded as being particularly suited to absorb additional manpower. By **intensifying** the production processes, the labour intensity can be easily increased with little capital. As a rule, however, this can only be achieved by reducing the labour productivity and, thus, the per-capita income. In densely populated rural areas, however, the absorption capacity is undoubtedly very limited, as in the case of Java, for example (cf. ANANDA, 1998, p. 19 ff.). However, the agricultural productivity can unquestionably be increased by means of simultaneously increased capital employment in the form of industrially produced inputs in

densely populated areas. The employment of purchasable inputs always necessitates, however, intensive market integration of the farms (MANIG, 1999, p. 7). And this undoubtedly creates additional capacity for the generation of job opportunities. However, the employment problem in rural regions can clearly not be solved on the basis of policies to promote agriculture alone (PETERS/v. BRAUN, 1999, p. 546).

2.2 Agribusiness Sectors

Active employment policies in rural regions have better chances of being successful if the entire agribusiness sector is the target of the activities. This signifies the interlinked sectors of **market-oriented agriculture with its forward and backward-linked sectors**. The production and marketing of agricultural inputs and services (the backward-linked sectors) and the processing and marketing of agricultural products all the way to the consumer provides numerous opportunities for decentralised job-opportunity generation in rural regions (DIRKS, 2000, p. 2). Furthermore, the handicrafts and service sectors provide abundant opportunities for the creation of new jobs in densely populated regions. These sectors are, as a rule, labour intensively and capital extensively organized and, thus, are particularly suited for creating additional employment in face of the specific conditions, a poor infrastructure, a low educational level and a lack of capital in the rural regions.

In addition to the agricultural production sector itself, all those sectors which produce (e.g., fertilizer, feed, machines and implements, seed, chemical products etc.) and market (input markets, transport) agricultural inputs are also considered to belong to the agribusiness sector. Furthermore, the services (credit, research, extension services) and repairing, production and maintenance of agricultural buildings belong to the agribusiness sector. The **marketing and processing of agricultural products** at the various processing levels belong specifically to the forward-linked sectors. As this overview shows, the entire **network** system between the various sectors is important. To these also belong – a fact that is usually overlooked – the service organisations that promote these sectors, i.e., distribution, credit, extension services and research, as well as those enterprises that provide raw materials for the production of inputs and processing activities (the supporting agribusiness structures). The entire production process of the decentralised agribusiness structure is primarily **oriented towards the domestic market** and increases the degree of the division of labour within the society.

The rural non-farm sector in general and the rural agri-business sector in the industrial as well as the developing countries have not been comprehensively investigated in depth to date. This is true in both the case of the theoretical frame as well as empirical findings (VALDES, 1999, p. 543). An important reason is undoubtedly the pronounced heterogeneity of this sector.

2.3 Network of Decentralised Agribusiness Enterprises

As the previous arguments have already demonstrated, the promotion of agribusiness in the rural regions provides the possibility of creating numerous new jobs. This can, however, only be realistically achieved if the promotion is largely concentrated on the **small and medium-scale enterprises**. Therefore, a few of the advantages will be emphasised here that make the creation of jobs important for economic and social development.

- **Promotion of small and medium-scale enterprises:**

The promotion of small economic units implies the principle of favouring a spatially **decentralised economic structure** because enterprises are located there where either the demand or the supply are located. Many small units have, as a result, only a small trading area. This strengthens the local and regional structures.

Many small units means favouring a labour-intensive structure in two senses. On the one hand, there are a large number of economic units that provide a large number of jobs. On the other hand, the supply of capital is limited which means that they are forced to employ appropriate forms of production technology. These forms of technology are, on the other hand, labour intensive. This corresponds to the somewhat lower level of education generally found in the rural regions. Each job requires, therefore, only a limited investment volume, whereby locally available forms of capital can also be put to use.

- **Decentralised Structures:**

The already mentioned decentralised structures make it possible to employ local or regional resources such as, for example, processing those agricultural products which are produced in the regions themselves. The large number of adapted economic units reduce the **risk** for the entire economy since the impacts of failures have only a limited

range of influence. The production structures of agribusiness enterprises can be easily adapted to **changes in the demand** (the effects of Engel's law respecting increases in income).

- **Linkage Effects:**

A structure consisting of farms, enterprises in forward and backward-linked sectors and handicrafts and services in rural regions depends on the interactions between the units. These networks between the enterprises and the households leads to a **strengthening of local and regional economic cycles**. The structure of the production is based on the **demand** supplied by the enterprises or the households. As a result of the creation of employment or income opportunities, the households have sufficient purchasing power and the demand for end products is stimulated. These local and regional economic cycles can then be integrated partially in cycles at the national or higher levels, even at the level of the world market perhaps. This reduces the vulnerability of the economic system through globalisation (MANIG, 1985, p. 145 ff.). The necessary intensive, functional, horizontal and vertical networking plays a significant role in increasing the stability of the system.

2.3 Multi-employment

In the densely populated regions, a process has taken place in which the farms have become too small. The income earned in farming is too low to ensure all of the members of the households a sufficient basis to live on. Members of the households try, therefore, to find jobs outside agriculture. **Multi-employment and/or multiple income combinations** arise at the household level as a result (DHARMAWAN, 2000). The above-described agribusiness sector is predestined to create job opportunities in the rural areas. This reduces and disperses **risk** considerably. This has led to the concept of sustainable livelihood systems (SL) as a survival strategy employed by households (cf. ELLIS, 1999). The multi-employment structure also complies with the **seasonal fluctuations** in the demand for labour in agriculture. During those periods in which there is little demand for labour in the agricultural sector, it is possible to take up employment outside the farm (TAMPUBOLON, 1998).

3. Mellor's Employment Approach

John Mellor's 'employment-oriented development strategy' (MELLOR, 1976) can be regarded as a **decision-making and action strategy** for creating job opportunities in rural regions. In addition to actively creating job opportunities in the rural regions (e.g., specifically in the agribusiness sectors), the investments in expanding food production are of particular significance. Increasing the productivity in the production of cereals has in particular as **wage goods**' specific strategic significance for keeping the living expenses of the bulk of the population (and, thus, the wages) low.

4. Policy Implications

The most important **development policy decision** is the decision to promote the active creation of employment within the scope of agribusiness. Traditional development approaches are naturally not invalid as a result; however, a few key issues may possibly change. The active promotion of job-opportunity generation calls, however, for a change in **development-policy philosophy** because the approaches to date supported activities in already existing production units in the specific sectors, i.e., productivity and production increases. The promotion of the creation of new enterprises or the establishment of new jobs was only a desired side-effect. An appropriate development policy is, in addition, particularly decentralized and participative and takes the local and regional specific conditions and factors and capacities into consideration.

At this point, I would like to advocate the active promotion of the establishment of **new enterprises in the agribusiness sector** and the direct creation of job opportunities as part of the economic development policy. The approach and the development philosophy behind it is, thus, different from the policies to date, whether they were growth, equity or institution or otherwise oriented.

An important element of this new policy would also be the **promotion of economic networks** because agribusiness is based on the **inter-sector and inter-enterprise exchange** of goods, services and information. In other words, the necessary market integration can only be achieved by means of exchange networks such as marketing, transport and the general communications infrastructure.

Literatur

- Ananda, C.F.** (1998), Linkages of Agriculture to Small-Scale Up and Downstream Enterprises in South-Kalimantan, Indonesia: An Explorative Study. Goettingen/Germany (Cuvillier Verl.).
- Dharmawan, A.H.** (2000), Farm Household Livelihood Strategies and Socio-economic Changes in Rural Indonesia: A Comparative Study. (Doctoral Diss. University Goettingen).
- Dirks, J.** (2000), Einflüsse auf die Beschäftigung in nahrungsmittelverarbeitenden ländlichen Kleinindustrien in West-Java/Indonesien. (Discussion Papers, No. 32, Institute of Rural Development, University of Goettingen), Goettingen.
- Ellis, F.** (1999), Rural Livelihood Diversity in Developing Countries: Evidence and Policy Implications. (ODI, Natural Resource Perspectives, No. 40), London.
- ILO** (1995), World Employment 1995. An ILO Report. Geneva.
- Jazairy, I., Alamgir, M., and Panuccio, T.** (1992), The State of World Rural Poverty. An Inquiry into Its Causes and Consequences. (IFAD), London (IT Publ.).
- Khan, M.H.** (2000), Rural Poverty in Developing Countries. 'Finance and Development', Vol. 37, No. 4 (Dec. 2000), pp. 26-29.
- Lustig, N., and Stern, N.** (2000), Broadening the Agenda for Poverty Reduction. Opportunity, Empowerment, Security. 'Finance and Development', Vol. 37, No. 4 (Dec. 2000), pp. 3-7.
- Manig, W.** (1985), Integrierte Rurale Entwicklung. Konzept und Versuch einer Operationalisierung komplexer Entwicklungsansätze. Kiel (Vauk Verlag).
- Manig, W.** (ed.) (1999), Changes in Rural Employment and Income Structures: Examples from Indonesia and Costa Rica. (Discussion Papers, No. 30, Institute of Rural Development, University of Goettingen), Goettingen.
- Manning, C.** (1998), Indonesian Labour in Transition. An East-Asian Success Story? Cambridge (Univ. Press).
- Mellor, J.W.** (1976), The New Economics of Growth. A Strategy for India and the Developing World. Ithaca and London (Cornell Univ. Press).

- Peters, G. H., and Braun, J. von** (eds.) (1999), Food Security, Diversification and Resource Management: Refocusing the Role of Agriculture? (Proceedings, 23. Intern. Conf. of Agricultural Economists), Ashgate (IAAE, Univ. of Oxford).
- Rodrik, D.** (2000), Growth Versus Poverty Reduction. A Hollow Debate. 'Finance and Development', Vol. 37, No. 4 (Dec. 2000), pp. 8-9.
- Tampubolon, J.** (1998), Interaktionen zwischen Mehrfachbeschäftigung und betrieblicher Organisation der Landwirtschaft in kleinbäuerlichen Haushalten in Nord-Sumatra, Indonesien. Goettingen/Germany (Curvillier Verl.).
- Valdes, A.** (1999), Labour in Agriculture. Diversification of the Rural Economy, Rural Non-Farm Employment, Urbanization and Migration Challenges. In: **Peters, G.H. and Braun, J. von** (eds.), pp. 543-546.
- World Bank** (2000), World Development Report 1999/2000: Entering the 21st Century. Washington, D.C.
- World Bank** (2001), World Development Report 2000/2001: Attacking Poverty. Washington, D.C.
- Zaini, A.** (2000), Rural Development, Employment, Income and Poverty in Lombok, Indonesia. An Impact Evaluation Study. PhD-Diss. Goettingen Univ.