

INCOME DISTRIBUTION AND EMPLOYMENTA note on some issues raised by the Colombia Report

by Dudley Seers \*

Last November, David Morse, the Director-General of the ILO, asked me to lead a team to visit Colombia in January to recommend an employment policy, with the help of personnel and finance provided by a dozen international agencies. This invitation was prompted by the desire of the Colombian President, Carlos Lleras Restrepo, that a study of Colombia should be carried out before he was succeeded in August.

The study was to be a pilot project under the ILO's World Employment Programme, so one of our aims was to produce an analysis and recommendations which, while of course not directly transferable to the many other countries facing severe unemployment problems, would be of interest and use to them. Although the industrial countries maintained a fairly fast growth rate for the whole of the 1960's and international trade was booming, signs of a second world depression have begun to appear: in much of the world, unemployment is already more serious than in the 1930's. In these circumstances, the growth of employment has to be a more important target than growth of income (though the two are of course linked), and our report shows what shape a development plan takes when employment is made the main objective.

The programme for Colombia produced by the team<sup>1</sup> ranges over many fields - population, land reform, agriculture, internal

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<sup>1</sup> "Towards Full Employment: A Programme for Colombia prepared by an inter-agency team organised by the ILO" (ILO, Geneva, 1970) - a Spanish edition is also available. The participating agencies besides the ILO were IDB, IBRD, ECE, ECLA, FAO, OAS, UNCTAD, UNESCO, UNIDO, UNCTC and WHO. Members of the mission were given a completely free hand by the ILO and other agencies, and the report is in fact a remarkable example of how international agencies can cooperate. There was one very important constraint: the President wanted the report at the end of May. The World Employment Programme is the responsibility of the Organisation's Deputy Director-General, Dr. Abbas Ammar. Institute staff taking part apart from myself were Emanuel de Kadt and Richard Jolly. Hans Singer is a consultant to the World Employment Programme and there are prospects of the Institute undertaking research in support of the Programme.

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migration, industry, construction, taxation, credit, wages, labour laws, education, training, health, import tariffs, exchange rates, etc. For each field we suggested policies that would be helpful in raising the level of employment, policies which, taken together, constitute a development strategy designed to take account of the priority the Colombian government attached to solving the problem of unemployment. The report ends by discussing the types of trade and aid policies which would be most constructive, and draws the implications for further research.

The reasons for the emergence of chronic unemployment on the present massive scale are too numerous and complex to discuss in detail here. The Colombia report brings out population growth and the transfer of inappropriate technologies as two major strands in the picture. But the central theme, to which the report returns again and again, is income distribution. Although data are incomplete and unreliable, income appears to be very highly concentrated in Colombia, even by Latin American standards, whether we consider it from the point of view of income size or from that of urban/rural contrasts.

Unemployment is itself a big element in the explanation of the shape of the income distribution. Not only does it deprive large numbers of people of income (including many who do not seek work because they think the search is hopeless and therefore do not appear in unemployment statistics), it also depresses wage levels and causes thousands of people to stay working on tiny farms or in small family businesses.

But the causal link works the other way too, because the distribution of income affects the pattern of demand. In the first place, the import content of the consumption of the rich is high. It is true that imports of finished consumer goods are now severely limited (though contraband trade is not negligible). But there is a big import element in the local production (often just assembly) of consumer goods, especially for electrical appliances; to this, one should add foreign exchange flowing out in the forms of patent royalties and profit remittances. Expenditure by Colombian tourists abroad, is also considerable - more in fact than the total of all purchases of imported consumer goods.<sup>1</sup> These various leakages considerably decrease the local

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<sup>1</sup> Tourism is also one of the main sources of contraband.

demand for labour; from another point of view, they help to explain the inadequacy of foreign exchange to cover all the capital goods and materials needed for the fast expansion of employment. Moreover, in as far as consumer expenditure does create demand for local resources, it is often for goods requiring capital, or types of professional and skilled labour which are in short supply.<sup>1</sup>

As a very broad generalisation, Colombia could not produce the goods and services which would be demanded at a high level of employment, given the present income distribution.<sup>2</sup> The roots of this income distribution lie in the extremely concentrated ownership of property, especially of land. Inequalities are aggravated by monopolistic features of the modern sector, which is heavily protected against foreign competition, and by the limited access to secondary and higher education.

While policies in many fields can help reduce unemployment (especially policies which remove the biases towards capital-intensive techniques), a real solution can only lie in removing the roots of inequality - by land reform (provided the land is not bought for cash, especially at inflated prices), by educational expansion, by control of monopoly, and by higher and more "progressive" taxation. The very fact that unemployment and inequality are mutually reinforcing implies that a cumulative reduction in them both can be induced by government action, provided it is vigorous and determined.

What constellation of political forces is going to produce large shifts in income distribution? I want to discuss this question in general terms, not as a specifically Colombian issue.<sup>3</sup>

<sup>1</sup> What is more, scarce administrative resources are absorbed in operating controls that attempt to prevent the conversion of high incomes into foreign exchange.

<sup>2</sup> Income distribution also of course has implications for savings and incentives, but on the evidence of the report these seem to be second-order effects (contrary to the implications of most theoretical writing on this subject).

<sup>3</sup> The Colombian programme has been adopted by both President Lleras and his successor President Pastrana.

In "developing" countries, political power is closely related to income; neither the unemployed, nor unskilled labourers, nor small farmers have much influence on policy despite their numbers. The political power structure, which reflects the income distribution, at the same time prevents it being changed.

In such a situation could a government put through a far-reaching social reform without losing office? Could the administrative machine in fact carry out genuinely redistributive policies? Is there indeed much use writing reports on employment problems when the obstacles to changing the distribution of income are so formidable? Might a report proposing it even be counter-productive by enabling a government to endorse a glamorous programme as a substitute for genuine action?

These are not just the sort of issues raised by disaffected students. They are very real questions which must worry anyone who is asked to advise on a central issue of development such as employment. They are especially bothersome for a foreigner; he is bound to find it hard to assess the constraints on policy, or predict the total effects of alternative policies.<sup>1</sup> These issues are in fact so complex, and at the same time so important, that those working in the field of development studies are tempted to look for ways of avoiding having to consider them.

There are two lines of escape which are more or less respectable - academically at least. One is to stick firmly to economics and to refuse involvement in discussion of social and political problems - in its most extreme form, to prepare purely econometric models as a substitute for a development plan. But the issue is precisely what social and political changes should be induced and how. Inconvenient though it may be for economists (and for that matter, for aid administrators) working on the problems of Latin America, such changes are now inescapably on the agenda for discussion. The attempt to stick to one's last means in practice making unspecified assumptions about what is politically feasible - usually that nothing far-reaching can be done. It also involves making (probably tacit) value judgements -

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<sup>1</sup> This raises issues which I discussed in a paper called "Why Visiting Economists Fail", Journal of Political Economy, August 1962.

for example that the relief of the poverty of the unemployed has a relatively small priority compared to the income growth of the rest of the community, a preference which lies at the root of making 'growth' the yardstick for progress.

The other way of escaping from the anxieties of policy choices is to claim that the situation is so bad that there is no cure except revolution. Then one need not consider any lesser step. In fact reform would actually be dangerous: the logic of this position implies the familiar paradox that any improvement in distribution actually makes matters worse by delaying the day of "real" change. I imagine that most of us know people who use this as a justification for sitting comfortably on the sidelines, talking and teaching about development problems, but remote from any practical activity. They may indeed, by a different route, come to devote their time to teaching, and carrying out research, on unidisciplinary models.<sup>1</sup>

Those who choose this line of escape - like those who choose the other - are taking on a responsibility that must appear very great indeed to anyone aware of social realities - the slum of Fatima in Cali, to take a Colombian example, where the "streets" are open sewers. So long as there is some possibility of alleviating such social problems in the near future, it is surely at least worth exploring - especially in view of the known cost and unknown outcome of revolutions.

Of course it is intellectually possible to deny the need to examine any step that stops short of revolution, if one is prepared to argue not merely that the present situation is highly unjust but also that a thoroughgoing social revolution is inevitable. This argument, however, has lost a good deal of its intellectual appeal since its original version, designed as a guide for political action in Western Europe, has failed to pass the test of history. Admittedly, the necessary peaceful transformation is harder in Latin America, because of its historical 'lateness' in industrialisation, and the gigantic task it faces of having to change its external relations at the same time as

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<sup>1</sup> The requirements of an academic career, particularly the need to organise material in a way suitable for teaching, encourage the use of unidisciplinary models.

achieving internal reforms. Still, the hopes of social revolution have been often enough frustrated there too.<sup>1</sup>

It seems not impossible that if a government starts, however gingerly, on the road that changes distribution and raises employment, it will itself create new demands for continuing in the same direction - perhaps even further and faster than it would have wished. A Government which rejects basic change may find itself replaced (as in Peru) by an administration which, for whatever reasons, accepts it. Here again the very existence of a vicious circle, in this case with political inequality supporting economic inequality, and vice versa, creates possibilities of self-reinforcing improvement.

With these considerations in mind, let us return to the question of whether the distribution of income can be influenced by a report advocating reforms. Whatever its formal status, the normal expectation is that a report of this kind will be made public, and published documents can help in achieving a change of approach, just as Royal Commission reports have so often done in Britain - the Poor Law report being only one conspicuous example. Where such reports have not been implemented by the government of the day they have suggested alternative strategies to the opposition - who subsequently took office, and in the meantime used them to exert pressure on the government.<sup>2</sup>

One important, longer-term, way of influencing policy, especially in Latin America, is through changing the approach in the universities to development problems, notably by inducing changes in syllabuses. As will be evident from the very brief summary of the Colombia report which has been given above, the

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<sup>1</sup> The main exception is Cuba, where the degree of economic dependence on the United States created somewhat special circumstances - made perhaps even more 'special' by the extraordinary clumsiness of U.S. policy.

<sup>2</sup> Indeed even convinced but practical revolutionaries have found reformist reports useful as a means of mobilising support for more limited objectives.

categories of analysis which we used are quite different from those of Keynesian economics. If the report does nothing else, it ought to make the teaching of Keynesian economics in Colombian universities almost impossible, except in courses on the history of economic thought. It should also reduce the use of textbooks based, even in part, on models devised for industrial countries. But the report's function is not just destructive; those who are looking for an alternative framework of analysis will find one there, even though it is rudimentary. And a change in the approach of university teachers and students can and does eventually spread beyond the academic world.

Therefore, unless one is working for a government which is determined to prevent the redistribution of income (and would one want to work for such a government?), it seems worth discussing the distributional implications of an employment strategy.