The growth of the labor surplus problem in most countries of the Third World has been declared a crisis by many international economists as well as the political leaders and economic planners in the countries affected. Labor surplus is the non-utilization of manpower resources or simply the difference between those who desire productive employment and the availability of jobs. The rising magnitude of this problem is evidenced by growing unemployment in urban areas and the continued prevalence of underemployment in rural areas. While the 'underemployed' may actually participate in some agricultural or petty service activity, their contribution to production is thought to be negligible if not zero. It has been suggested that 25-30% of the labor potential in developing countries is being wasted (Morse, 1970).

Background

Much of the interest in this topic has been stimulated by the potential threat to political stability. It is feared that the rising number of recent urban migrants who cannot find jobs will turn into an angry mob which might endanger the fragile status quo in many countries. These fears are often expressed in various degrees by incumbent political elites as well as by social scientists. The available evidence seems to indicate that these fears have little foundation in reality. (Nelson, 1969). However, there are other reasons why the present situation can be considered a crisis to neutral observers who seek improvements in living standards, yet have no vested interest in the maintenance of existing political regimes. First of all, the present situation is a waste of resources for development. Human labor in both its physical and mental aspects is the most basic resource of any society. While there may be a shortage of capital or other resources which prevent the optimal utilization of labor, there are always
numerous tasks in every society for which more allocation of manpower is needed. Another consequence of the labor surplus situation is the poverty of those who cannot find work. The general result of lack of employment is lack of income. This tragedy, idle men and the associated poverty, is evident to any casual observer who walks the streets of the major cities of Asia, Africa, or Latin America.

While awareness of the current problem is growing, the understanding of its causes as well as the analysis of policies to deal with it, is still enveloped in a cloud of confusing rhetoric and theoretical under-development. Part of the problem has been the fixation of traditional economics on rising national product as the only criteria of economic development. Only recently have there been suggestions that social welfare measures (including full employment) be considered as integral in the economic development process (Seers, 1969). Perhaps the realization that problems of poverty, the deterioration of the cities, and social inequality have not been alleviated by substantial economic growth in the United States and other Western countries, have led social scientists to reconsider their earlier faith in simple economic growth as the solution to the problems of underdevelopment. This paper will review some of the conventional wisdom regarding the causes of and the remedies for the labor surplus problem. Many of these theories or hypotheses contain elements of truth and often insightful observations. However, these observations are not linked together with the dominant social-economic reality in many developing countries, the direct and indirect influence of international capitalism from the "developed countries."

Alternative Explanations: The Population Crisis

Let us now review the contemporary thinking about the labor surplus, then reconsider some neglected issues. The most recent explanation for the labor surplus problem comes from the "population explosionists." Their explanation — too high fertility. Since this is also their explanation for every social problem known to mankind, we are not too surprised. While it is true that recent declines in infant mortality have resulted in successively larger birth cohort in most underdeveloped countries, this is only part of the total picture. There has generally been rapid population
growth from natural increase as a correlate of modern economic growth (Kuznets, 1966). For example, the extremely high fertility of eighteenth and early nineteenth century America did not result in large scale unemployment. To put the matter simply, equilibrium in the job market depends not only on the supply of labor, but also on the demand for labor. Those who argue that high fertility is the cause of rising unemployment are assuming that other societal factors affecting the absorption of labor are constant or unalterable. From a policy viewpoint, this perspective is weakened by the fact that any lowering of the birth rate would only have an impact on labor supply in fifteen to twenty years. Given the uncertainties of policies which are supposed to reduce fertility, it seems doubtful that efforts in this direction would be helpful in alleviating the current crisis.

The Traditional Economics Perspective

The traditional economics perspective is somewhat more sophisticated as it considers both aspects of supply and demand for labor. Generally, economists assumed that rising national income would generate enough jobs in developing countries. More specifically, it is thought that the occupational structure is transformed from a rural agricultural basis to an urban industrial one as a consequence of increasing capital investment and economic growth (Lewis, 1954; Clark, 1960). This sort of model implies that as the economy changes, its basic structure from agriculture to industry, new employment opportunities will be created in the growing modern sector to absorb workers leaving the traditional sector as well as the growing labor force. However, this model has not been able to account for empirical trends occurring in developing countries. In many countries with satisfactory rates of economic growth, not only is the present labor surplus not being absorbed into productive employment, but the ranks of the unemployed are growing (Harbison, 1967). As a result, economists have been forced to reconsider their earlier thinking and come up with new explanations and policies. These have been addressed two aspects: (1) the increase in rural to urban migration, and (2) the lack of labor absorption in modern industries.
Rural to urban migration has been prevalent ever since the rise of cities. However, the magnitude of this flow in underdeveloped countries is probably greater than was the case during the course of development in the presently "economically advanced countries." Economists usually argue that this is due to wage differentials (Todaro, 1968). Because of higher incomes of urban workers, persons are "pulled" from rural areas to the cities. Another argument sometimes advanced is that the "bright lights" of the cities attract rural youth who desire more recreational activities than are available in the traditional village. This is thought to be stimulated by the expansion of schooling in rural areas which has resulted in higher aspirations of rural youth who are no longer satisfied by agricultural work. While these "pull" factors are probably present, there are often "push" factors which force people out of the rural sector no matter what the employment opportunities are like in the cities. Many rural peasants are landless and live a very precarious existence depending on the nature of the landlord. This is coupled with a generally declining terms of trade for most agricultural products with the urban market and also in the international market. The result is severe economic pressure on most peasant farmers just to remain alive, let alone put aside money for the education of their children or buy fertilizers for the next season. It is not surprising that many of the children of these peasant farmers take their chances in the cities no matter how bleak the opportunities there. Some economists have suggested policies of raising rural incomes, bringing movies and other entertainment to the villages, and land reform in efforts to persuade the rural peasantry to stay where they are. While these programs may have short-run effect, it is doubtful that they will be able to do more than slow down rural to urban migration. All modernized nations have become urban industrial ones in the process. This is due to the economic facts of life - there is generally higher productivity in industry than in agriculture, and there is almost unlimited demand for manufactured goods as opposed to the real limits of domestic demand for agricultural goods.

The conclusion of this discussion on rural-urban migration affecting the over supply of labor in urban areas is that while various policies might slow down this movement, the reality is that most future employment opportunities must be found in the towns and cities. Not all of these jobs will be in the manufacturing industry, but also in the many services needed to make urban life possible. The question of new employment creation, therefore, revolves around the nature of the industrialization and urbanization that occurs.

The other current explanation to account for the labor
surplus problem is that modern industrialization does not really create very many jobs. Because of both the composition of products produced and the mode of technology, the number of employment opportunities is much less than the number of job seekers. According to this perspective, modern industrialization offers very little choice in terms of labor-capital ratio, because modern technology is very capital intensive.

This perspective was summed up:

"In many respects, the technology of a hundred years ago would be desirable for them (underdeveloped countries) and would make their development easier. But that technology has been scrapped and rightly scrapped in the industrialized countries, and the technology of the industrialized countries is the only existing technology." (Singer, 1969).

After considering the situation, economists and other policy makers have suggested several alternatives such as expansion of public employment, especially military forces, doing more research into labor-intensive technology, and developing capital goods industries.

While some of these policies might be profitably employed depending on the circumstances, it is necessary to understand the series of structural changes which have led to the present situation. Why hasn't there been more interest in developing labor-intensive techniques for industry in the developing countries? Why don't employers take advantage of the large supplies of excess labor? In order to understand these anomalies, let us review the changing institutional framework of job creation.

The Social Context of Job Creation

Historically, in subsistence economies, most jobs were created by individuals who worked in order to survive. With a little land or simple tools, a man could become a farmer or craftsman and produce enough food and other necessities to support himself and his dependents. While there may have been occasional underemployment, all persons who had economic needs could create their own jobs, and the concept of labor surplus was probably rather meaningless. Gradually, as open land disappeared, and production became more specialized, it became impossible for many individuals to create their own jobs. In most of the present day world, including underdeveloped countries, it takes resources, including capital and technology to create jobs. As a result, in the present world, most jobs
are created by organizations which have the necessary resources. This evolutionary trend is evident in most time-series statistics on "employment status" which show a decline in "own account workers" and "unpaid family workers" and a rise in "wage and salary employees." This fundamental change is crucial in determining the availability of jobs. In a subsistence economy all those who have economic needs can create their own jobs, while in present day societies, most jobs are created by organizations for whom employment creation is not their primary objective. Jobs are created by such organizations only because labor is a necessary ingredient in the attainment of their organizational goals of profit making, economic expansion, or some other objective.

This digression has served to make a rather simple point, because the bulk of the job creation is done by organizations which are not necessarily responsive to the economic needs or hardships of individuals, there is no reason to believe that labor demand will be equal to labor supply in any contemporary capitalist society - developed or underdeveloped.

The social context in which employers make decisions relating to using various factors of production, especially labor is of utmost importance. Thus, the fact that modern industry in underdeveloped countries is capital intensive, and unalterably so, needs to be understood in terms of the social context, especially the influence from the already industrialized countries. Traditional economic theory would suggest that labor absorption is a function of supply and demand in the marketplace. Thus, the aggregate demand for goods and services will determine the production objectives in a society. Industrial entrepreneurs and managers then consider the relative availability of cost of the factors of production, including labor, and combine them in the most profitable manner in order to produce the goods and services which are demanded. This seems to be a reasonable explanation, and it probably describes the industrialization process as it occurred in most western countries. Since technology was underdeveloped during this earlier period, the basic factors of production were probably just labor and raw materials. As markets increased, so did the demand for labor. Gradually, the inputs of science in the form of new technology were applied to the production process. While this lessened the demand for labor in industry as development proceeded, there were increasing employment opportunities made available by the expansion of other sectors of the economy.

Factors Inhibiting Economic Development and Employment Expansion in Less-Developed Countries

The social context in the present day underdeveloped
countries is quite different. Not only is industrial technology brought in from the outside, independently of the course of indigenous development, but there is only minimal competition in modern sector industries. Although there were traditional industries in these countries, most of these have disappeared or stand in a state of arrested development because of the stronger competition from industries in the developed countries. During the Colonial era which is almost universal history for the underdeveloped world, manufactured goods from the colonial powers were marketed in the colonies. Because of the advantages of technology and capital, these metropolitan industries were able to undercut local craftsman. Often in collusion with the colonial governments, the metropolitan industries carved up world markets and developed monopoly control. With the political independence of most of the countries of the Third World in the post World War II era, the situation changed. Most countries, anxious to encourage domestic industries, set up tariff walls affecting the imports of manufactured goods. But the metropolitan industries, along with many growing international corporations were anxious not to lose their profitable markets. So they set up foreign subsidiaries or branch plants in the former colonies to manufacture what had formerly been imported. While this seems to be an improvement over the colonial situation, the difference was actually rather superficial. The new industries in the developing countries continued to import capital goods, spare parts, as well as raw materials. Such industrialization did not create the backward and forward linkages, which are crucial to sustained economic development. For instance, in many of the automobile assembly plants being set up in the developing countries, each car arrives complete in a separate box. The local industry simply puts the car together with a screwdriver and a few other hand tools. It is obvious that such industrialization will not create very many employment opportunities. It is also difficult for these new industries to develop an export market, since the control is in outside hands, usually in international companies, who have divided up the world market, similar to the colonial era. Thus, any growth of these industries is limited to the domestic market.

While not all the industrialization in the Third World is owned and directed by international corporations, their influence is felt on locally owned industries as well. This might be because of a wish to emulate modernity from the West or simply because it is the most profitable way. Another factor which works in concert with foreign capital to encourage capital intensive and otherwise inappropriate industrialization is the public policies of the governments of both developed and less developed countries. The pattern of economic aid from the developed countries has encouraged the emphasis on capital intensive technology (Griffin and Enos, 1970). The governments of less developed countries have
subsidized the import of the most modern machinery with generous tax policies, including rapid depreciation allowances. The policies of the developed countries are understandable in terms of providing support for their international corporations as well as maintaining the existing arrangement of international dependencies. (See Magdoff, 1969 for discussion). However, the policies of less developed countries are more difficult to explain. Perhaps, they are following the advice of "economic advisors" from the developing countries. Another possible explanation is that local elites are given lucrative positions such as seats on Board of Directors of many international businesses in the domestic market. In this way, they legitimize and protect such businesses, yet play only token roles in formulating the policies. Such questions deserve more research in order to understand how foreign businesses gain entry to the local economy and then continue to pursue policies which are inimical to the full utilization of local manpower resources. Presently, our understanding is clouded by questionable statements which are accepted as fact. One of these is that because urban workers, through trade unions, have forced wages so high, that capital intensive industrialization is the only alternative left. Wages are only one cost in the production process, and it is likely that inefficient management, excessive salaries for managers, and surplus profits could more readily be adjusted in order to pursue alternative policies. Because of these factors, it is not necessary to prove that international firms own all industries in the developing countries, but rather that their large holdings influence the course of industrialization in the Third World.

Alternative Explanation of Slow Employment Growth

Perhaps, the two most important consequences of this foreign influence (both direct and indirect) on the slow employment growth via industrialization are the "product mix" and the "technology mix." The "product mix" is the composition of goods and services produced. In most developing countries, there is an overemphasis on producing high-cost consumer items rather than inexpensive manufactured goods for the mass market. This is true of modern sector industries, both foreign and indigenous, which produce middle class luxury goods such as automobiles, air conditioners, and other expensive goods. The motivation for such production is probably based upon the high profit margins on sales of expensive goods. However, the market for such goods is limited, because the majority of the people in developing countries are quite poor. The result is often industrialization with excess capacity, when the productive potential of a factory is much greater than the potential market. The conventional economics wisdom suggests that excess capacity is a problem of lack of aggregate demand in the society. Perhaps the demand is there, but not for the
luxury products which are being produced. Because international firms have both the background and relevant technology to produce such products, as well as the knowledge that such production has a high profit return, they would be most anxious to participate in the production of such products. The result of an over investment of capital and other scarce resources in industries producing luxury goods would probably be slower growth of industrialization and industrial employment than would be the case if the emphasis were on the production of inexpensive necessities for the mass market.

Closely related is the "technology mix" of choice of technology for industrial production. The prevalence of capital-intensive techniques has been noted in many traditional as well as most all modern industries in the underdeveloped world (Baer and Herve, 1968). Since labor is the surplus factor (often unemployment is quite high even among the highly educated) and capital is scarce in most underdeveloped countries, this practice seems contrary to the standard business practice of efficient utilization of available resources. This anomaly can be seen as the result of the penetration and influence of international capitalism from the developed countries in the economy. This is the technology with which foreign firms are familiar and perhaps corresponds to the relative availability of the factors of production in the developed countries. Since most of these industries are already making sizable profits, there is little incentive to set up research and development branches abroad in search of a more efficient technology. Besides, there are disadvantages to having a large labor force, such as potential labor unrest, which might outweigh any potential economic efficiency.

Thus, the statement that modern industrialization is capital-intensive and unalterable is a consequence of international capitalism's influence upon the growth of secondary industries in "Third World" countries. In order to create greater opportunities for employment, it will be necessary to alter the present structural links between the advanced capitalist countries and the path to industrialization in developing nations. Perhaps more emphasis on the development of indigenous technology which is relevant to local conditions and expansion of trade between underdeveloped countries themselves would be more advantageous than the flow of technology and investment from the developed countries. It is interesting to note the experience of China in this regard. China often relies on average factory workers to adapt foreign machinery, and even to construct new machinery which is relevant to the conditions of production in China. From the journalistic evidence available (Unger, 1971), it seems that the result has been the full utilization of the labor force as well as a rapidly growing industrial sector.
In summary, I argue that simple generalizations like: too high fertility, too rapid rural to urban migration, or modern industrialization is too capital-intensive, are inadequate explanations to the present labor surplus crisis in most underdeveloped countries. A more thorough analysis based upon the influences of international linkages upon the creation of technology and the social organization of production is necessary. From the hypotheses presented in this paper, it is suggested that these influences are detrimental to the goal of efficient utilization of manpower and full employment.
REFERENCES


