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## [Review of the book *Employment and Development: A New Review of Evidence*, by David Turnham]

### Abstract

[Excerpt] I first encountered David Turnham's work after majoring in labor economics in undergraduate and graduate school and spending a year in Nairobi studying and modeling the labor market there. The atmosphere in Kenya was crackling with intellectual excitement: John Harris and Michael Todaro had just showed how the solution to urban unemployment might be rural development, George Johnson had demonstrated that earnings function analysis 'worked' despite doubts about the quality of developing country data and the applicability of developed country concepts, Dharam Ghai was developing the basic human needs approach to development, and Joe Stiglitz was formulating efficiency wage theory. At that time, we suspected, but did not know, whether the empirical patterns and analytical approaches for Kenya fit the conditions in other developing countries.

Turnham's 1971 book *The Employment Problem in Less Developed Countries: A Review of Evidence* (OECD, Paris, 1971) gave us the answer. Kenya looked very much like other developing countries, which in turn looked like the developed countries in some respects but not in others. The empirical evidence presented by Turnham served as an invaluable source on developing countries' labor markets, and the characterization of the problem as an employment problem countered those who saw the matter in terms of unemployment. That book is now known as a classic statement of where we were intellectually and what we knew empirically at that time.

Turnham has now written a new review of the evidence. This new book shows promise of achieving the same respected position in the literature on labor markets in developing economies as his earlier book did. As an entree into the empirical literature, the book is unmatched. Readers ranging from development specialists to bright undergraduates will find much to learn from it.

### Keywords

development, employment, labor market

### Disciplines

Growth and Development | Labor Economics | Labor Relations

### Comments

#### Required Publisher Statement

© Elsevier. Final version published as: Fields, G. S. (1995). [Review of the book *Employment and development: A new review of evidence*, by D. Turnham]. *Journal of Development Economics*, 47(2), 497-504.

doi: 10.1016/0304-3878(95)90021-7

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### Suggested Citation

Fields, G. S. (1995). [Review of the book *Employment and development: A new review of evidence*, by D. Turnham] [Electronic version]. Retrieved [insert date], from Cornell University, ILR School site:

<http://digitalcommons.ilr.cornell.edu/articles/1163>

Review of *Employment and Development: A New Review of Evidence*,

by David Turnham

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*Journal of Development Economics* (1995), 47, 497-504

## 1. Introduction

I first encountered David Turnham's work after majoring in labor economics in undergraduate and graduate school and spending a year in Nairobi studying and modeling the labor market there. The atmosphere in Kenya was crackling with intellectual excitement: John Harris and Michael Todaro had just showed how the solution to urban unemployment might be rural development, George Johnson had demonstrated that earnings function analysis 'worked' despite doubts about the quality of developing country data and the applicability of developed country concepts, Dharam Ghai was developing the basic human needs approach to development, and Joe Stiglitz was formulating efficiency wage theory. At that time, we suspected, but did not know, whether the empirical patterns and analytical approaches for Kenya fit the conditions in other developing countries.

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The book is divided into two halves. The first three chapters review the evolution of labor force, employment, and unemployment in the developing countries in the last twenty or so years, while the second three chapters deal with employment strategies and policies. I take these up in turn.

## **2. The evolution of labor market conditions**

A central concern is to clarify what it is that we mean by the employment problem in the developing countries. Turnham states cogently that the problem is ‘the dearth of new job opportunities’, to which I would add ‘which pay a suitably-high wage’. He is correct in arguing that the employment problem is broader than the unemployment problem, a point he made also in his 1971 book. He is also correct in now seeing the employment problem as different from the poverty problem; this is unlike his 1971 book, in which he said that “a practical yardstick of [the] employment situation is then the percentage of the low paid workers in the total”, thus effectively equating ‘underemployment’ with ‘working poor’. These are important ideas. It is unfortunate that this discussion is placed at the end of a chapter on ‘The Expanding Labour Force: A Continuing Challenge’, where it may be overlooked.

Some issues regarding the labor force have changed little over the last two decades. For instance, population continues to grow faster than modern sector employment and labor force participation rates (measured in the usual way) continue to be much lower for women than for men. But we also see some different issues. Cross sectional evidence is presented showing that

female labor force participation rates exhibit a U-shaped relationship with national income—that is, women work in the paid labor force at higher rates in the richest countries than they do in the less rich ones. We also find here in the new book a weighing of the advantages and disadvantages of a fast-growing labor force and dismissal of the ‘revisionist’ position.

Chapter 2 addresses the question of ‘Unemployment in Developing Countries’. We see here how much the thinking on this has changed. Turnham reminds us that in 1968, Gunnar Myrdal dismissed South Asian unemployment as a “luxury [which] few save the better-off members of the population of working age can afford”. Turnham himself thought this way: in his 1971 book, he characterized the unemployment problem as one arising from well-educated new entrants to the labor force searching for the ‘right’ job with the financial support of their families, a process which he characterized as “perfectly rational... in the hope of later ‘pay off’”. Indeed, in the late 1960s and early 1970s, job search theory revolutionized economists’ understanding of the unemployment problem. Turnham informs us that what emerged by the end of the 1970s was a consensus around four propositions: “(a) the poor could not afford to become unemployed; (b) labour markets are sufficiently open and flexible for work to be found; (c) labor markets were segmented so there were favoured jobs to justify lengthy employment searches on the part of new entrants and other unemployed (who could not, however, compete with employed workers to reduce or eliminate the favourable differentials); and (d) most unemployment could be interpreted as a reflection of a search for jobs in these favoured sectors”.

This earlier consensus, he now tells us, was wrong for several reasons. Even the poor can and do receive family support. Not enough jobs are available for all who want them. Voluntary job search is likely to be done while employed rather than while unemployed. Hiring is often through particularistic channels. The problem of educated unemployment is really a problem of

youth unemployment, reflecting “a severe mismatch between the size of the entry cohort of young people on one side and the limited offer of new entry level positions in the labour market on the other”.

Turnham is right that the job search explanation for unemployment in developing countries goes too far. While I am sympathetic to many of his arguments, I am also very much aware that the empirical evidence in support of them is very meager at present. One also sees how far we are from having a comprehensive analytical framework for thinking about the employment problem—a point to which I return below.

Chapter 3 turns to the structure of employment. (The chapter title, ‘Labour Absorption in the 1970s and 1980s’, is an infelicitous choice: it makes me think of labor as a surplus to be sucked up and not as a valuable human resource to be employed more fully, both to make better use of people’s productive potentials and to improve their life chances.) This chapter covers a great deal of ground, ranging over structural transformation, sector-by-sector analyses, and the role of human resource development.

Turnham finds it useful (as I do) to analyze the workings of a small number of labor market sectors (sometimes called ‘segments’) and the interrelationships among them. He distinguishes formal employment in the public and private sectors, the urban informal sector, rural farm activities, and rural off-farm employment. Implicit in this approach is a rejection of two other approaches to labor market analysis: on the one hand, a formulation of competitive labor markets in which a single uniform wage prevails (a characterization all too common in many development models, especially trade models and CGE’s), and on the other hand, a formulation of the labor market as a continuum (used, for instance, in many micro models of equilibrium wage distributions and optimal job search).

Turnham analyzes the urban informal sector in this chapter but leaves the definition of it somewhat vague. Is the informal sector ‘small’ as PREALC operationalizes the term or is it ‘unregulated’? Are we correct in thinking that entry into the sector is free in the sense that within a very short time, even individuals with very little financial and human capital can find a way of earning some cash? Is it a single sector at all, or do qualitatively distinct activities fall within this general rubric? These are not easy issues, but I think we have better answers to them than he has given us here. Let me say, though, that the term Turnham has introduced—‘survival self-employment’—is a lovely one (though what it connotes is not), and I plan to use it from now on.

This chapter concentrates on the *fact* of employment and deals only briefly with the *returns* to employment. In a brief section on the structure of earnings, Turnham presents evidence showing that the private and social returns to primary education are high and that education raises workers’ productivity on farms and in microenterprises. As for changes in earnings, we find little information, and what there is is characterized by a certain amount of schizophrenia on the use of data. Turnham places little credence in research on the Kuznets curve “in view of the paucity and poor quality of the data”, and yet on the very next page he reports ‘guess-timates’ to the effect that real rural earnings fell by about 15% in sub-Saharan Africa. I should think we know more about the former and less about the latter than he leads us to believe.

### 3. Employment policy

Turnham devotes a much larger share of his 1993 book to employment policy than he did in his 1971 book. Chapter 4 reviews several ‘comprehensive’ strategies and policies including those of the OECD, the ILO, the socialist development model, the agricultural development model, and the basic human needs approach. Chapter 5 considers instead a number of ‘piecemeal approaches’. Despite the somewhat pejorative title, this chapter offers a number of worthwhile suggestions in such areas as poverty-focused lending, rural development, public works programs, microenterprise development, and investments in human resources. Chapter 6 briefly summarizes the policies recommended to promote labor-intensive growth.

It is here in the policy chapters that the contrast between Turnham’s current and previous thinking is most pronounced. In his 1971 book, he reached two principal policy conclusions:

(1) “Fast growth may be a necessary condition for development but that it is not a sufficient condition is becoming increasingly clear”.

(2) “Perhaps the main point emerging from the foregoing discussion is the prime importance of agricultural development for improved employment prospects”.

I recollect being strongly influenced by these conclusions at the time. From the first of these, I concluded that it was essential to look into the question of who benefited how much from economic growth and why, and I embarked upon a research program (still ongoing) on poverty, inequality, and development. As for the second of these conclusions, I was dubious. I recall thinking that while agricultural development might be the right solution in some cases, in other cases, the right thing to do might be to speed up the process by which people could move out of agriculture—that is, to look for *intersectoral* solutions to development.

It is striking to see how Turnham has revised his views. In contrast to conclusion (1) above, he now states: “sustained growth at 8 to 9 per cent... may be the *only* effective and sustainable way in which employment objectives can be attained...” (emphasis added). As for conclusion (2), he now writes: “The challenge of high employment growth must increasingly be met in the *urban* areas...” (emphasis added). However, based on a thorough and thoughtful review of the ILO’s employment missions to five developing countries in the 1970s, Turnham calls also for “much more emphasis on the exploitation of agricultural opportunities and... a greater role for small-scale industry and various services, including public services in health, education and governance. With more emphasis on agriculture and rural development there would be more non-farm and small-enterprise growth in the rural areas themselves”.

Why the differences? For one thing, new knowledge. In the intervening years, we have learned from studies of Hong Kong, Singapore, Taiwan, and South Korea that rapid economic growth worked for the employment problem, that export-oriented growth did not require labor market suppression, and that those who feared that growth would make the poor poorer were just plain wrong. This is not to say that rapid economic growth would necessarily suffice for all groups under all conditions (for instance, if the growth is based on minerals rather than labor-using manufactured products, or if those in power are able to conspire to divert a large fraction of the gains to themselves), but rather that we now have a strong presumption that the countries that succeed in producing for world markets will also succeed in improving employment conditions for the great majority of their people.

As for the second of Turnham’s 1971 conclusions, we now know that what he calls the “search for investment bargains” by “supplying the missing element needed for rapid development” can lead anywhere—not only to credit for fertilizer and spending to irrigate farms

but also to credit for urban microenterprises and spending on urban public works. We also recognize better today the importance of non-agricultural rural activities, in particular, rural off-farm employment.

A final way in which the new book differs from the old is the attention that is now given to the politics of reform. Turnham stresses the “strength and tenacity of entrenched interests” and the “opposition to reforms [which] usually stems from an alliance of powerful stakeholders in society such as old-style politicians and bureaucrats, the army, and those gaining their livelihood in the protected industries”. He observes: “From past experience, one should not be too sanguine about the prospects for a new wave of employment-motivated reforms in development policy in the 1990s”. His concluding words (p. 253), though, are optimistic: “Opportunities cannot forever be denied when it becomes patently obvious to everyone from the remotest village to the capital city that the deprivations they experience are exceptional and—by the standards of large parts of the rest of the world—unnecessary”. I wish I could be as hopeful.

#### **4. What lies ahead**

I wish to conclude with two observations, one about analysis and one about policy.

On the analytic side, I was struck by what was *not* in this book: any integrated modeling of labor markets and development. This is not only because the book is meant to be a new review of *evidence*. It accurately reflects what is still largely missing in our field, namely, a workable model of how the various labor market pieces fit together in a dynamic context.

Models incorporating these elements can be built. Such models can and should be policy-relevant. Assuming that employment policy is focused on helping the disadvantaged in the labor

market, certain questions can be asked in different country contexts. What can be done to increase the demand for the labor of target groups? To increase their human capital? To provide them with the complementary inputs to raise their productivity in microenterprises and self-employment? To reduce barriers to employment arising in the labor market per se? While the answers will differ from one country to another, the criterion is everywhere the same: to intervene opportunistically using the available resources to make the most difference.

As Director of Research at the OECD Development Centre and head of their program on employment policies, David Turnham is ideally positioned to help bring about this kind of analysis. Our field needs it.