CONFLICT BETWEEN THE EFFICIENCY AND EQUITY GOALS OF MANPOWER POLICIES

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THE PROBLEM

The objectives of manpower policies are known to be the attainment of allocative efficiency, price and employment stabilization, and distributive equity in income and wealth. The question that then arises out of this statement of objectives is whether it is possible to attain optimal conditions for all of the stated goals simultaneously, or whether they are to exist in a trade-off wherein the goals are treated as competing ones.

THEORETICAL ASPECTS OF THE PROBLEM

Simultaneous attainment of the goals of manpower policies as summarized above is a study in institutional economics—the organization and management of resource allocation under a set of policy initiatives that help to set either optimal computable or optimal imputed (shadow) prices in a situation of externalities (positive or negative). This concept is referred to in the literature as a model of valuation in incomplete markets. In this institutional framework of resource management, one would consider the objective of maximizing social productivity of labor and capital as a more fundamental goal than output maximization (cost minimization) based on the neoclassical objective criterion of profit-maximization. In the institutional framework of resource management, the simultaneous attainment of the stated goals of efficiency and equity is the objective criterion. The objective criterion of social productivity maximization thereby takes the orientation of the theory of social balance and the social control of production. The index of factor productivity herein referred to must, therefore, be of a social mold. In this index, factors such as employment maximization, skill formation, income and wealth distribution, identification and production of socially acceptable projects, and a framework of decision-making based on social consensus formation surrounding the product and factor markets, would be the characterizing variables.

On the other hand, the neoclassical objective criterion of output (profit) maximization conceptually treats the issues of equity and efficiency as a trade-off. Consequently, any single-equation mathematical maximization function depending upon the variables of efficiency and equity would not yield optimal solutions for both. One could, however, consider instead simultaneous-equations functions in efficiency and equity variables that can then be estimated under separate sets of optimality conditions. The result of such estimation procedures would be indicative of the simultaneous attainment of the two goals. The methodology is now not workable in the neoclassical marginalist
paradigm. An extension has to be made.⁶

Returning now to the case of manpower policies in light of their stated goals and in the context of the methodological issues mentioned above, the use of the single-equation maximization objectives of classical optimization theory found to be steeped in neoclassical marginalist paradigm is to be abandoned. Pursuit of the neoclassical maximization principle here would only perpetuate a dynamic imbalanced situation—for example, between the government’s job creation program, a public sector goal; the government’s promotion of profitability in the private sector; and the national objective of price stabilization through expenditure controls. These goals, although they separately address the three issues of efficiency (profitability), price stabilization (expenditure controls), and distributive equity (employment), are not compatible with each other in the simultaneity sense.

Figure I shows that the single-equation maximization objective of the neoclassical school in human capital theory makes it dubious whether the final optimal production frontier for education would be at Point a or at Point b. Both of these points happen to be associated with incomplete price signals in the presence of positive externalities produced by human capital formation. Point a assumes that the externalities of manpower training are limited to pecuniary ones only. Hence, price signals can be imputed at this point on a well-defined production frontier. Point b assumes that non-pecuniary externalities are included, and although these cannot be fully estimated, yet society gains from them in its productivity, giving rise to total net benefits that can be estimated. The problem associated with Point b is that we do not have a way to identify separately the effects of the non-pecuniary inputs. Thus, no price signals exist for these inputs. Consequently, in the neoclassical framework, the shift from Point a to Point b on the optimal production frontiers for manpower training could very well be the result of a greater weight on efficiency than on equity.

Figure I: Efficiency-Equity Trade-Off with Incomplete Price Signals