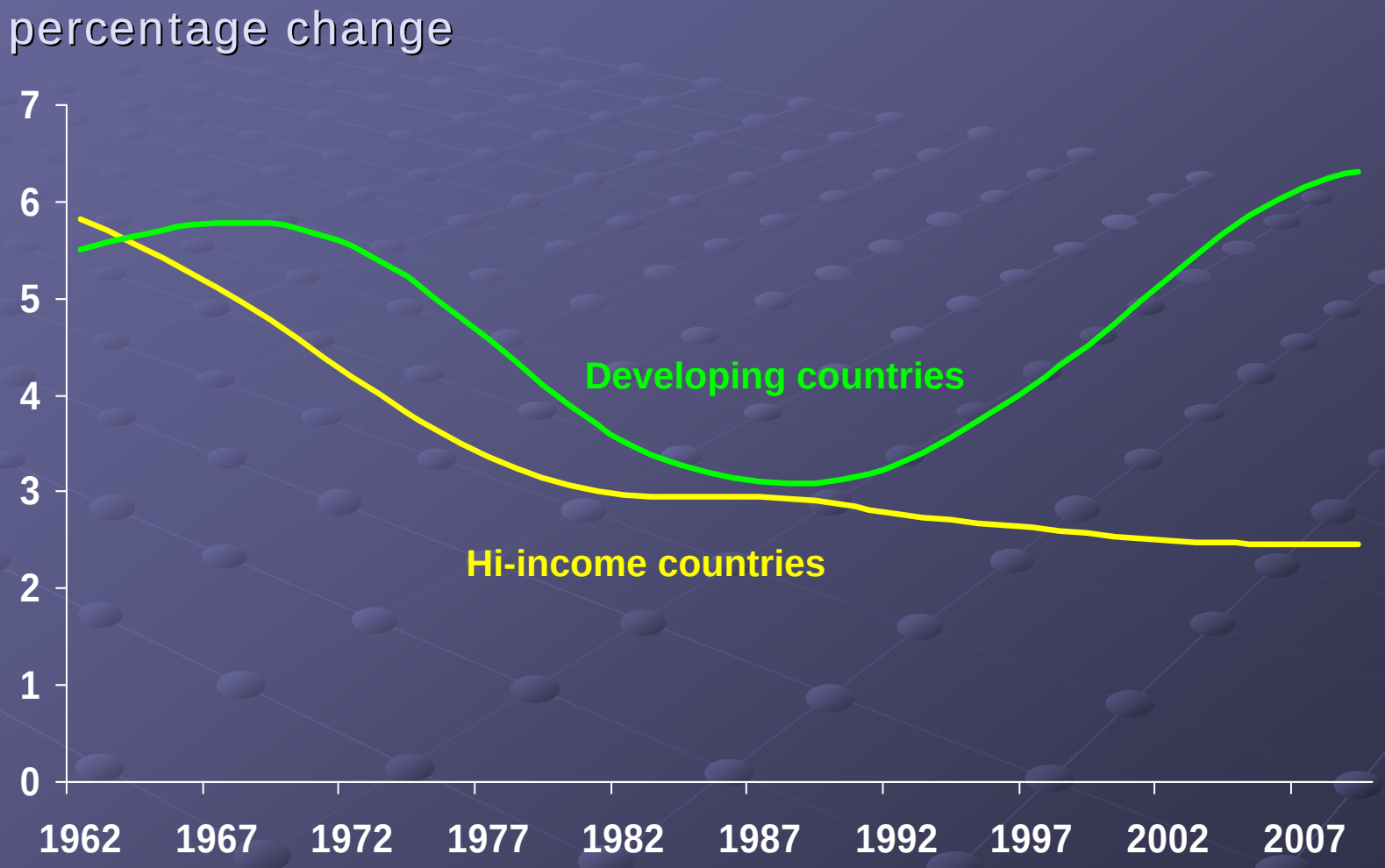
The non-mystery of employment-led growth

Duncan Campbell
Director for Policy Planning in Employment
International Labour Organization

A non-mystery made clear

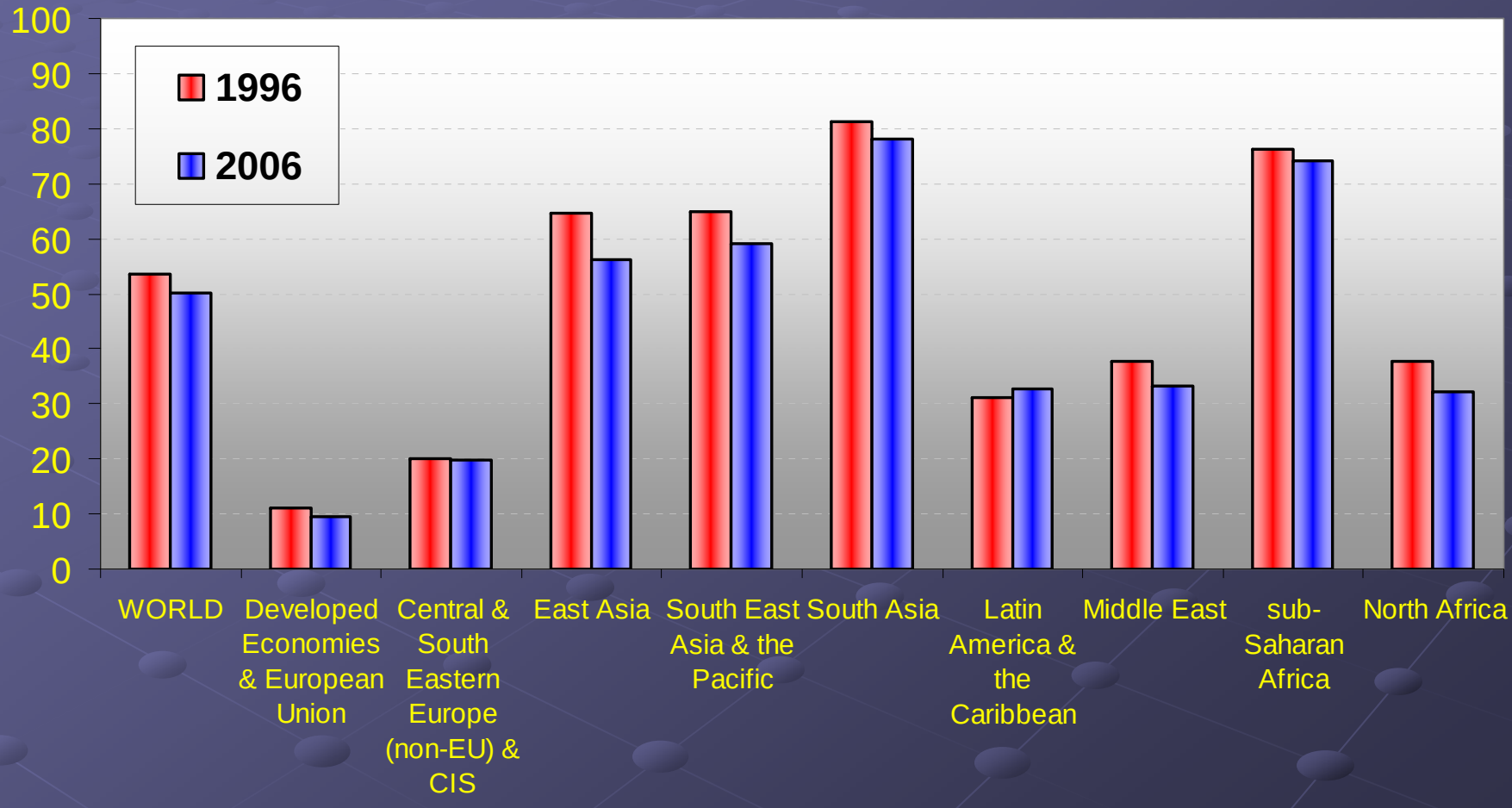
- 50% of the global labour force are in employment-led survival activities.
- These are people who create their own economic exchanges. They employ themselves and their families
- They are largely impervious to macroeconomic parameters and policies
- They are what the ILO defines as “vulnerable” -- cf. dual economy

Divergence in trend growth



Source: World Bank

Vulnerable Employment Shares, 1996 and 2006



Employment-led growth has been the historical norm

- Simple exchange or “primitive accumulation” as Marx would have it has been the norm over time, with or without currency
- The important point to recall is that this persists in a world economy in which globalization is discussed, in which coupling or decoupling is discussed

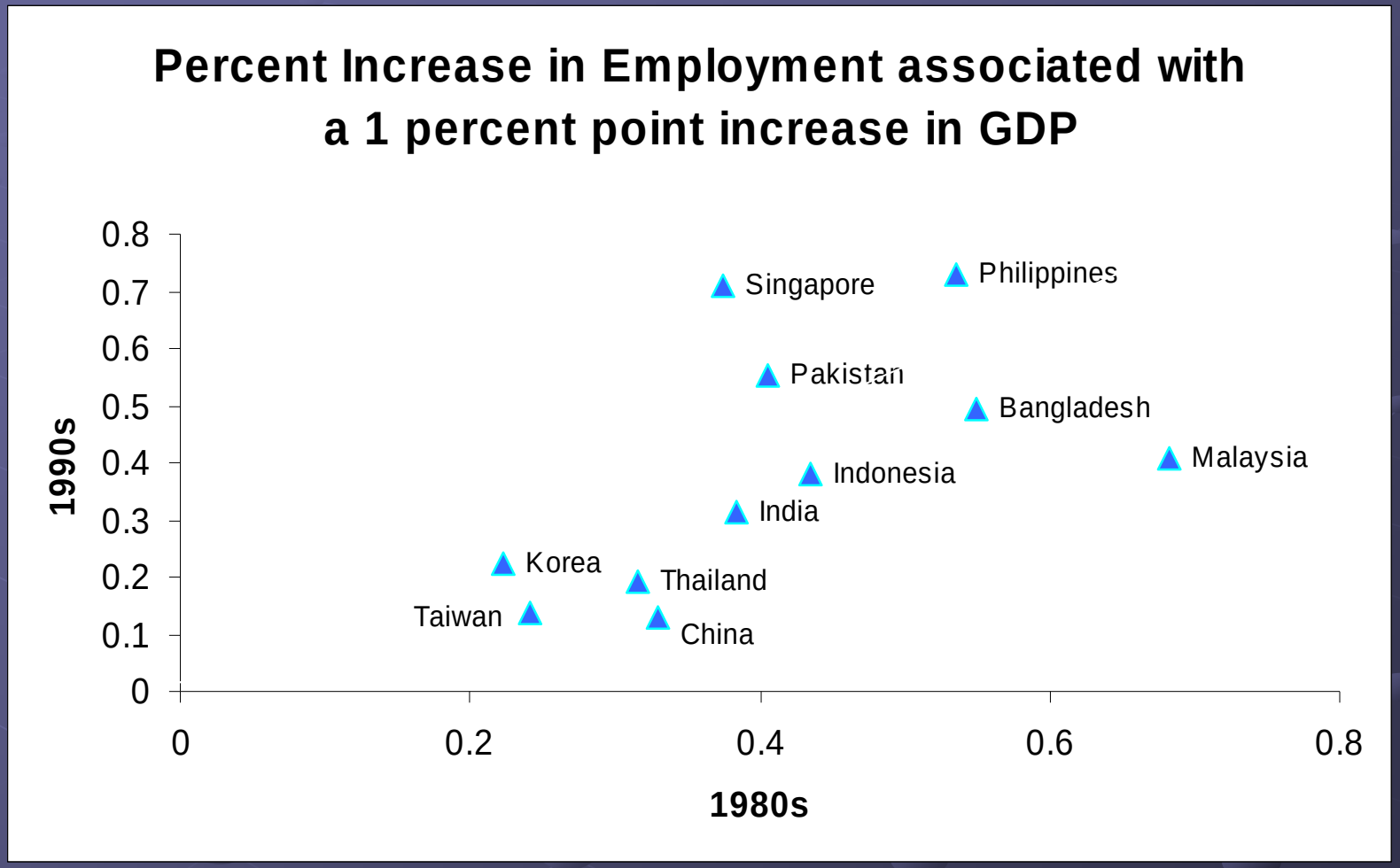
Effects of the crisis

- The headline numbers show the increase in unemployment.
- In fact, the magnitude of the impact on the change of status in employment is far greater according to ILO estimates.
- In short, those once dependent on the derived demand for their labour created their own demand in product markets

Two problems of employment-led growth

- Employment-led growth is largely unproductive and has failed to lift standards of living in the past
- But … growth-led employment, in which we are all interested, has failed to deliver

Growth becomes less labor intensive in Asia



Source: Felipe and Hasan 2006, “The Challenge of Job Creation in Asia”, ADB

But what about wage-led growth?

- What is a wage-led economy?
  - Income distribution between labour and capital affects the growth rate of the economy
  - Importance of different propensities to spend out of labour and capital income
  - An economy is wage-led if a change in income distribution in favour of labour has an expansionary effect on economic activity

Implications

- Interest in wage-led growth is predicated on the role of consumption in aggregate demand, which, secularly, had been increasing
- The implication is that downward pressure on wages threaten growth, whence an interest in collective bargaining, minimum wages, etc.

But some downside implications

- The wage-led growth model not applicable to the world i have previously described
  - There is little paid employment
  - There is no collective bargaining
  - There is enforcement of a minimum wage in the informal economy, even for those who are wage earners
  - Indeed, there might be no enforcement of an MW for paid employees in the formal economy

The concept of an « income-led » growth strategy is more helpful

- Direct resources to areas where the poor work
- Improve access to credit for informal work
- Let public work set the floor for earnings in rural areas, e.g. MGNREGA
- Increase social protection through conditional and non-conditional cash transfers
- Tax transfer to ensure public delivery of health, education, food, etc.

Measures such as the foregoing are likely to increase the viability of an employment-led growth regime…

but at the same time – explicit employment targeting is a companion strategy

The crisis provides an opportunity for a rethink

- In the era of the Washington consensus there was indeed a need to reinvent macroeconomic stability
- A focus, inter alia, on price stability (inflation targeting) was perhaps appropriate
- The question, however, becomes just whom the macroeconomy is intended to serve?

Employment as a macroeconomic variable

- A “residual” for many years, employment is now becoming a key component for evaluating the success of macroeconomic policy
- Evidence of this exists in the number of countries that are establishing explicit employment targets
- Momentum is given by the well-known labour market lag in recoveries

Part II

“employment targeting” loosely defined

- An employment target is an explicit political commitment to achieve an employment outcome within a specified time period, most often (but not always) within a particular political cycle, e.g. an election cycle

Examples of employment targets

- “We will cut the unemployment rate by 50% by 2014” (South Africa)
- “We will increase the employment rate to 70%” (European Union)
- “We will create 8 million jobs over the next 5 years” (Viet Nam)
- “We will guarantee 100 days of work with pay per year per household to anyone who needs it” (India)

A major implication of employment targets

- When the highest political authorities make a public commitment to an employment outcome, can it be assumed that they have a plan in mind?

Three possible scenarios

- There is no plan: a target is merely of political intent articulated for purely political reasons
- There is a plan, but only the most general level of a growth objective
- There is a more specific plan in mind …

Part III

An example

- Using the international poverty reduction goal (MDG 1B) and translating this into a productive employment equivalent
- The data come from Nepal, but the message applies to any country

Key assumptions

- Default to the international poverty reduction target, MDG 1B
- Calculate the “productive employment” equivalent of reaching the MDG target
- Define productive employment in simple income terms – that above the international extreme poverty line
- Add expected new entrants to the “conversion” of existing unproductive jobs

More key assumptions

- Assume a homogeneous distribution of in-work and non-labour market poverty
- Assume a constant employment elasticity of growth projected to 2015
- Assume a constant growth-dependent elasticity of poverty reduction

The Distribution $1.25 per day Poverty in the Population as a whole and the Employed Population	
Total Population US$1.25 Poverty Rate	55.1 %
15+ Population US$1.25 Poverty Rate	49.6%
15+ Employed US$1.25 Poverty Rate	50.1%
0-14 Population as a share of 0-64 Population	23%
0-14 Population at US$1.25 as a share of 0-64 Population	26%

Next steps

- The productive-employment target for poverty reduction is thus quantified
- Assuming a constant employment elasticity to growth relation, impute the GDP growth needed to attain the target
- For Nepal, the difference between GDP and GNP will be meaningful. The migration factor

Official Nepal LFS Data	1990	1998/99	2008				Average annual growth	
Population 15+ ('000s)		11'225	14'424				2.7	
Labour Force 15+ ('000s)	7'618	9'641	12'032	15'160			2.4	
Employment 15+ ('000s)	7'481	9'463	11'779	14'841			2.3	
Unemployment 15+ ('000s)		178	253					
Unemployment rate (%)	1.8	1.8	2.1	2.1				
	1990	1998/99	2008	2015		Annual growth 1990-98/99	Projected LF growth, 2008-2015	
LF (ILO EAPEP)	7'547	9'693	12'929	15'826		3.0%	2.9%	
ILO Working Poverty Model based on WB Data	**1990**	**2000**	**2008**	**2015**				
Estimated US$1.25 poverty rate	73.2	62.0	53.8	51.0				
Working poor estimates	**1990**	**2000**	**2008**	**2015**		**Average annual growth, 1990-2008**	**Average annual growth, 2000-2008**	**Average annual growth, 2008-2015**
Estimated working poor ('000s)	5'576	5'977	6'473	7'731		0.8	1.0	2.6
Estimated productively employed ('000s)	1'904	3'486	5'306	7'109		5.9	5.4	4.3
Estimated working poor (% of total employment)	74.5	63.2	55.0	52.1				
GDP per capita (constant LCU)	13'550	17'244	19'442			2.0	1.5	
Population '000s (0+)	19'105	24'432	28'810	32'503		2.3	2.1	1.7
GDP (constant LCU)	258'873	421'305	560'124	750'254		4.4	3.6	4.3
Simple elasticity of productive employment growth to GDP growth						1.3	1.5	1.0
MDG Goal-related calculations								
Working poverty rate in 2015 - equivalent MDG Goal				37.3				
Working poor in 2015 - equivalent MDG Goal				5'531				
Productively employmed in 2015 - equivalent MDG Goal				9'310				
Projected GDP growth (IMF, April 2010 WEO)				4.3				
Projected per-capita GDP growth (calculated based on IMF, April 2010 WEO)				2.5				
Needed productive employment growth, 2009-2015 ('000s)				4'004				
Needed productive employment growth, 2009-2015 (average annual %)				8.4				
Needed GDP growth, 2009-2015 (average annual %)				6.3				
GDP in 2015 needed to reach goal				856'558				
Per-capita GDP in 2015 needed to reach goal				26'353				
Per-capita GDP growth, 2009-2015 needed to reach goal				4.4				

One (typical) conclusion

- Attaining the employment target defined as we have done will often imply a needed GDP growth rate that a country has not achieved, and may well be unlikely to do so

Two further steps

- Apply the method to the sector level and derive the same actual versus needed growth rates, (a static analysis)
- Look also at sectors where employment elasticity is greater than unity and calculate “surplus” employment

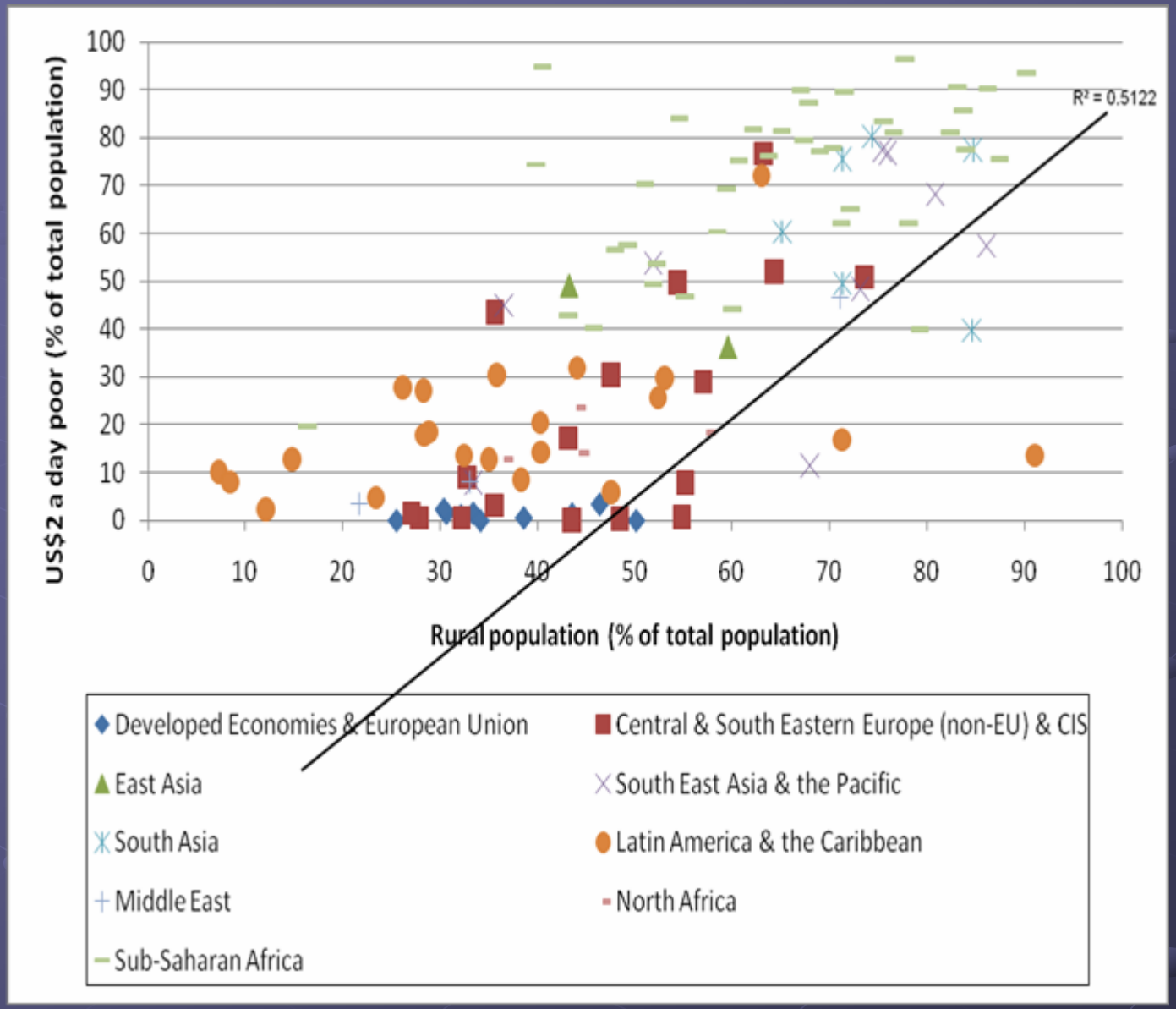
Industry	Employment ('000)		Employment growth, annual (average)	Economic growth rate 2003/04 - 2008, annual	Employment elasticity	Employment growth if elasticity is unity	Employment in 2008 if elasticity is unity	Difference (surplus jobs) ('000)
	1998-99	2008						
agriculture, forestry, fishing (+collecting firewood)	7376	8701	1.67	2.93	0.57	2.93	9846	-1145
mining and quarrying	**8**	**27**	12.93	**3.57**	**3.62**	**3.57**	11	**16**
manufacturing	**553**	**773**	3.41	**1.50**	**2.27**	**1.50**	642	**131**
electricity, gas and water (+fetching water)	84	109	2.64	4.62	0.57	4.62	132	-23
construction	344	376	0.89	3.76	0.24	3.76	497	-121
wholesail, retail	**408**	**692**	5.43	**2.57**	**2.11**	**2.57**	526	**166**
hotels and restaurants	**114**	**197**	5.62	**5.06**	**1.11**	**5.06**	187	**10**
transport, storage	135	198	3.90	5.98	0.65	5.98	241	-43
financial intermediation	19	32	5.35	13.88	0.39	13.88	70	-38
real estate, renting	**32**	**71**	8.30	**5.83**	**1.42**	**5.83**	**56**	**15**
public administration	**70**	**109**	**4.53**	**2.99**	**1.51**	**2.99**	**94**	**15**
education	164	285	5.68	6.37	0.89	6.37	304	-19
health care and social work	**34**	**77**	**8.52**	**8.36**	**1.02**	**8.36**	**76**	**1**
other communication	57	99	5.68	..		..		
private household (-collecting firewood,	58	33	-5.48	..		..		
Total/average	**9456**	**11779**	**2.22**	**5.25**				
Total surplus jobs (in sectors where elasticity is over 1)	**353985**							

conclusion

- A conclusion to draw from this sort of analysis is that it will be the quality or the pattern of growth that will matter to achieve an employment target
- This, then, leads to a consideration of sector policies, based on criteria that would need to be politically and economically determined

For many ILO member states, and certainly in sub-Saharan Africa, the most obvious (and often neglected) sector is agriculture …

the “productive employment equivalent” exercise for SSA yielded a “needed” GDP growth rate of twice what the region achieved in the first decade of 2000s


US$2 a day poor (% of total population)
Rural population (% of total population)
R² = 0.5122
0
10
20
30
40
50
60
70
80
90
100
Developed Economies & European Union
Central & South Eastern Europe (non-EU) & CIS
East Asia
South East Asia & the Pacific
South Asia
Latin America & the Caribbean
Middle East
North Africa
Sub-Saharan Africa

thanks