Session 2: Employment Recovery with Quality jobs

Employment-led Growth and Growth-led Employment in the Recovery

Duncan Campbell

Abstract

This paper argues that, historically, employment-led growth has always preceded growth-led employment, and argues further that a version of employment-led growth continues to prevail for a significant share of the global economy, particularly in the poorest countries, constituting a "growth model" in which households create their own demand. The central problem of employment-led growth is that it is characterized by widespread underemployment, survivalist activities, and persistent poverty. On the other hand, growth-led employment has underperformed as the link between growth and productive employment creation has weakened. The paper uses the MDG 1 target for poverty reduction, converts this to a "working poverty" reduction target by quantifying the "productive employment equivalent" of attaining the target. The central conclusion in doing so is that growth alone is inadequate for attaining the target and that the pattern of growth ought to be the focus of a new employment-led growth strategy.
Employment-led Growth and Growth-led Employment in the Recovery

Duncan Campbell

Beyond the understandable focus on sustainable growth, the central problem facing labour markets in an interdependent global economy is distribution -- the distribution of productive employment opportunities. Wisdom, now of the conventional sort, argues that growth alone is inadequate for the creation of productive jobs; rather, it is the pattern of growth that matters. More recently, this sentiment has been reinforced by the view that the devastation wrought by the worst, global economic downturn since the Great Depression offers the policy world an opportunity to rethink just that pattern of global growth, the momentarily damaging collapse of which was in large measure unforeseen, obscured as with hindsight it was by an un-tempered reliance on the market. Opinion now, including that of the IMF, discounts any of the now abundant signs of recovery that do not also include a recovery of jobs. An employment-led recovery is the aim. Just what, however, does this mean?

This paper explores a theme relating to the distribution of productive employment in developing countries, and argues that a meaningful distinction can be made between labour markets that are "employment-led" and those that are "growth-led". And, furthermore, that, left on its own an employment-led approach to growth does not take us very far. The salience of this distinction is then briefly demonstrated in ongoing work to set a "productive-employment target" for Nepal.

1. An Admittedly Imperfect Taxonomy: Is the Demand for Labour Derived or Self-Created?

The thrust of much recent literature endeavors to show that the spheres of the well-known concept of a "dual economy" are in fact not two worlds apart; they are not separate, but more closely intertwined than hitherto believed. The observations in support of this are empirically compelling. At a time, however, when a strong employment component of growth is, because of its absence, of widespread policy concern, it is useful to recall that there is an extant pattern of growth in which employment has been the lead, rather than the lag variable in the growth equation. This short paper describes a pattern of labour market participation that is both employment-led, of long standing, and co-existing with the more conventional causal view of growth leading to employment creation. The problem is that where employment drives growth or at least seeks to, the result has most often been widespread underemployment and working poverty.

The central question is whether the expansion of more productive jobs can be made more consistent with what currently exists, where that existence has everything to do with differences in the nature of demand. This paper argues that such differences are meaningful enough to warrant some thinking as to whether it is growth that drives employment or the reverse. To approach the

1 Director of Policy Planning in Employment, ILO, and Fellow, Institute for the Study of Labour (IZA).
2 Dominique Strauss Kahn, IMF Director-General, ILO/IMF meeting, Oslo, September 2011
3 Following, A. Ghose et al. (2008), this paper’s premise finds continued relevance in the idea of a dual economy as characterizing developing country labour markets.
argument, think of the standard accounting identity linking output to labour and capital inputs. It is useful to propose an imperfect taxonomy (Table 1) of circumstances in which one or the other inputs appears to dominate, and to do this just to beg the question of whether it is “L” that is driving “Y”, or the reverse?

Table 1: A Loose Taxonomy of Employment- vs. Growth-led Labour markets

<table>
<thead>
<tr>
<th>Employment-led labour markets are ....</th>
<th>Growth-led labour markets are ....</th>
<th>relatively more ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>“traditional”</td>
<td>“modern”</td>
<td></td>
</tr>
<tr>
<td>Vulnerable in employment status</td>
<td>Likely to have a higher share of wage-earners</td>
<td></td>
</tr>
<tr>
<td>Part of the informal economy</td>
<td>Part of the formal economy</td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td>Urban</td>
<td></td>
</tr>
<tr>
<td>Likely to be less productive</td>
<td>Likely to more productive</td>
<td></td>
</tr>
<tr>
<td>Credit-insufficient</td>
<td>Access to credit</td>
<td></td>
</tr>
<tr>
<td>Likely to have a low K/L ratio</td>
<td>Likely to have a higher K/L ratio</td>
<td></td>
</tr>
<tr>
<td>Oriented to domestic, even local markets</td>
<td>Oriented to domestic and international markets</td>
<td></td>
</tr>
<tr>
<td>Sheltered from the impact of macroeconomic policies</td>
<td>Exposed to macroeconomic policies</td>
<td></td>
</tr>
<tr>
<td>Deficient in the quality of jobs</td>
<td>Deficient in the quantity of jobs</td>
<td></td>
</tr>
<tr>
<td>Likely to be less or un-protected</td>
<td>Likely to have at least de jure protection</td>
<td></td>
</tr>
<tr>
<td>Prone to greater earnings instability</td>
<td>Stable and predictable in earnings and income</td>
<td></td>
</tr>
</tbody>
</table>

1.1. The “Demands” for Labour

The nature of demand itself – its origin, its strength, its sustainability – lies behind the employment-led versus growth-led continuum. The demand for anyone’s labour is never a “given” – nor, even where there is such demand, is there any guarantee that it is permanent. The strength and continuity of demand constitute a continuum – from strong to tenuous, from stable to erratic. This admits, at the end of the day, only of the possibility of a rather stylized delineation of labour based on the nature of demand that such labour occasion.

Simply put, one can identify three categories of labour, once again, based on the nature of the demand each encounters. The first of these is the textbook case of labour as “derived demand”; that is, labour, not employed as an end in itself, but because it is needed to fulfil demand arising from the product market. An autoworker is an autoworker because there is a demand for the worker’s input in satisfying demand in the product market. While obvious, but nonetheless overlooked, this framework is entirely causal or sequential: growth leads to jobs.

A second source of laboring could be thought of as emanating from demand that is in fact auto- or self-derived. A subsistence farmer’s labour is derived from the farmer’s demand to eat. (Here, moreover, is an instance where demand is indeed permanent. Here, too, is an instance where demand and need are synonymous in a way that does not apply to, say, the demand for an automobile.)
The third rough category is the instance in which labour is in fact “chasing” or endeavoring to “stir up” demand, all too often in instances where such demand is rather feeble. This category would include the survivalist or distress strategies of street vendors to “create” often elusive demand – at the troubling extreme, it would also include those children and adults who would trade their bodies for income.

This distinguishing feature of these different motivations to labour does not fully correspond to different statuses of employment. For example, labour that is more clearly derived from product-market demand does not solely apply to paid employees. Many self-employed are represented in this category. Similarly, paid employment is not necessarily a healthy and stable derivation of demand. Casual day labourers, for example, face uncertain demand, uncertain wages, and uncertain locations of work. Indeed, the casual day labourer bears features of an employment-led strategy to the extent that job (i.e. demand) search is a far greater component of this labour market than is usually associated with the status of “paid employment”.

For these reasons, Figure 1’s display of vulnerability is not co-existensive with those who could be considered as engaged in employment-led strategies. Indeed, substantial shares of “own-account” workers are farmers, and substantial shares of these are commercial, i.e. responding to demand in markets for food.

While the first of these three categories – which can otherwise be thought of as economic motives for labour – can be considered growth-led, deriving as it does from demand in the product market for a labour input, the latter two are employment-led – less derived from “growth” than contributions to it. But of what use is such an admittedly loose taxonomy when all categories, in the end, are responses to some form of demand, whether steady and strong, or uncertain and sought after?

Two answers are of possible relevance. First, these different “demand regimes” coexist. Simply ascribing underemployment and working poverty to inadequate demand masks the point that demand-deficient underemployment coexists with respectably demand-sufficient employment in many developing countries. One’s attention is therefore to the need to look not only at the level of growth, but its repartition. It is the sheer magnitude of survivalism in otherwise healthily growing developing countries which argues against reliance on growth alone to solve labour market problems. While it is no doubt the case that there is too much supply chasing too little demand, a pertinent question might be to take demand as a given and ask how that demand is accessed.

Second, viewing the economic motives for labour and the nature of demand in this light suggests that, in policy terms, one should be thinking just as much about how to improve employment’s contribution to growth as one should about how to improve growth’s contribution to employment. It is the latter that occupies most policy attention, a very “Y” drives “L” sort of framework.

1.2. Improving Employment’s Contribution to Growth

When policymakers focus on the notion that growth needs some help in creating jobs, one of the remedies that often come to mind is to focus on the supply side of the labour market. A better educated, better trained, healthier supply of labour contributes to growth through the higher productivity that would accompany an improved supply of labour, through the greater ease with
which transitions to higher value addition and more rapid structural transformation could be made. There is no argument here. These are sound empirical conclusions to draw.

Yet improving employment’s contribution to growth also means, and perhaps more fundamentally means enabling the transition from an employment-led growth model to one of growth-led employment. This, in turn, implies useful interventions for “helping out” and, in so doing, unleashing demand. For example, infrastructure has a signally important role to play in converting a subsistence farmer to a commercial farmer. For the street vendor, the chase after demand can be facilitated by measures to attract demand. Commercial zoning laws, product diversification, access to credit could all increase the throughput of the street vendor toward the end of greater income generation.

2. “Employment-led Growth” in its context

Common features of developing countries – and all the more common as one descends the socio-economic scale – are incomplete or unintegrated markets, whether for products, services, labour, or capital, and inadequate demand in the economy to absorb new entrants into the labour market into relatively productive and stable employment. In the absence of alternatives for income generation, a substantial (as noted below) share of working men and women (and children) “create their own demand”, whether through subsistence farming, rudimentary trade, such as rag-pickers or street-vendors, or, more rarely, in paid employment. While such work is overwhelmingly in the informal economy, it is less the formal v. informal taxonomy that matters here, than the barriers to demand.

ILO defines as “vulnerable” workers those who are own-account workers and contributing family members in the labour market. Their participation in the economy is often but not always “employment-led”, as it is often but not always their supply that creates demand, or seeks to do so, rather than the reverse. Employment-led growth predates the modern economy, (and, again, the distinction is not particularly novel, recalling as it does concepts of a “dual economy”, consisting of “modern” and “traditional” sectors). The place of the employment-led labour market in historical sequence is aptly evoked in Paul Collier’s description of the “bottom billion” as living and working in the 14th century. While Collier’s argument is quite convincingly concerned with the geo-political distribution of economic welfare, a different picture—or, rather, the same picture but of a different magnitude – emerges when political borders are removed and just the working population is concerned. When this is done, the population of the “bottom”, or the “have-nots”, is closer to 50 per cent of the global labour market, or, in population terms, closer to 3 rather than 1 billion. Vulnerable shares by sub-region are shown in the figure below.

---

4 By definition, therefore, paid employment is not considered as vulnerable work, although a more conventional understanding of the word vulnerable would include those casual day labourers whose wage work is neither predictable, regular, well remunerated, nor contractually protected, etc.

5 Paul Collier, The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done about It, (Clarendon: Oxford University Press, 2008).
Thus, while in population terms, the vast majority of the developing world’s people are living in countries that have enjoyed a sustained period of healthy GDP growth, and can be said, with variable lags, to be converging with industrial countries, this says little of how growth is distributed within these countries.  

Employment-led labour markets in developing countries coexist but are far from being fully integrated within the successful growth patterns of these countries.  In fact, much of this labour-market group is beyond the influence of macroeconomic policies.  For example:  fiscal policies relative to health and education often do not reach this group or reach it inadequately;  monetary policies are less effective for those who face a widespread lack of access to credit; and exchange-rate fluctuations are less important to those who neither import nor export.  An argument can of course be convincingly made that domestic inflation – e.g. food prices – has a strongly adverse effect on the poor who comprise this group.  In view of the poor’s greater share of expenditures on food, this will clearly be the case.  Yet this negative would most adversely impact the urban poor, whereas the majority of the employment-led labour market is rural, and a substantial share are engaged in subsistence farming.

From this dual-economy perspective, and their various points of intersection aside, there is no obvious spill over of the fortunes of the modern, “growth-led” labour market on those of the employment-led labour force.  Nor does one possible exception to this bode particularly well:  the impact of the crisis has been to increase the size of the employment-led labour market in both relative and absolute terms.  As the opportunities for paid employment in the growth-led segment of the labour market diminished, those either holding or aspiring to paid employment had little option but to seek income-generating possibilities in the employment-led workforce.  The extent to

---

6 It is also the case that most developing countries have substantially higher rates of population growth than industrialized countries.  The apparent rate of convergence thus looks quite different when one considers the rate of GDP growth to that of GDP per capita growth.

which this may have reduced earnings in that already overcrowded workforce is unknown, but is surely a plausible outcome.

3. Employment Deriving from Demand when the Demand is too little or is satisfied with fewer jobs

Longstanding though it may be, the model of employment-led growth described in the foregoing paragraphs has been largely inadequate to lift workers and their families out of poverty, or to contribute in a robust way to economic growth. As a model of demand self-creation or survivalist activity, it has fallen short of sustaining hundreds of millions of people in their aspiration for a better life. This remains true even if some activities described as employment-led can hardly be defined as survivalist, (i.e. many such activities are both dynamic and remunerative). It also remains true if ILO-defined vulnerable work is not the sole source of working poverty: casual wage labourers are often among the poorest of the working poor. The point here is that the very survival of the employment-led growth model suggests that the growth-led alternative has been equally inadequate.

It will be recalled that “growth-led employment” – in which, put simply, demand pulls in workers rather than workers pulling in demand – is understood as relatively more formal than informal, more characterized by wage- rather than self-employment, more in the “modern” than in the “traditional” sectors, and more reliant upon, and having more access to credit, public financing, and investment capital. Yet growth-led employment has been beset by three empirical trends:

1. The majority of new job creation in the developing world is in the informal economy. While data limitations and methodological/definitional problems abound, one study published by the World Bank found that, while 78 per cent of all non-agricultural employment in Africa was in the informal economy, 93 per cent of all new jobs were informal. For Latin America, the percentages were 57 and 83 per cent respectively.

2. The other side of the same coin is that formal-economy employment growth has stagnated. Common explanations include the impact of structural adjustment and associated decline of public-sector employment and the increase in global competition, with inter alia its associated pressures to search for more flexible (and less formal) forms of employment.

3. A third tendency is also not unrelated to the rise in global competition: there has an observed decline in the (formal-) employment intensity of growth, which may be related to increases in labour productivity. It may be that increased competition narrows technology choices and leads to a bias toward labour-saving technologies, even in relatively poor countries, if they compete in global markets. (This is consistent with the surprising observation that skill-biased technological change applies not only to the industrialized countries.) Figure 2 compares the decades of the 1980s and the 1990s for a sample of Asian countries, the majority of which have shown a declining employment intensity of growth.

---

8 OECD, Is Informal Normal?: Towards more and better jobs in developing countries, (Paris: OECD, 2009).
Figure 2: Percent Increase in Employment associated with a 1% increase in GDP


To generalize, then, employment-led labour markets have disappointed in terms of the quality of livelihoods that they offer\(^{10}\), while growth-led labour markets have been inadequate in terms of the quantity of jobs they produce. What, then, can be the relevant policy choices facing governments?

4. Improving the Quality of Employment-led Labour Markets?

There has been rising interest in what might be called consumption-led, rather than investment-led growth, and recent attention has consequently been directed to wages, or wage-led growth upon which consumption is based. A wage-led economy assumes the following:\(^{11}\)

- That the income distribution between labour and capital affects the growth rate of the economy
- That there are different propensities to spend out of labour and capital income, and
- That an economy can be described as wage-led if a change in income distribution in favour of labour has an expansionary effect on economic activity

\(^{10}\) “Quality” here refers only to the income dimension, not the several other criteria upon which the quality of a livelihood is based. And, of course, being in paid employment in the formal sector is no guarantee of the quality of that employment.

\(^{11}\) As defined by Matthieu Charpe and Sangheon Lee, ILO, Decent Work Forum presentation on wage-led growth, October 2010.
Such criteria, however, do not directly apply to the employment-led labour market as this paper has defined it. Wage employment, first of all, is a minor share of that labour market. Minimum wages also do not apply, even if they might be on the books in a de jure sense. Nor does collective bargaining – or, in the context of own-account workers, what might be collective bargaining’s “guild” equivalent – have much meaning in the employment-led labour market.

By extension, however, a concept of “income-led growth” could affect for the better the quality deficit in employment-led labour markets. The mechanisms of such a growth strategy would include: directing public transfer payments, whether conditional or unconditional, to where the poor live and work, as, for example, through the Mahatma Gandhi National Rural Employment Guarantee program in India; or through the extension, whether publicly or privately, of micro-insurance and micro-finance schemes, providing loan credits for livelihood promotion, or for education and health benefits. The evidence is now fairly robust that this sort of income-led growth can indeed improve the living standards of the poor to whom it is directed. These are useful tools for directing “pro-poor growth” to employment-led (or other) labour markets. Like remittances, however, they are often either unrelated or quite indirectly related to making employment more productive.

5. An Application of the foregoing discussion: Taking employment seriously through setting Employment Targets

An obvious conclusion to draw is that a productive job for all those who want one in the context of healthy, and sustained growth neither is, nor ever has been a reality. Taking the world as it is, then, how can employment become at least a more central macroeconomic objective? The answer implies that policy be directed to both employment-led and growth-led labour markets, rather than assuming that the latter will ultimately absorb the former. Target both is the message.

A growing number of governments are seeking to embed employment targets in their growth and development strategies, where an employment target can be defined as an explicit political commitment to achieve an employment outcome within a specified time period. Examples are manifold, and would include time-bound efforts: to increase the employment-to-population ratio in the European Union, in view of the declining population trend; South Africa’s ambition to create five million jobs by 2020; or Viet Nam’s effort to create eight million jobs over a five-year period. While employment targets can be expressed as an ambition at the aggregate, national level, they can also be rendered more specific – targeting employment objectives in specific sectors, for example, or embedding an employment objective at the local economy level.

---

12 Brazil’s Bolsa Familia program, for example, is credited with having reduced the GINI coefficient in that country. India’s MGNREG program is argued to have improved incomes in that country, thereby reducing economic pressure for internal migration.

13 While a micro-loan to a farmer enabling her to buy livestock could be productive in terms of her income generation, it has been argued that South Africa’s child benefit scheme, otherwise worthy, also perpetuates labour market discouragement or inactivity.

14 The argument here is quite consistent with the OECD’s Is Informal Normal? Towards more and better jobs in developing countries, (Paris: OECD, 2009).
5.1. The ILO and Employment Targets

The ILO’s interest in efforts to increase the employment content of growth has taken several forms, among which:

- “Employment-targeted” programs related to increasing the employment intensity of public expenditure on infrastructure
- The use of the Dynamic Social Accounting Matrix methodology to evaluate the employment consequences at the sector level of different policy scenarios
- Examination of the role that incomes policies play in balancing macroeconomic pricing targets with the highest level of employment.

Another initiative is to assist governments in establishing their own employment targets through the evaluation of labour market trends and needs. Work of this nature is ongoing in several countries. The following brief example refers to Nepal.

5.2. An Implicit Employment Target that is universally Shared: MDG 1B

Countries that do not have an explicit employment target have the means of constructing one through the universal adherence to the Millennium Development Goals, the first one of which commits governments and the international community to halve the numbers of those living in extreme poverty from their share in 1990 to 2015. In Nepal, ILO is assisting the National Planning Commission in converting the population poverty-reduction objective to one focusing on the halving of the share of the extreme working poor over the same time period. The exercise is intended to be illustrative of the challenge, and, as such, is an exercise in “pre-policy” formulation. Key steps (briefly) in creating an MDG-inspired, “working poverty reduction” target involve:

- Comparing the growth trends of productive and unproductive employment over the last five-year period relative to the GDP growth observed that produced these outcomes
- Estimating the number of new entrants to the labour market from the present to 2015
- Add to the foregoing, the magnitude of unproductive jobs to be converted to productive jobs in order to attain the re-written MDG goal of poverty reduction
- Impute the output growth rate needed to absorb these new entrants into productive jobs and the addition of the converted unproductive jobs.

Precisely how these steps are undertaken is elaborated in a separate paper.15 Three basic conclusions can be drawn from this sort of approach: an inclusive approach to employment policy

must deal with both employment-led and growth-led labour markets; governments therefore need to think beyond the number of new entrants to the labour market and include to this number existing unproductive work that needs to be upgraded; and the GDP growth rate needed to do this will always be higher than the growth rate needed to absorb new entrants alone – and may indeed be a GDP growth rate unlikely to be achieved.

In the case of Nepal, attaining the working-poverty reduction goal by 2015 yielded two conclusions: first, the annual creation / conversion of jobs needed by 2015 is almost twice that of the new entrants alone – i.e closer to 750,000, rather than 380,000; second, to attain this objective would require a GDP growth rate of approximately 6.3 per cent. Again, these higher-than-anticipated numbers are by no means unique to Nepal – nor are their significance in policy terms. The numbers teach two rather basic lessons. First, policymakers need to think beyond “employment” and “unemployment” as meaningful indicators of labour market needs. Instead, they need to be aware that the real challenge is facilitating the opportunities for young person’s entering the labour market, while at the same time absorbing a backlog of those currently at work in unproductive activities. In short, the challenge is greater in magnitude than the usual “headline” numbers surrounding employment and unemployment. (Indeed, Nepal’s current unemployment rate of just over 2 per cent becomes rather beside the point in this analytical approach.)

Second, if, for the sake of illustration, one is willing to assume that the relationship between the rate of change of output growth and that of employment creation is relatively constant, then this analytical approach will yield a “needed” GDP growth rate 16 that is quite often higher than any that has been achieved in the country, or is likely to be achieved. This is true for the Nepal example. A similar MDG-based targeting approach applied to a sample of Sub-Saharan African countries found that GDP growth needed to attain the working poverty target by 2015 was precisely twice that actually attained in the first decade of the millennium – when growth was actually quite reasonable.

6. Concluding Remarks

The underlying concern that this paper has sought to address is the problem of the distribution of productive employment opportunities, a problem inherent in the many words now qualifying the kind of growth in which we are all interested, i.e. “inclusive”, “shared”, “equitable”, “pro-poor”, or even “balanced”. The need for such qualifiers of course implies that growth has not been this way. One demonstration of this is the continued meaningfulness of the concept of a dual economy, which, in this paper, is understood by the distinction drawn between “employment-led” and “growth-led” labour markets, the former deficient in the quality of employment, the latter, in its quantity. Can policies address these deficiencies and can a better balance be struck? Four concluding points – four distributions – are relevant to these ends. The central policy message, however, is that governments need to be concerned with far more than just ways to increase the number of good jobs in the formal economy.

16 That is, the rate needed to attain the target.
6.1. Addressing the geographical distribution of unproductive employment

Poverty is not homogeneously distributed in the world. Nor is it homogeneously distributed between the sexes – not even touched on in this short paper. Much of the effort to convert unproductive to productive work needs to focus on where the poor live and work. This is overwhelmingly in rural areas, principally in agriculture, and, more specifically still, in Sub-Saharan Africa and South Asia. Part of the distributional challenge needs to address the agricultural sector, which has suffered a period of policy neglect. In the absence of alternative employment opportunities, moreover, much of the effort needs to be focused on measures to improve productivity that are not necessarily labour-displacing. The spectre of a looming second round of the food crisis adds urgency to this effort. Infrastructure is one among other issues to address in a world in which 30 per cent of commercial, agricultural output never makes it to market.

6.2. Addressing the structural distribution of opportunities for paid employment

Growth that is inadequate to attain poverty objectives compels a rethinking of the pattern of growth, and more particularly how to promote structural transformation – the very source of rising living standards, and not occurring rapidly enough, particularly in least developed countries. While sustained, strong growth is a prerequisite for productive employment creation, a relevant policy question to ask is whether the productive-employment content of growth can be increased irrespective of the rate of growth. Here, industrial and sectoral policies need to be elaborated that are consistent both with harnessing a country’s comparative advantages in products for which there is market demand, and with a view to increasing the opportunities for paid employment. Otherwise potentially profitable sectors that are constrained by inadequately qualified labour supply, barriers in access to credit, or inappropriate, costly, time-consuming regulations are key areas to address.

6.3. Addressing the productive distribution of the existing status in employment

Much of what this paper understands as employment-led labour markets involve people who face barriers to increasing the demand they wish to create. For example, although subsistence farmers are part of the labour “market” by definition, they are in fact not really actual market participants to the extent that markets imply exchange. Infrastructure, skills training, access to credit, product diversification would be ingredients to increase the productivity and thus earnings of own-account workers. The policy message here is that a preoccupation with “formalizing the informal”, however worthy an objective, is secondary to the objective of improving the productivity and thus incomes of people irrespective of the “regulatory regime” of which they are a part. Improving, rather than ignoring employment-led labour markets is part of addressing the distributional challenge.

17 Collier, op.cit, note 4 supra, voices the concern of whether it is “too late” for many LDCs to transform their economies.
18 The informal / formal distinction, while variously defined by governments, is nonetheless analytically appealing as both are part of the “economy” and both obeying different rules, whether these are formal or informal rules. This is why the use of “organized” v. “unorganized” to describe this distinction is inappropriate: at base, there is no such thing as “unorganized” economic activity.
6.4. Addressing the distribution of capital and labour in public spending

Markets alone are seldom mechanisms that ensure equitable distribution. The latter is one of the primary roles of the State. Through public expenditure on infrastructure investment, governments can make technology choices that are more labour-intensive than capital-intensive, and do so in an environment that is relatively sheltered from labour-saving competition. The result can be a relative increase in incomes to labour over those to capital, with both direct and indirect effects on local economic dynamism and (job-generating) growth. And surely the State, in its role as “employer of last resort”, proved its worth in the last few years in its efforts to mitigate what one could call without exaggeration, a crisis of distribution.

Not all of the distributional outcomes of human effort can be completely shared, nor should they be if effort itself is not to be diminished. It is clear, however, both ethically and economically, that the distribution of opportunity should be as egalitarian as possible. The four broad avenues – “telegraphed” (or, more contemporarily, “texted”) – with which this paper concludes, promote opportunity, while at one and the same time improving outcomes.
References


Political Economy Research Institute, University of Massachusetts, www.umass/peri/edu.

Rodrik, D. 2007. “Normalizing Industrial Policy”, paper prepared for the Commission on Growth and Development (Harvard University, September)