Addressing Jobless Growth in a Globalized World

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Topics of Discussion

I. The ILO Global Employment Agenda and support to constituents via DWCPs

II. Review the state of our knowledge on the issue: what do we know about jobless growth? What factors influence the employment intensity of growth? Research findings.

III. Has there been Jobless Growth in South East Europe?

IV. What can be done about it? Some policy guidelines to combat jobless growth
I. Background to the Global Employment Agenda (GEA)

- **2000**: the UN General Assembly recognised the “need to elaborate a coherent and coordinated international strategy on employment and ... support(ed) the convening of a world employment forum by ILO in 2001.”

- **2003**: Governing Body adopted the GEA: a consensus document with an integrated approach to employment policies.

- **2003–2005**: ESP Committee discusses the ten core elements of the GEA and reviews its implementation.

- **2006-07 biennium**: DWCPs are the main delivery vehicle for the Programme and Budget and the main instrument for ILO cooperation with member States.

- **March 2006**: The Office presented to the ESP Committee a "vision" to make the GEA more operational in the work of the Office at the national level. This vision has conceptual and managerial aspects.
The integrated GEA approach to employment policy in one page: Basic concepts, approaches and tools

**BASIC CONCEPTS**

Determinants & Prerequisites

**Growth:**
- Capital-Investment
- Human Capital
- Productivity
- Trade
- Governance

**Distribution-equity, & social inclusion:**
- Taxes & transfers
- Access to:
  - Assets - credit
  - Education and training
  - Infrastructure
  - Health
- Social Protection

**Empowerment, Governance & Institutions:**
- Representation
- Participation-Power
- Social Dialogue

**Values and Principles**

Full respect for Fundamental Workers’ Rights & International Labour Standards

**KEY POLICY AREAS**

Checklist

1. **Economic Policies for Employment Expansion**
   - Macroeconomic Policies
   - Financial policies
   - Investment Climate/Policy
   - Trade, RI, sectorial policies
   - Labor Mobility/Migration

2. **Skills, Technology & Employability**
   - Training policies and systems
   - Skills for technological change
   - Employment Services
   - Improved access to training

3. **Enterprise Development**
   - Policy & regulatory framework
   - Value-chain Upgrading
   - Local Economic Dev-LED
   - Workplace practices

4. **Labor Market: Institutions and Policies**
   - LM adjustment policies
   - Passive and ALMPs
   - Employment Services
   - Industrial Relations

5. **Governance, empowerment & organisational capital**
   - Representation and advocacy
   - Freedom of Assoc/Coll bargaining
   - Social dialogue

6. **Social Protection (Sector III)**

**TOOLS**

Illustrative list of E-knowledge products:

- Employment-centred growth strategies
- Growth-Employment-Poverty reduction links
- LM adjustment to Trade/Regional integration
- Access of working poor to finance
- E-Intensive Investment Approaches
- Recognition of skills across borders

- Training, Lifelong learning, on the job-training.
  - Worker Displacement, career guidance,
  - Community-based rehabilitation
  - Use of ICTs for productivity

- Business Development Services (BDS) for SMEs
- SME Finance
- Entrepreneurship and Productivity Tools
- Corporate Social Responsibility
- Strengthening cooperatives
- Capacity-building materials for LED

- Passive Policies: Income Support for Jobless
- ALMP: training for jobless, job creation, wage subsidies, enterprise creation
- E-Services
- Flexibility and Security

- Capacity building with constituents
- Coalition building for DW Projects with Employers and Workers
- Upgrading of informal enterprises & communities

**OBJECTIVES & OUTCOMES**

- Training, Lifelong learning, on the job-training.
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**MAINSTREAMED STRATEGIES:**

- A fair globalization
- Working out of poverty
- Advancing gender equality
- Greater influence of International Labor Standards in Development
- Expanding the influence of social partners, social dialogue and tripartism

**Achievement of Key Objectives:**

- **EMPLOYMENT**
- Poverty reduction
- Gender
- Young people
- Target Groups: Old, Disabled, others
- Informal Economy
- Crisis response

**Roadmaps**

for countries at different levels of dev.
II. What do we know about jobless growth?

Some figures and research results
Declining employment intensity of growth is a global trend...

Global employment elasticities 1991-2003

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>E-Elasticity</td>
<td>0.34</td>
<td>0.38</td>
<td>0.30</td>
</tr>
<tr>
<td>GDP Growth %</td>
<td>2.9</td>
<td>3.6</td>
<td>3.5</td>
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- Globally, for every 1% of GDP growth, total global employment grew between 0.30 and 0.38 during the three periods between 1991 and 2003
- In the most recent period there was a slight decline in GDP growth and a marked reduction in the employment intensity of growth
Declining employment intensity of growth is a global trend...

Global employment elasticities and valued added growth rates by sector 1991-2003

<table>
<thead>
<tr>
<th></th>
<th>Agriculture</th>
<th>Industry</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector value added</td>
<td>0.41</td>
<td>0.28</td>
<td>0.57</td>
</tr>
<tr>
<td>Elasticity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average annual value</td>
<td>2.0</td>
<td>2.1</td>
<td>3.0</td>
</tr>
<tr>
<td>added Growth rate %</td>
<td></td>
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</tbody>
</table>


- **Services sector**: world’s fastest-growing sector and with the most job-intensive growth
- **Industrial sector**: value added growth was driven 72% by gains in productivity and 28% by gains in employment.
- **Agriculture**: in between, with 60% of growth driven by productivity growth and 40% by growth of employment
Factors influencing the Employment intensity of Growth

- **Pure output effect.**
  - E needed for producing a given amount of output assuming no change in other factors (technology, composition of output)
  - Influences E but not E-intensity
  - Means that addressing employment requires addressing the issue of economic growth itself
  - But E-G relationship is also intermediated by an...

- **Elasticity effect:**

- **Sectorial composition effect.** Changes in composition of output between sectors due to:
  - Comparative advantage and trade policy
  - Macroeconomic policy and relative factor prices
  - Labour market institutions/regulations

- **Technology Effect.** Changes in technology within sectors/enterprises due to…
  - Relative factor prices
  - Impact of competitive pressures on competitive strategies of companies
  - Changes in trade policy or regional integration
Research findings

- **Trade Effects:**
  - **Kapsos (2005):** no statistical significance for trade openness.
    - Counter-intuitive result-- possible reason: regressions included both developed and developing countries
  - **Osmani (2006):** in 10 Asian countries in 80s and 90s weights of more labour intensive industries declined.
    - Also counter-intuitive result- because expectation is that with more open trade weight of L-intensive industries would increase
  - **Islam & Chowdhury (2006):** in Indonesia the share of «high technology» sectors in total exports increased in 1993-2002, while the share of «low technology» sectors declined.

- **Conclusion:** What happens in reality with trade openness may differ from theoretical expectation. Weight of capital intensive-high productivity sectors could increase. WHY? Because these are the leading, dynamic, globally competitive sectors and value chains.
Research findings

- **Productivity Effects:**

  - Where economic growth is driven by high productivity growth, this may be a factor in low employment intensity.

  - However, under global competition there can be a virtuous circle with some high productivity sectors and value chains expanding faster and creating more employment faster than more labour intensive sectors (This “E-pull effect" of high productivity sectors is a hypothesis that needs more research).

  - If true or where this happens, a high degree of employment creation can be compatible with increases in productivity.

  - **Policy implication:** Promotion of job-rich growth requires promotion of both high productivity/relatively capital-intensive sectors and labour-intensive sectors.
Research findings

- **More on Trade Effects:**
  - Islam & Chowdhury (2006): in Indonesia (1993-2002) some of the more labour-intensive sectors showed negative employment elasticity implying that even within industries changes are taking place that affect their E generating capacity. **Conclusion:** A combination of «sectoral composition effect» and «technology effect» explain the declining employment intensity of growth in Indonesia.
  - Nair, et. al. (2006): In Malaysia «technology effects» found to be the most important factor.

- **Economic Reforms:**
  - In China, reforms of state owned enterprises and shedding of excess labour in these enterprises is a major factor in explaining a sharp decline in the employment elasticity of output.
Research findings

- **Macroeconomic Effects:**

  - Kapsos (2005): found that very high rates of inflation tend to have a dampening effect on employment creation. Policy implication is that macroeconomic stability helps employment creation.

  - Reason: volatility affects firms’ willingness to invest and hire, so removing uncertainty helps remove obstacles.
Research findings

Institutional and labour market related effects:

- Empirical evidence on the link between LM institutions and labour market performance shows mixed results. As regards E-intensity of growth:
  - Kapsos (2005): finds that labour market regulations are not statistically significant to explain differences in elasticities. This goes against widely held notion that EPL reduces the demand for labour.
  - Mitra & Bhanumurthy (2006) for India, and Nair (2006) for Malaysia, also fail to find a significant relationship between employment and wages or real labour cost.

- Therefore, the case for labour market flexibility to promote employment growth cannot be argued with any certainty.

- The ILO approach is to combine EPL and security for workers objectives with sufficient flexibility for firms and economies to adjust to global competition (flexicurity)
III. Has there been jobless growth in South East Europe?

And what to do about it?
In CEE as a group there was a steady deterioration in the employment intensity of growth from 1991 to 2003...

Central and Eastern Europe: Employment elasticities 1991-2003

<table>
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<tbody>
<tr>
<td>GDP Growth</td>
<td>2.0</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Employment Elasticities</td>
<td>0.24</td>
<td>0.01</td>
<td>-0.19</td>
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- In fact, Central and Eastern Europe exhibits the lowest employment intensity of growth of all world regions after 1991

Even the last period of positive annual GDP growth of 3.5% went hand in hand with job losses.
The Sector-specific elasticity trends reveal ongoing structural change...

### CEE: Employment elasticities and growth in value added by economic sector 1991-2003

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<th>Agriculture</th>
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<tbody>
<tr>
<td>Average annual value added Growth rate %</td>
<td>0.7</td>
<td>2.9</td>
<td>3.4</td>
</tr>
<tr>
<td>Employment Elasticity</td>
<td>-1.06</td>
<td>0.09</td>
<td>0.47</td>
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- As GDP grew, jobs were shed in both agriculture and industry, while employment in services expanded.

Value added growth in agriculture and industry seem to have been fully driven by productivity growth.
From 2000 to 2004, employment was fairly elastic to GDP growth in some countries but not in others.

Average Annual Rates of Growth of GDP and Change of Employment Rates in SEE, 2000-2004 (in %)
Critical factors that may explain low Employment elasticity of Growth or a Growth-Employment disconnect

- **Statistical problems**

- Growth of Informal Economy may pose two statistical illusions or biases:
  - Too low employment intensity estimate may result if official statistics do not capture rapidly growing employment in informal activities
  - High E-elasticity may also simply reflect supply-side pressure rather than productive employment resulting from genuine demand for labour

- Effect of labour migration and remittances.

- Some institutional regulations lead to under- or over-estimate the true extent of employment or unemployment
Critical factors that may explain low Employment elasticity of Growth or a Growth-Employment disconnect

- Labour saving productivity increase. Where this is the case, policy should be concerned with promoting also labour-intensive sectors as well as high productivity sectors with Employment-Pull potential.

- Effect of EPL: Nesporova & Cazes (2006) found:
  - No evidence that EPL is to be blamed for the poor employment performance in South East Europe
  - No evidence that the reforms taken in the direction of flexibility –which in some cases was excessive- have done much so far to improve labour market performance.
  - Evidence that the reforms have, however, escalated the widespread perception of job insecurity.
The following World Bank arguments deserve interest:

- **Overstaffing**: that existed in most enterprises in the central planning period, enabled firms to promote growth without hiring many more workers.

- **Increasing and high real interest rates** in recent years, channels:
  - High “r” tend to reduce capital investment and job creation. Evidence that investment has been relatively low in transition economies in 90s
  - Incentive for Firms to increase output through more productive use of existing capital and labour (defensive restructurining) instead of new investment that would require hiring workers (strategic restructuring).

- **Loose fiscal policy**:
  - Firms tend to anticipate future increase in interest rates (and possibly taxes) and reduce their hiring.
IV. What can be done about it?

Some policy guidelines to combat jobless growth
Objective is to move the economy to Quadrant IV

<table>
<thead>
<tr>
<th>Quadrant</th>
<th>I</th>
<th>IV</th>
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<tbody>
<tr>
<td>Growth</td>
<td>Growth BUT No Jobs</td>
<td>Jobs AND Growth</td>
</tr>
<tr>
<td>No Jobs</td>
<td>No Jobs AND No Growth</td>
<td>No Growth</td>
</tr>
</tbody>
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1/7/2011 ILO-ED-Employment
What can be done?

- **Growth and Sectoral policy**
  - High growth is important for employment creation but the pattern of growth also matters.
  - To be job-rich growth has to be balanced as between Labour saving high productivity sectors, labour-intensive sectors and dynamic high productivity sectors with Employment-Pull potential.
  - Upgrading resources, raising productivity and connecting with global value chains, are important sectorial strategies (agriculture, industry).

- **Macroeconomic policy**
  - Stability is important but restrictive monetary and fiscal policies should not be overdone.
  - Be mindful of the level of effective demand: low real wages and incomes as well as reduced employment in the presence of inadequate social protection can be a major factor depressing it.
  - Avoid too high interest rates and real appreciation of exchange rates (affects investment and competitiveness).
  - Avoid excessive cutting in social spending. This increases the likelihood of continued growth of informal employment and of emigration.

- **Trade policy**
  - Pay attention to the sectorial sequencing of trade liberalization.
  - Gradual approach that allows orderly adjustment is better than rapid liberalization.
  - Facilitate labour market adjustment via complementary policies: Competitiveness promotion, skills upgrading and other ALMPs.
  - Upgrade your export portfolio by investing in education and skills –
What can be done?

- **Enterprise development, particularly SMEs**
  - Lower the cost of establishing and operating a business
  - Business development services

- **Institutional and labour market related effects:**
  - Excessive protection should be avoided, but existing research does not allow the case for labour market flexibility to promote employment growth to be argued with any certainty.
  - While labour market policy, particularly ALMP, does not generate jobs directly, it lowers the threshold at which growth translates into additional employment