Making Sense of Full Employment In Developing Countries

by
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Presentation at the panel discussion on “Making Sense of full employment in developing countries” at the symposium on The Future of Full Employment

International Labour Office, Geneva

12-13 December 2019

Broad Approaches to Full Employment

- Welfare oriented approach: Sidney Webb (1912) and William Beveridge (1944)
  - ➢ Webb didn't explicitly refer to the notion of full employment
  - ➢ But talks about the
    - ➢ importance of government expenditure in addressing demand deficiency and boosting employment
    - ➢ Public employment exchanges,
  - ➢ Beveridge defines full employment "as a state … in which there are always more vacant jobs than unemployed men"
  - ➢ He suggested "we should be able to reduce unemployment to not more than three per cent to cover seasonal slackness and fluctuations in international trade

Broad Approaches to Full Employment (contd.)

- Technocratic approach:
  - Conceptualized on the basis of Philips curve that shows the relationship between unemployment and inflation rate
  - The limit for full employment is set by non-accelerating inflation rate of unemployment (NAIRU)
  - Unemployment rate cannot be pushed to zero because inflation may start rising before that
  - If a low positive rate of unemployment is consistent with stable inflation, that can be regarded as full employment
  - In developed countries where there is very little underutilization of labour, the concept of NAIRU may be applicable
  - But in developing countries with underutilized labour and other resources, output can grow without sparking cost-push inflation

Estimated NAIRU and Survey-Based Actual Unemployment Rates

Country	NAIRU	Actual unemployment rate
Bangladesh	7.85	4.5 (2015-16)
India	6.04	3.7 (2011-12)
Nepal	6.81	2.1 (2008)
Pakistan	6.73	5.7 (2010-11)
Sri Lanka	6.04	4.2 (2011)

Unemployment Gap and Inflation Trends (South Asia)

Country	Unemployment gap	Trend in inflation
Bangladesh	Virtually unchanged	Decline
India	Increase	Mixed
Nepal	Decrease	Increase
Pakistan	Increase	Increase
Sri Lanka	Increase	Decline

Indicators for Monitoring SDG 8 and Their Limitations

<u>Indicators suggested</u>

- Unemployment rate
- NEET
- Average hourly earnings
- Proportion of informal employment in non-agricultural employment
- Annual growth of GDP per employed person

<u>Limitations from the point of view developing countries</u>

- ➢Importance of good jobs through structural transformation of the economy
- ➢Importance of regular wage/salaried employment
- ➢Importance of jobs in the modern sectors
- ➢Except informal employment, there is not much in the SDG list on structural transformation

An Expanded Framework of Indicators for Monitoring Progress in SDG 8 in Developing Countries

- Employed persons who are not underemployed
- Persons in regular wage employment as proportion of total employment
- Persons in regular wage employment in non-agricultural sectors as proportion of total employment in those sectors
- The rate of growth and proportion of total employment in manufacturing, construction and modern services
- The rate of decline in unpaid family work
- Share of informal employment and the rate at which it declines
- Labour productivity and real wages

Share (%) of Employees in Total Employment

	Earlier Year	Recent Year
Indonesia	33.27 (2001)	48.9 (2017)
Republic of Korea	61.67 (1998)	73.22 (2014)
Malaysia	73.35 (1998)	73.90 (2015)
Thailand	36.50 (1998)	47.1 (2017)

	Earlier Year	Recent Year
Bangladesh	12.6 (1999-2000)	39.1 (incl casual wage employment) (2016-17)
India	47.2 (1999-2000)	47.8 (2011-12)
Nepal	43.5 (1998-99)	45.8 (2008)
Pakistan	39.9 (2001-02)	38.7 (2014-15)
Sri Lanka	59.8 (1995)	57.8 (2016)

Growth of Employment in Manufacturing (South Asia)

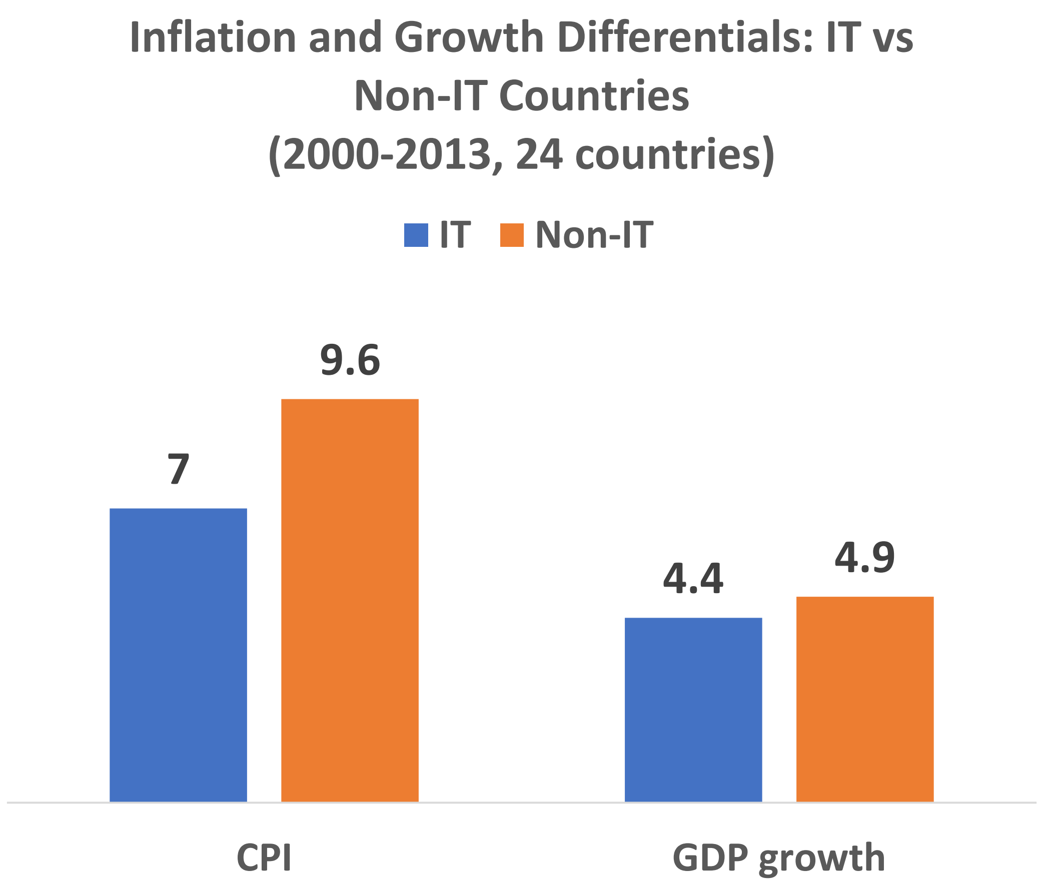
Country	Annual growth rate (%)
Bangladesh	
2005–06 to 2010	6.34
2010 to 2015–16	5.12
India	
1993–94 to 2004–05	3.2
2004–05 to 2011–12	1.5
Nepal	

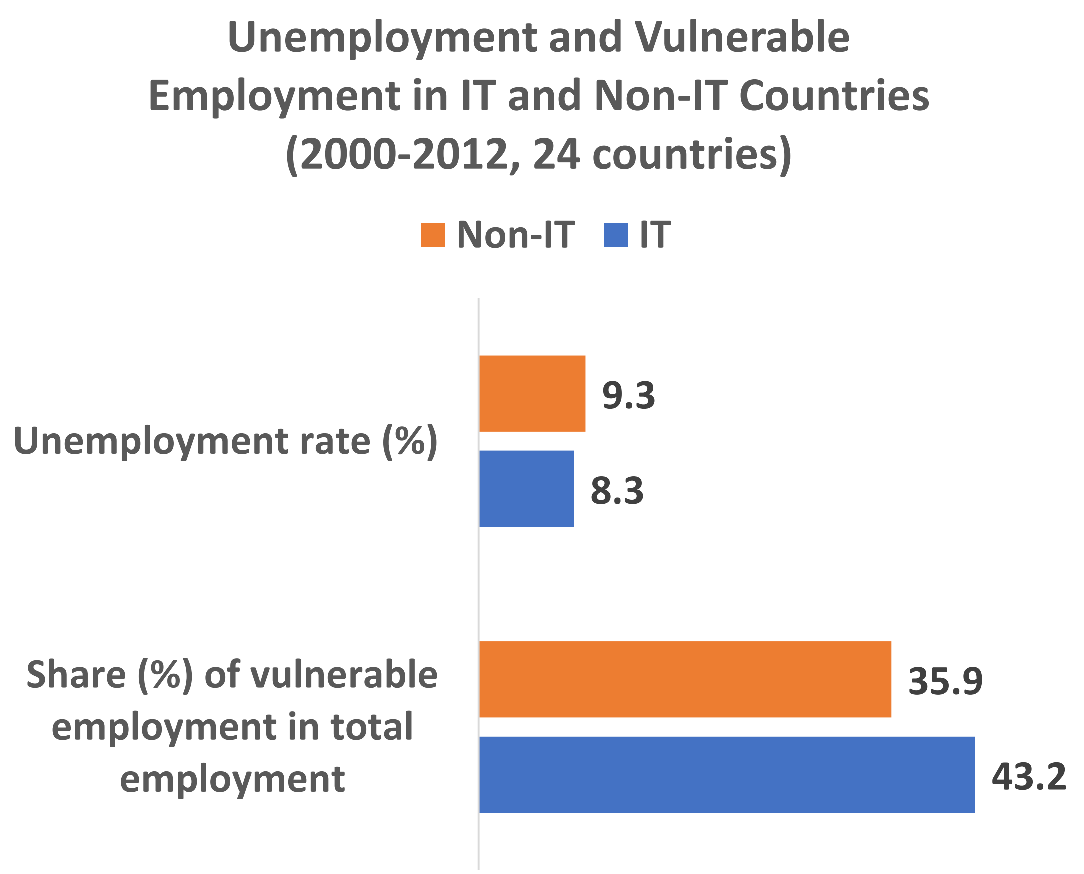
Country	Annual growth rate (%)
Pakistan	
1999–2000 to 2005–06	4.41
2005–06 to 2014–15	3.46
Sri Lanka	
2006 to 2010	−1.75
2010 to 2012	3.35
2013 to 2016	1.31

Structural Transformation for Boosting Productive Employment

- High rate of economic growth is necessary but not sufficient for growth of productive employment
- After decades of controversy surrounding “industrial policy”, there is growing acceptance of the importance of sectoral strategies:
  - Commission on Growth (2008): Need for measures to jump-start the process of job creation by encouraging the growth of new industries
  - IMF (2013): Importance of “selected policy interventions” that might lift barriers to private sector job creation
- High rate of economic growth and labour market flexibility alone cannot solve the problem of slow growth of productive employment
- Pragmatic macroeconomic policies and sectoral strategies needed to boost the growth of good jobs through structural transformation of economies

Role of Macroeconomic Policies: Inflation, Growth and Labour Market

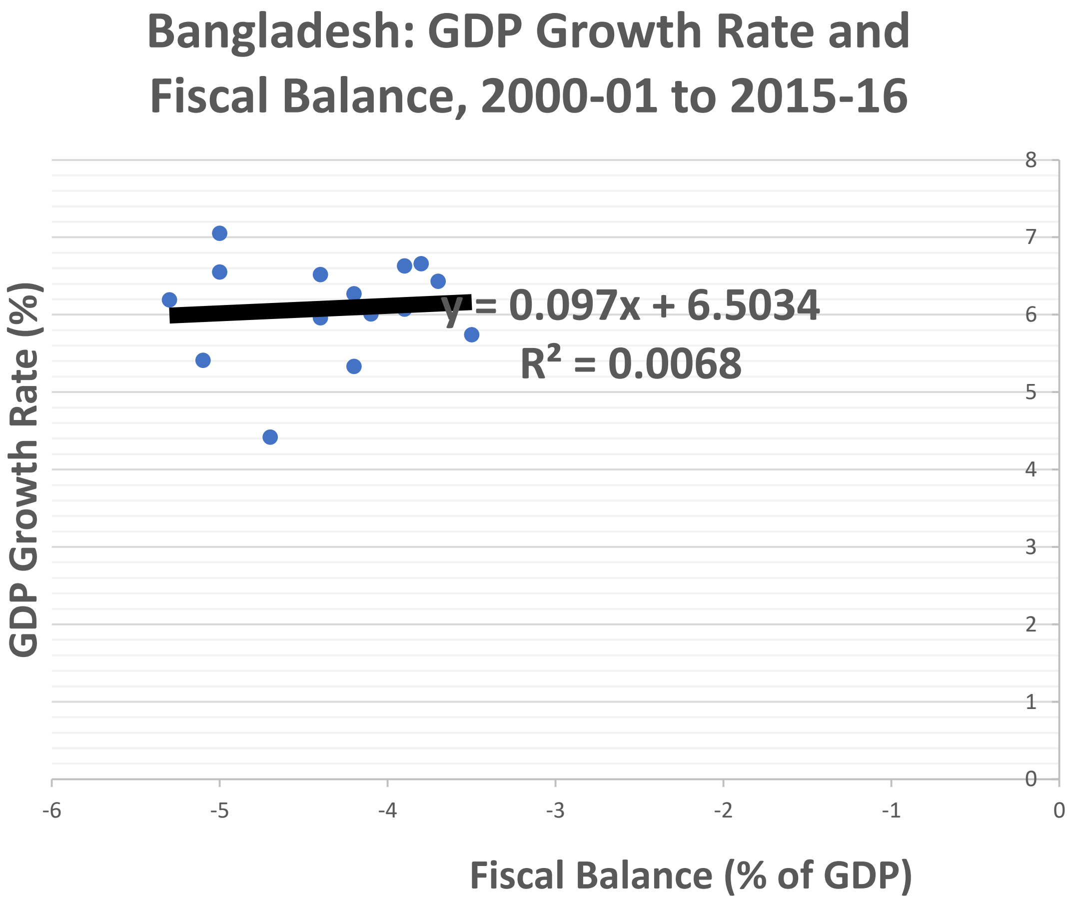


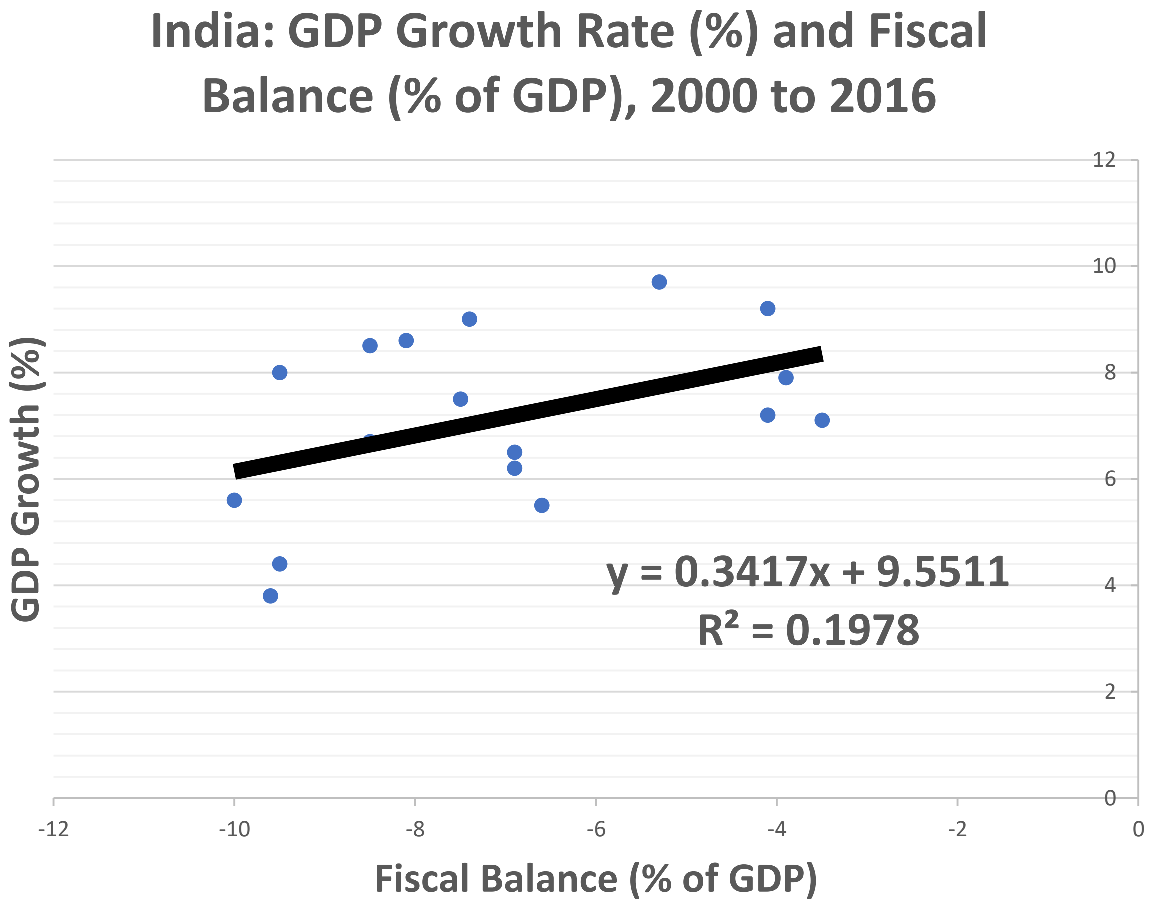


Macroeconomic Policy: Fiscal Rules and Per Capita GDP Growth

Explanatory variable	Statistically significant at least at 5% level (Yes/No) ? (regressions with time effects)	Statistically significant at least at 5%level (yes/No)? (regressions without time effects)
Initial per capita GDP (to test for convergence)	Yes	Yes
Investment	Yes	Yes
Years of schooling	Yes	Yes
Population growth	Yes	Yes
Balanced budget rule	Yes, but with wrong sign	No
Debt limits	No	No
Source: Islam and Islam (2015) – calculations using data from the IMF and World Bank		

Fiscal Balance and GDP Growth: Bangladesh and India





Macroeconomic Policies and Sectoral Strategies

- Sectoral strategies and industrial policy:
  - ➢ Do they mean picking winners without regard to efficiency or good idea?
- Sectoral strategies mean
  - ➢ Identification of key sectors with comparative advantage and potential for job creation
  - ➢ Based on market principles
  - ➢ Identification of binding constraints that inhibit the sectors from reaching full potential
  - ➢ Use of policy to remove the binding constraints
- Constraints that often appear critical:
  - ➢ Access to finance
  - ➢ Inadequacy of infrastructure
  - ➢ Shortage of appropriate education and skills
- Macroeconomic policies can play an important role in removing these constraints

Macroeconomic Policies and Sectoral Strategies (contd)

Policy areas	Instruments
Fiscal policy/ public expenditure management	Resource mobilization for infrastructure, education and health
Monetary policy, financial regulatory measures	Credit guarantee schemes
	Selective credit allocation schemes
	Branchless banking
	Microfinance institutions
	Development banks