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Thinking the labor market for a job-rich economic recovery

ILO Moscow CIS tripartite conferences on employment policies

Webinar V: Economic growth and employment

Comparative country analysis per Duncan Campbell and Philippe Egger

18 November 2021, 12:00-14:00 Moscow time

Views on employment

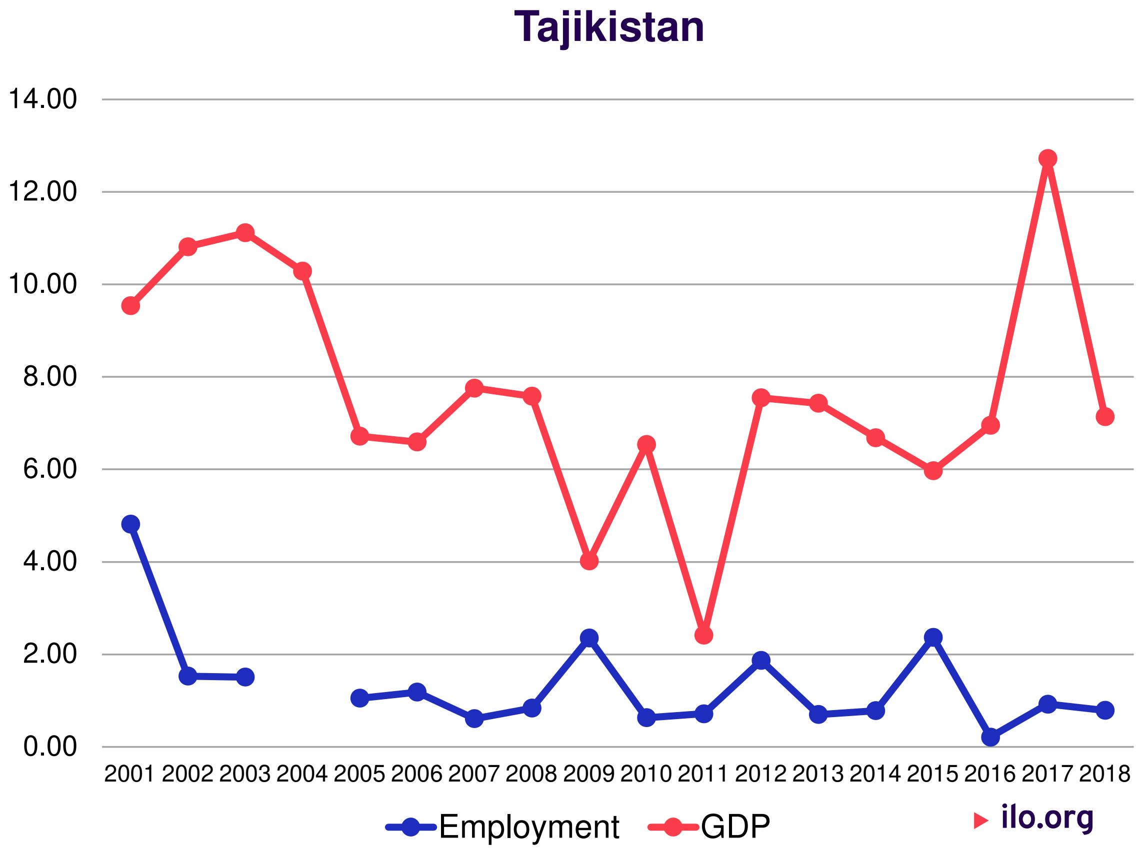
"…. the role of the private sector as a principal source of economic growth and job creation by promoting an enabling environment for entrepreneurship and sustainable enterprise;…" ILO Centenary Declaration for the Future of Work, 2019

- ILO Employment Policy Convention, 1964 (No.122)

"With a view to stimulating economic growth and development, raising levels of living, meeting manpower requirements and overcoming unemployment and underemployment, each Member shall declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment." Article 1

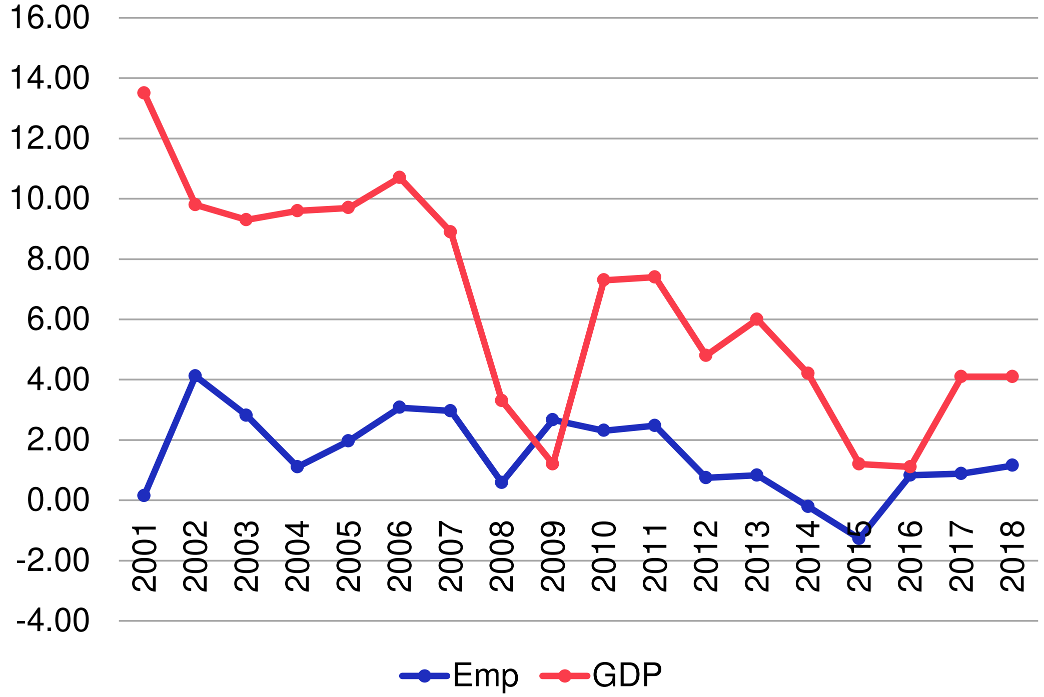
Three dimensions of employment: (a) an income, (b) an output, (c) social integration and personal dignity

GDP and employment (annual growth rates, in per cent): different paths?

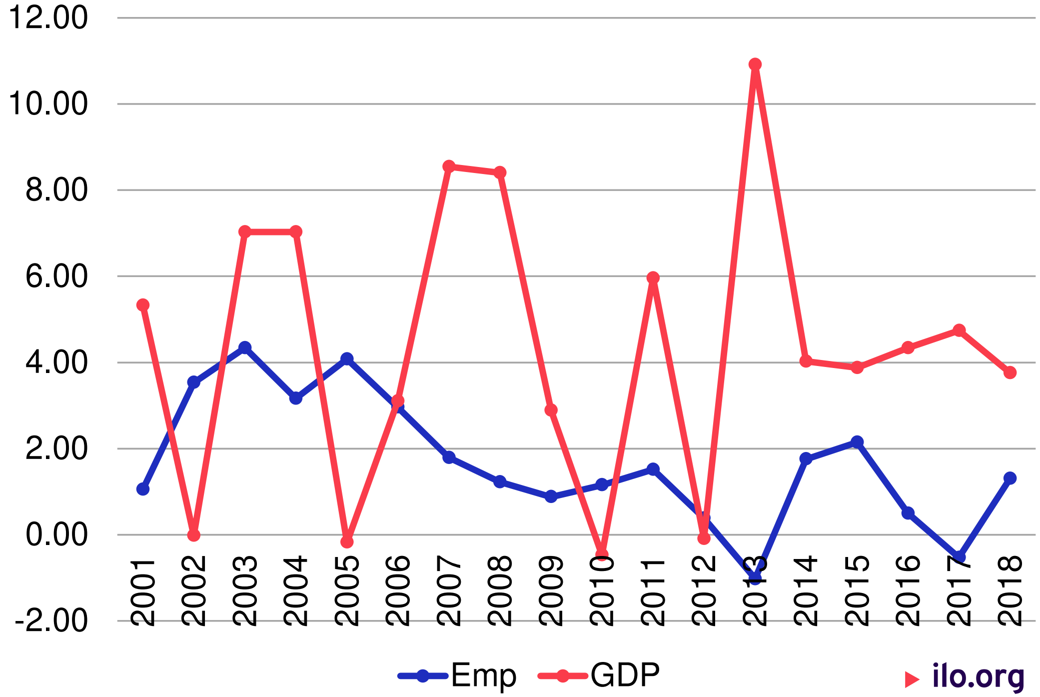


GDP and employment (annual growth rates, in per cent): different paths?

Kazakhstan



Kyrgyzstan



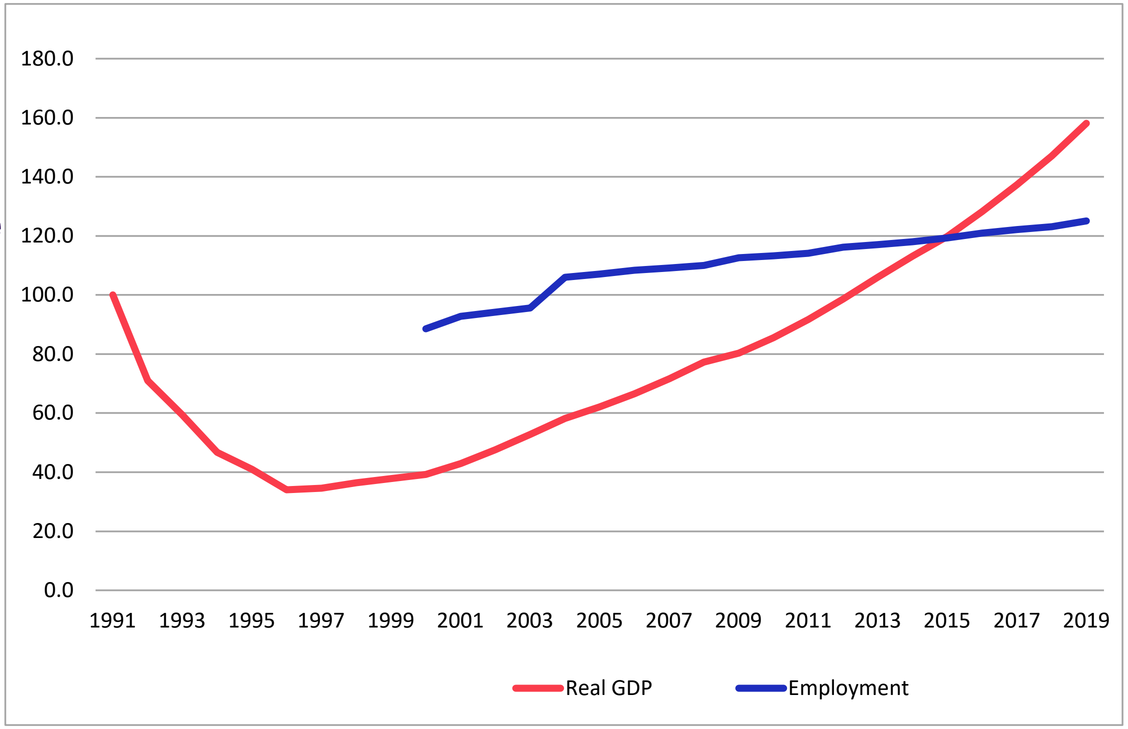
Employment elasticity is a long term relation of the employment intensity of economic growth

In the short term employment is relatively inelastic to changes in the economic cycle, in downturns and in upturns

The global crisis of 2008 and of 2020 (pandemic) are cases in point

Whether employment contracts and recovers quickly or slowly depends much on the nature of the crisis and country characteristics, including labour market regulations

An example of long term trends in GDP and employment in Tajikistan (index 1990 =100)



Economic growth = employment growth + productivity growth

$$Y = L + Q$$

Y = GDP growth

L = growth in working age population, labour force or employment

Q= productivity growth (output per employed, total factor productivity)

Productivity results from investments, technology, skills, organization of work, logistics

Employment: Supply side = demography, growth of working age population, growth of labour force participation rate;

Demand side = enterprises recruit labour when sales prospects rise

In Central Asia and South Caucasus economic growth results largely from growth in productivity, much less of employment (2001-18)

Decomposition of one percentage point of growth into employment and productivity components (in per cent)

On average across the sample of countries, productivity accounts for 75 per cent of GDP growth

	Azerbaijan	Kazakhstan	Kyrgyzstan	Tajikistan
Employment	14.7	23.2	38.2	24.3
Productivity	85.3	76.8	61.8	75.7

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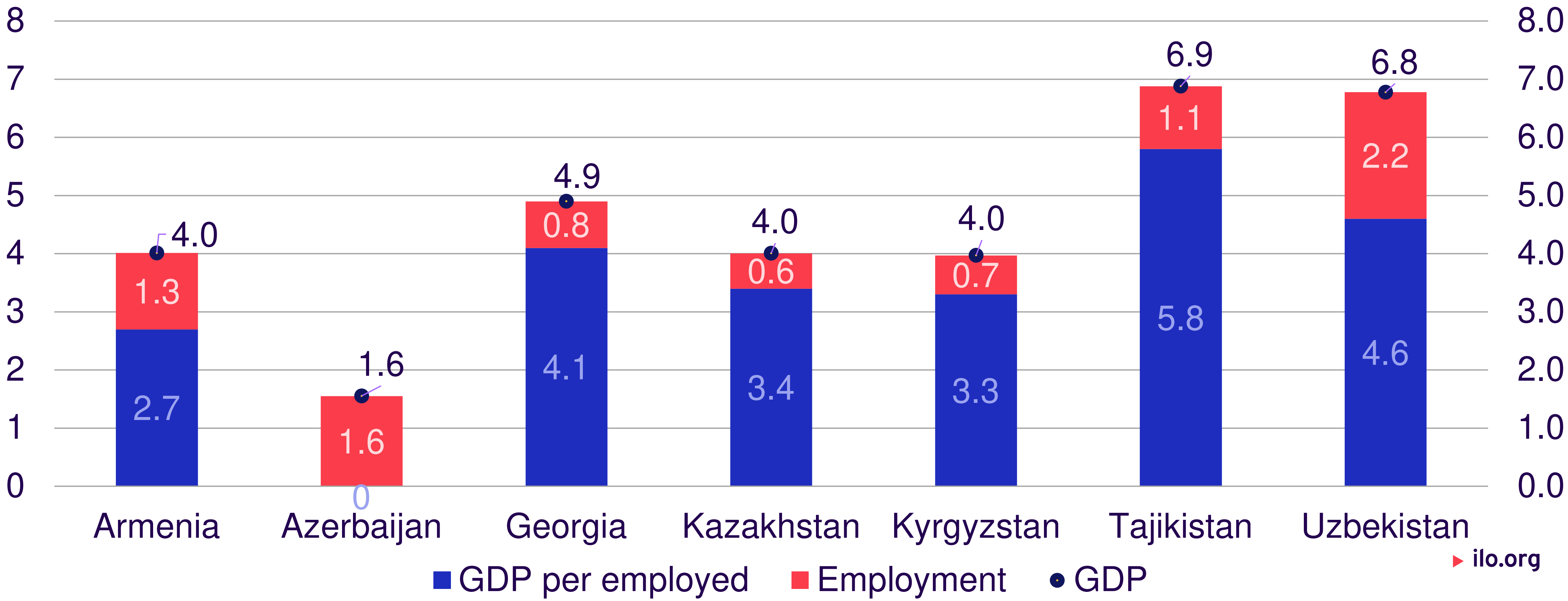
Employment elasticity is low

(one percent growth of GDP generates 0.25 per cent growth of employment on average across the four sample countries, 2001-2018

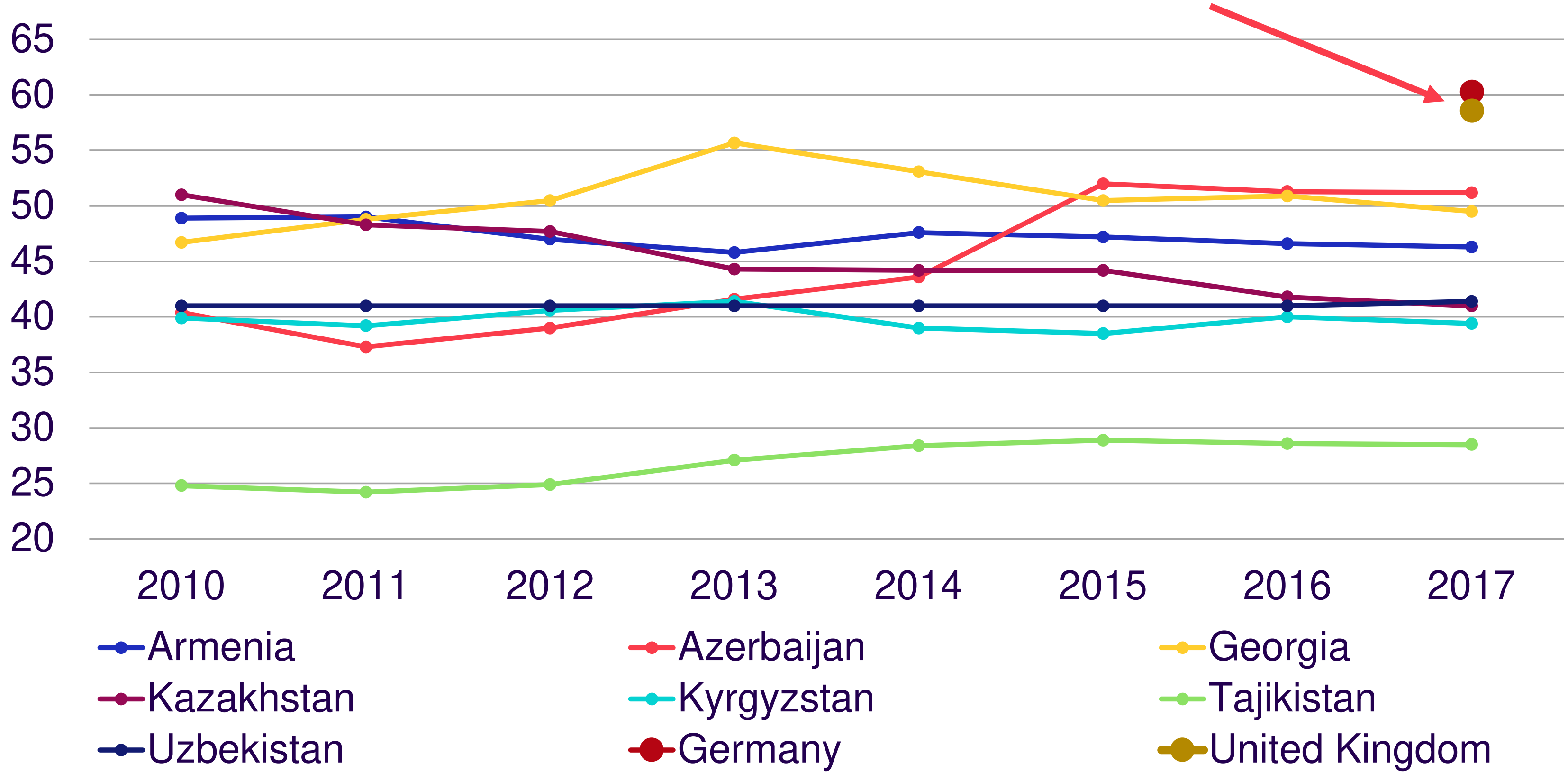
	Azerbaijan	Kazakhstan	Kyrgyzstan	Tajikistan
Employment	1.31	1.51	1.68	1.87
GDP	8.9	6.5	4.4	7.7
ΔEmployment/ΔGDP	0.15	0.23	0.38	0.24

By comparison, Turkey (2007-18): **0.6**; EU (2007-18): **0.5**

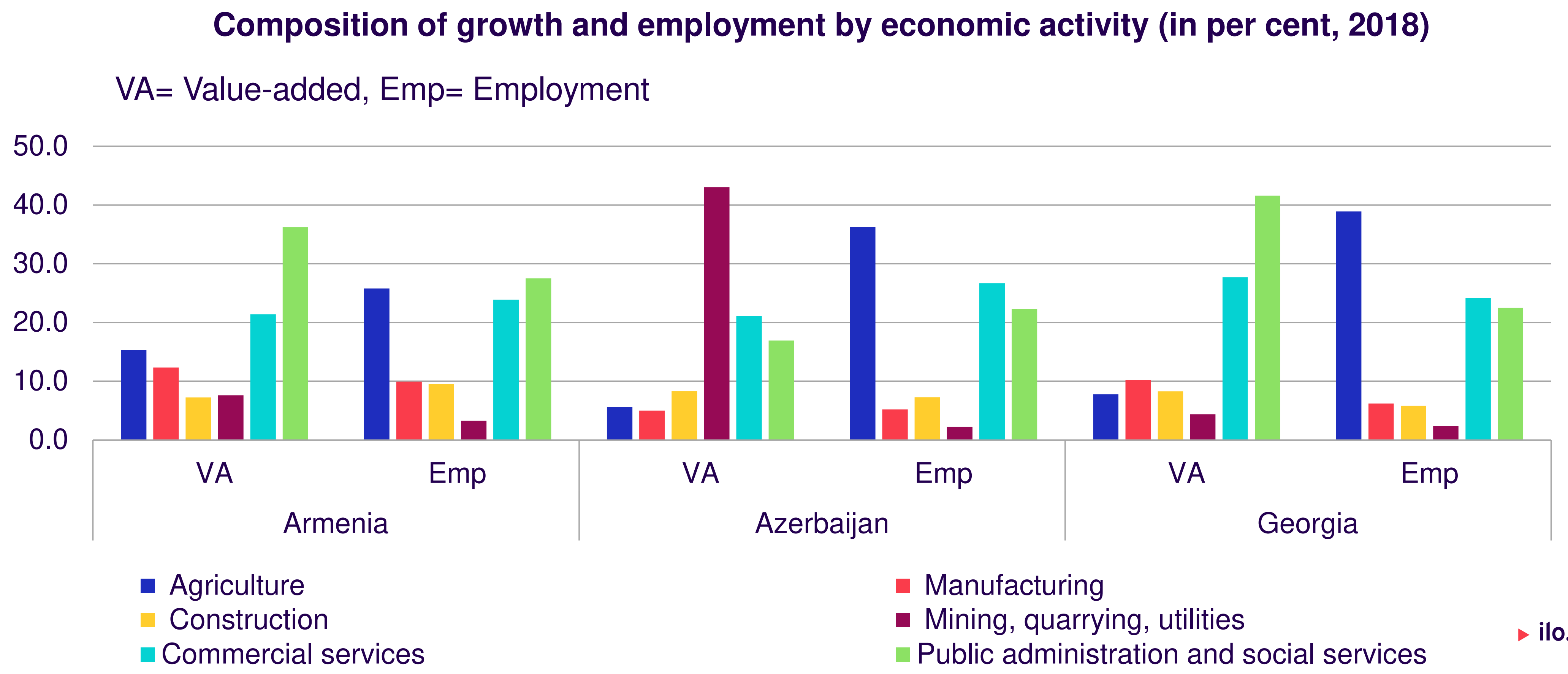
Decomposition of economic growth into GDP per employed and employment, 2010-17, in per cent



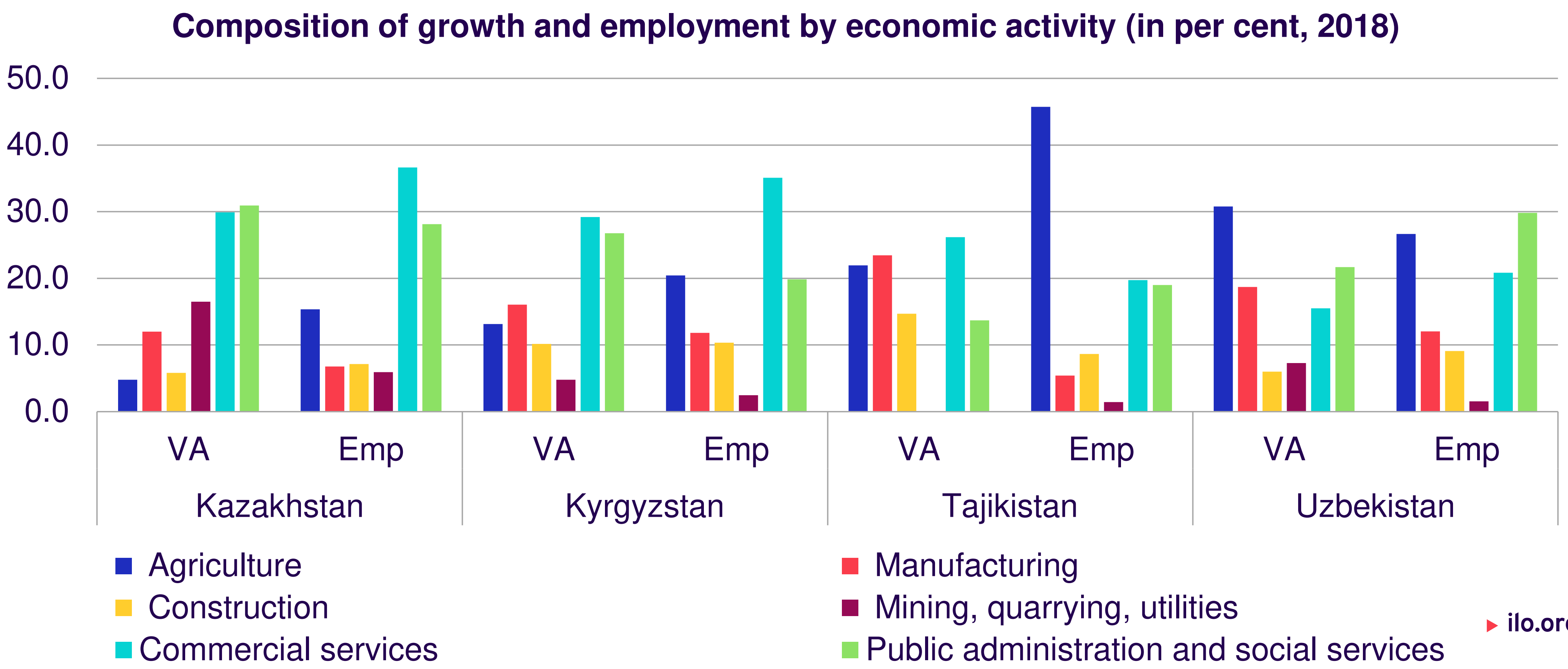
Share of wages in GDP at 30-50 per cent of GDP is low relative to higher income countries



Share of employment in high productivity sectors is low



Share of GDP in low productivity sectors is high



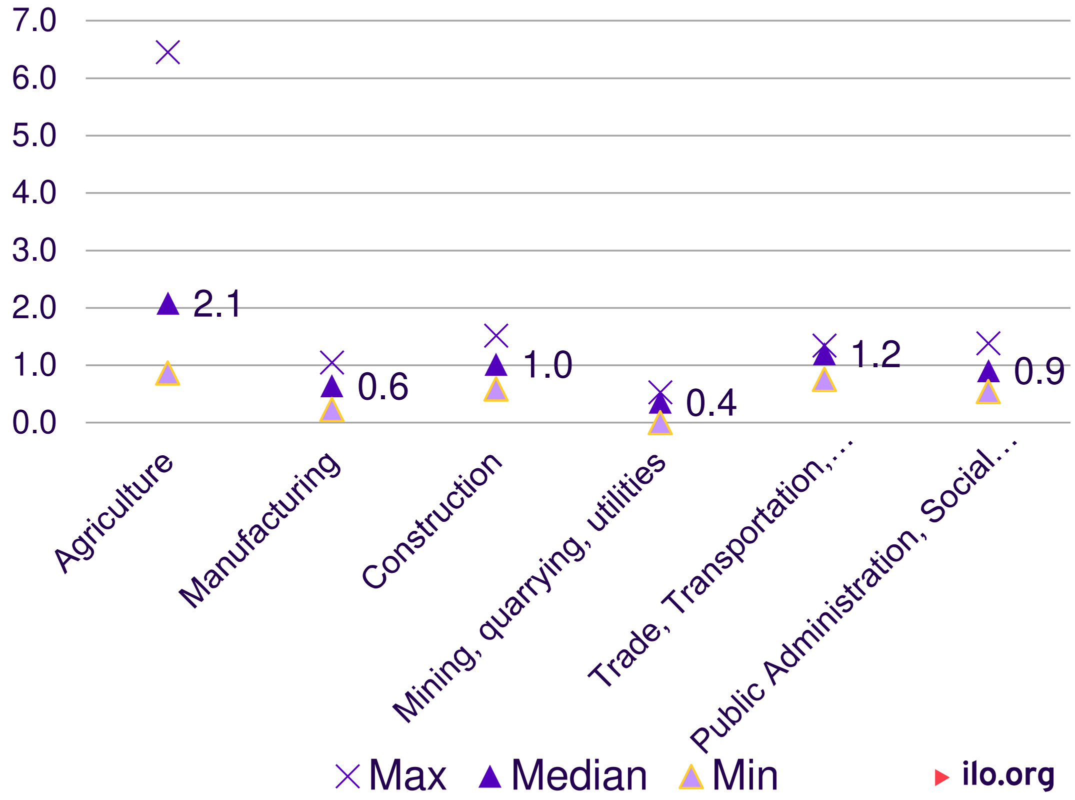
Is agriculture an employer of last resort?

The median ratio of employment over GDP (across sample countries) shows large variations

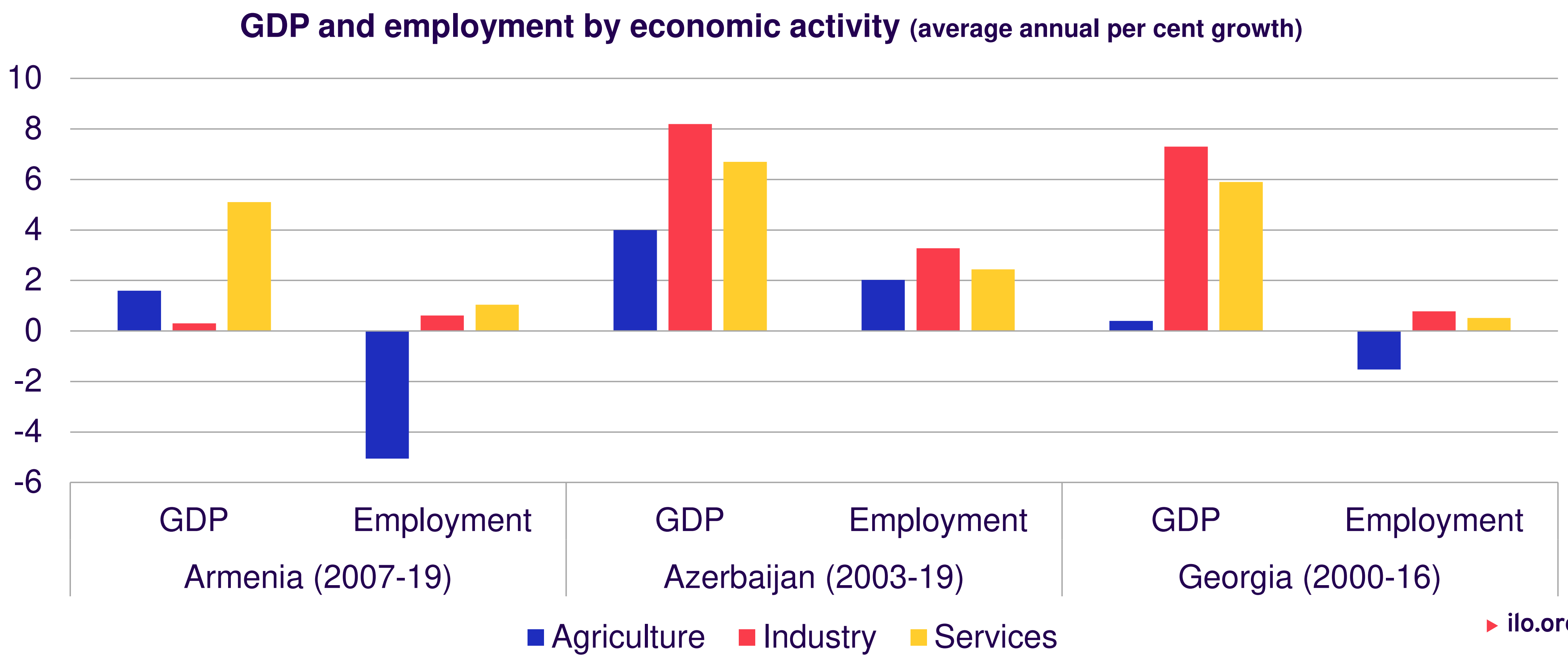
Read: On average (median) the share of employment in agriculture is two times larger than the share of value added, whereas the share of value added in manufacturing is larger than the share of employment

On average, agriculture absorbs 30 per cent of total employment, services 51 per cent and manufacturing 8 per cent,

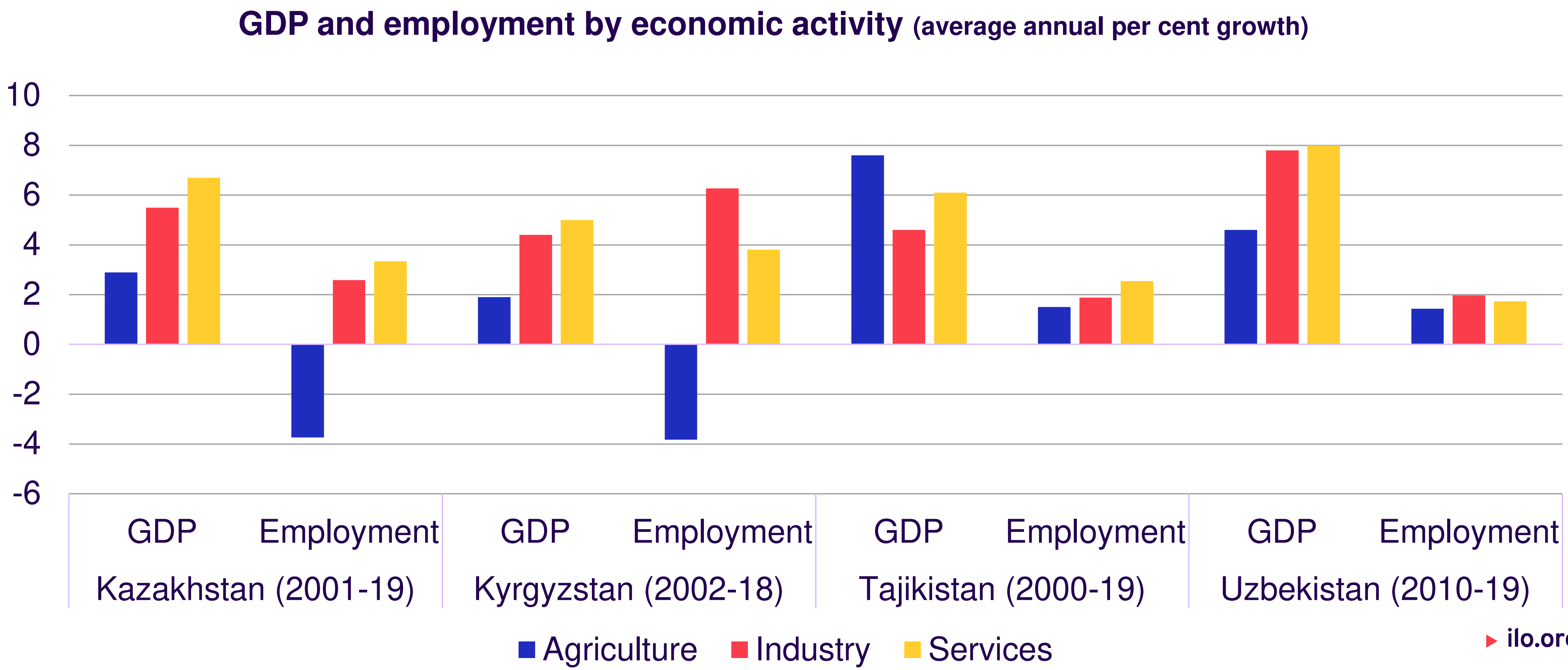
Value added is dominated by services (51 per cent), followed by manufacturing and agriculture (14 per cent respectively) and mining and construction (12 and 9 per cent respectively)



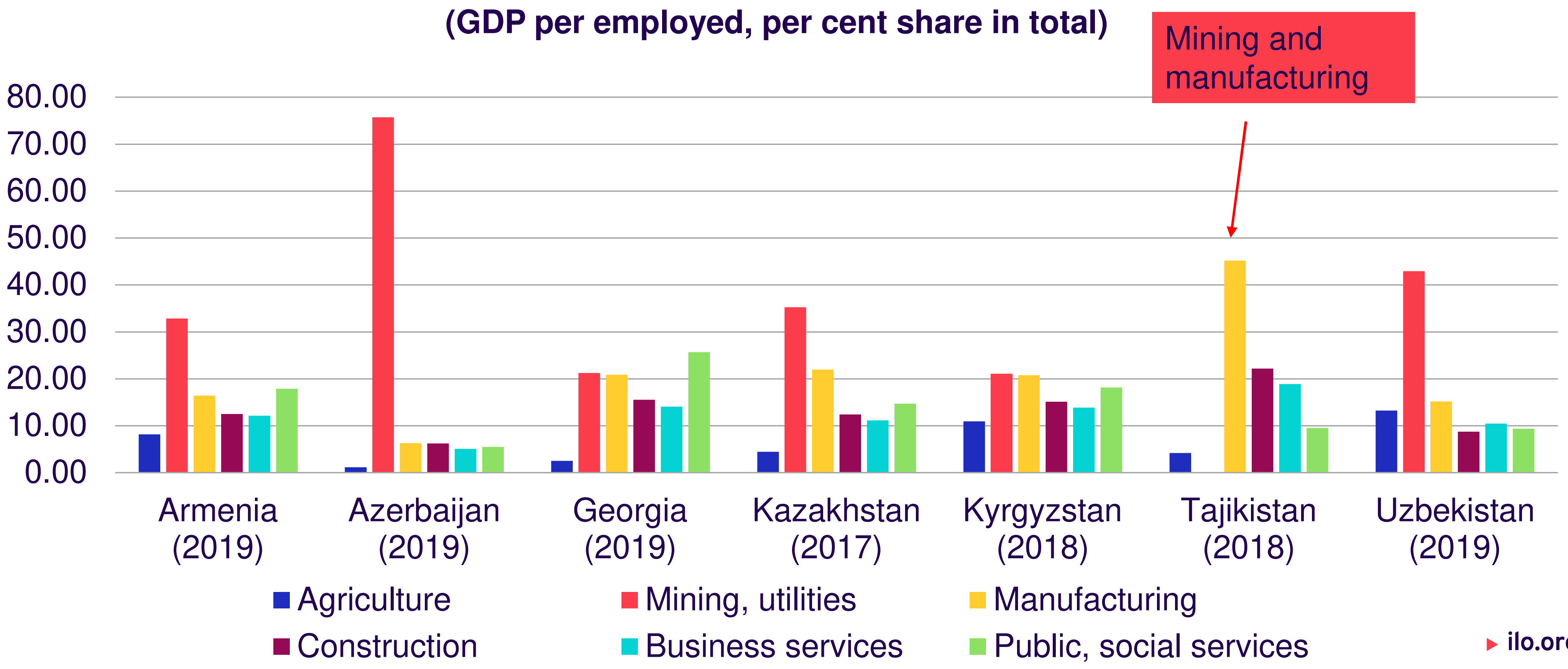
Services and industry lead GDP and employment growth



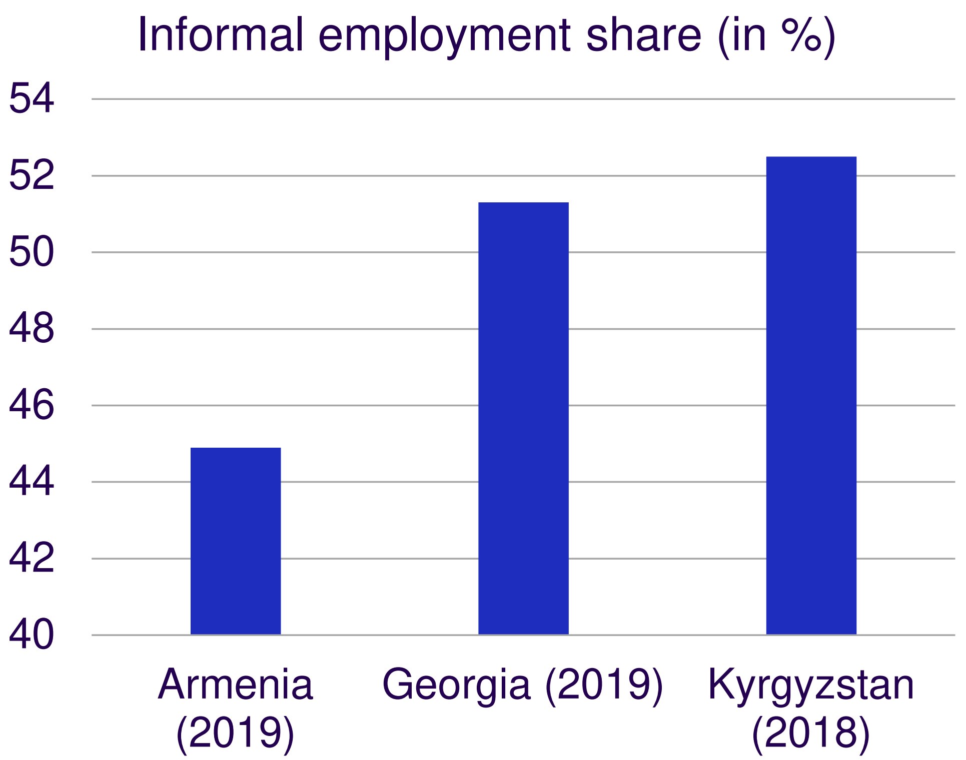
Services and industry lead GDP and employment growth

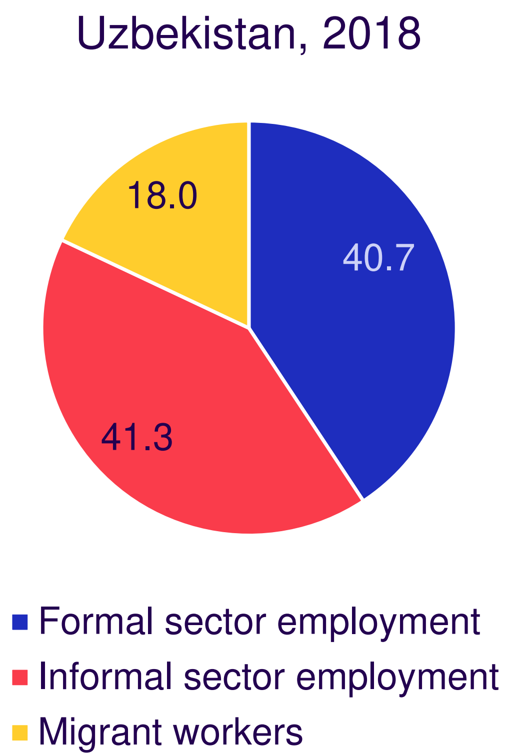


Mining and manufacturing top productivity

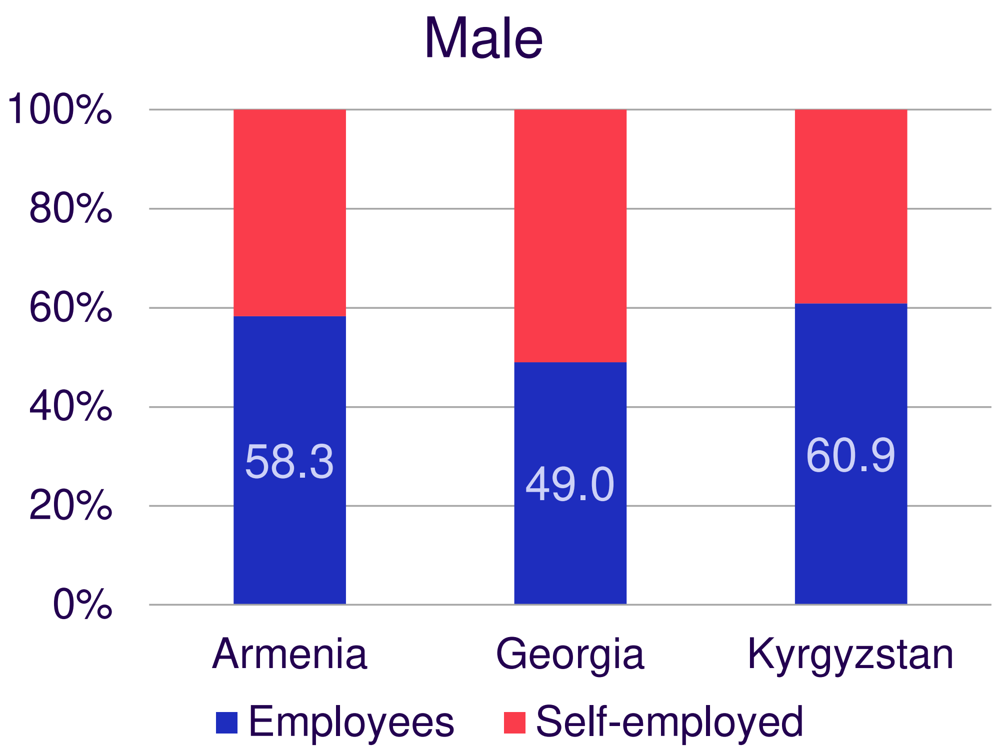


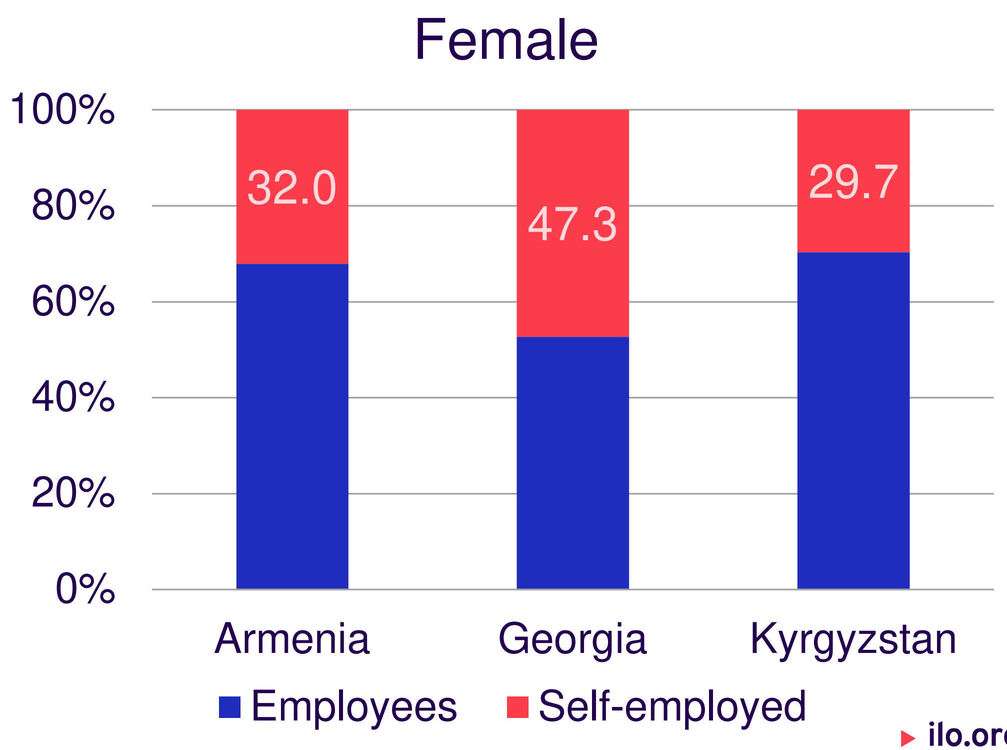
Deficits in employment quality and quantity





Share of self-employment is high, lower for women than for men





Wages are a key dimension of employment quality, data on wage levels and wage distribution are too often unavailable

Common indicators include:

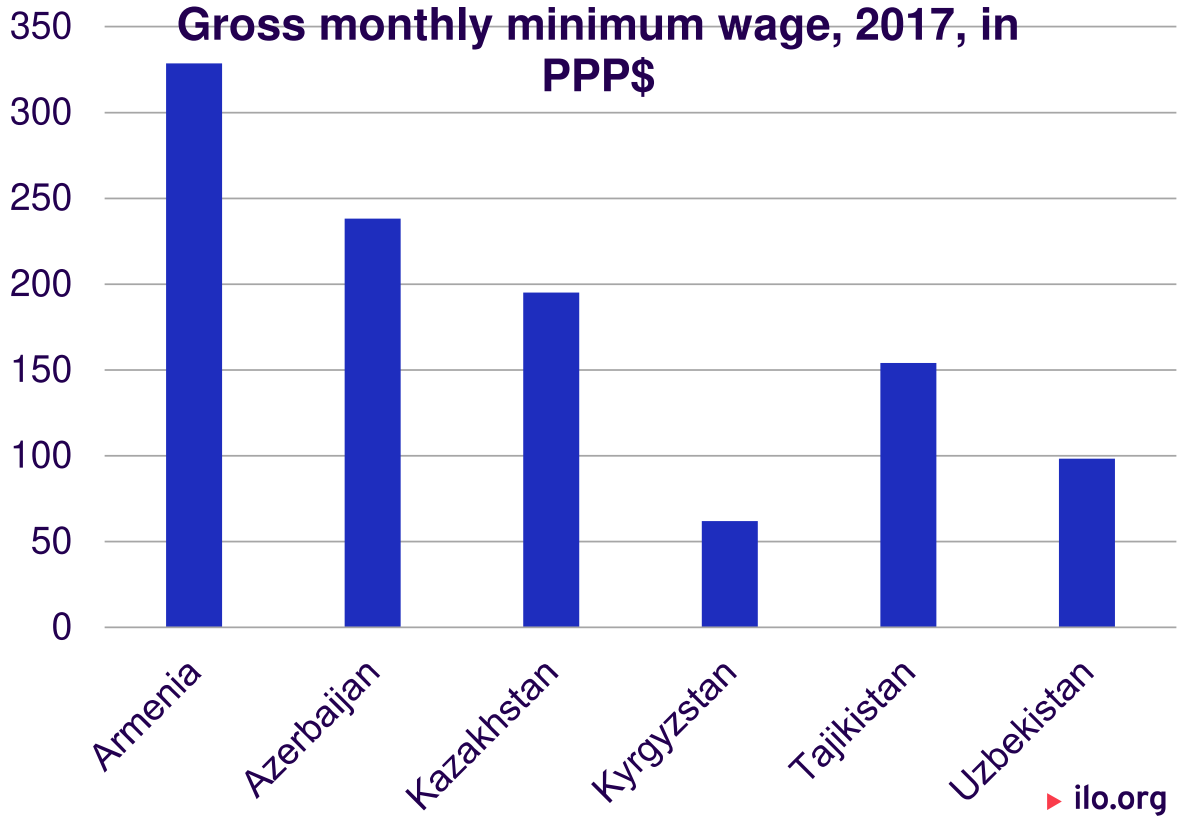
Median wages,

Wages by occupations/economic activity/regions/rural-urban,

Share of employees earning minimum wage (low pay share),

Male/female wage differences,

Purchasing power of wages (deflated by CPI),



Potential GDP growth: Future trend growth

Sum of future growth (2020-40) in working age population (20-74 years), and

past trend growth (2010-19, three-year moving average) in output per worker (GDP per worker in constant 2011 international dollars in PPP)

	2020-40	2010-19	
	Population 20-74 years	Output per worker	Sum
Armenia	-0.23	5.3	5.1
Azerbaijan	0.28	0.1	0.4
Georgia	-0.62	4.3	3.7
Kazakhstan	0.88	3.2	4.1
Kyrgyzstan	1.39	3.5	4.9
Tajikistan	2.06	5.1	7.2
Uzbekistan	1.14	4.9	6.0

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Some tentative conclusions

- Weak link between GDP growth and employment,
- GDP growth mainly driven by productivity growth: can this be sustained?
- Yet manufacturing is a small share of total output and employment
- And share of employment in agriculture is still high
- Share of wages in GDP (income view) is low
- Future growth (potential growth) is hampered by slow demographic growth but boosted by robust productivity growth, driven mainly by minerals and oil

How to achieve high and sustained growth of output and employment?

Is it only about "stabilize, privatize and liberalize"?

Or is it also about promoting investment in new sectors, diversifying exports and tradables, ensuring mutually supportive public policies and private ventures.

See The Growth Report, World Bank, 2008; J.Stiglitz, 1996, "Some Lessons from the East Asian Miracle" World Bank Research Observer