

Global Employment Policy Review 2020

Employment Policies for Inclusive Structural Transformation

Foreword and Introduction



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Foreword

The Global Employment Policy Review (GEPR) is a new biannual publication initiated by the International Labour Office's (ILO's) Employment Policy Department. The purpose of the GEPR is to further the ILO's contribution to global employment policy debates by giving greater visibility to ongoing policy-oriented research as well as to spur new policy-oriented research. The GEPR brings together contributions from ILO's wider global employment team, including ILO colleagues in the headquarters office in Geneva as well as in the field offices, providing a strong regional perspective on economic policy debates.

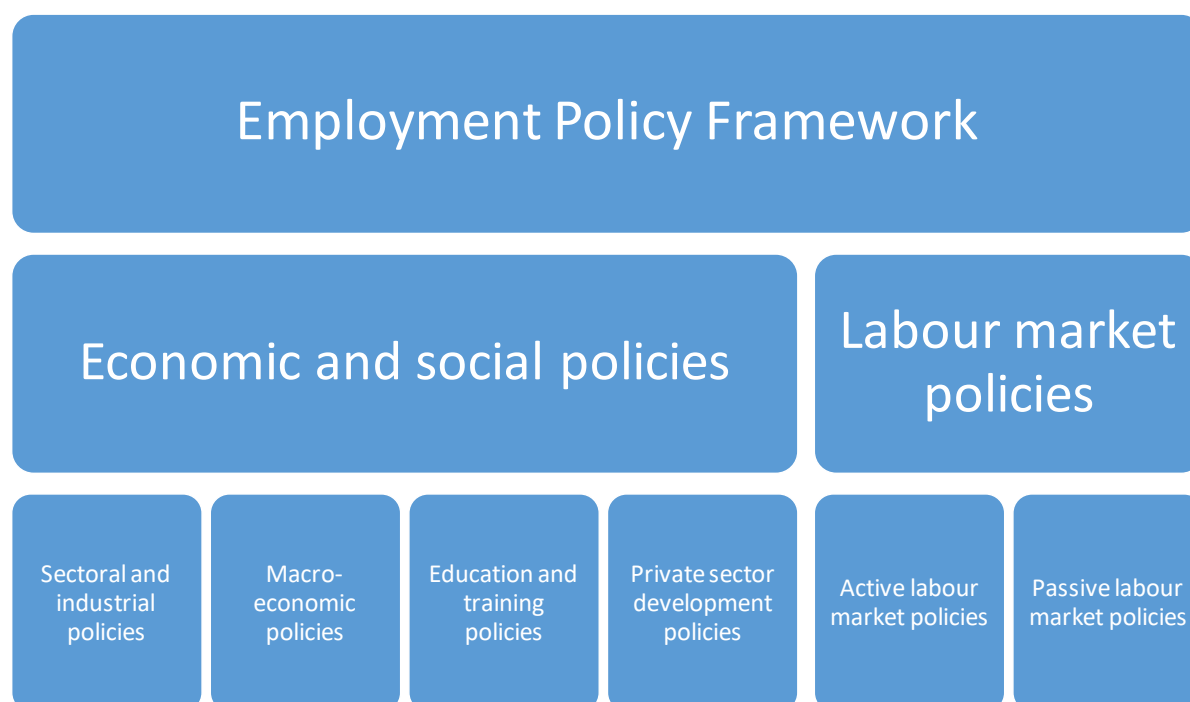
Regarding the title of the GEPR, the word "review" rather than "report" was chosen advisedly, for the GEPR is not a report in the typical sense of the word. At the core of the GEPR are a set of thematic chapters addressing both persistent and emerging policy challenges, not shying from those that are difficult or indeed contentious. Each chapter is meant to be self-contained and represent the viewpoints of the authors of their respective chapters, while endeavouring to present clear policy messages. At the same time, the chapters are selected to best demonstrate our current thinking on global employment policy challenges. The GEPR puts particular emphasis on challenges of policy design and implementation, so that the chapters have as much relevance as possible to countries in the process of developing and introducing new employment policies as well as reforming existing ones.

Introduction

Overall introduction to the GEPR

The ILO's work in the area of employment policy is guided by the Employment Policy Convention (No. 122) of 1964, which states that ILO member States that have ratified the Convention “shall declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment.”¹ More specifically, it works on two broad categories of employment policy: economic and social policies and labour market policies. Under the former are sectoral and industrial policies, macroeconomic policies, education and training policies, and private sector development policies; under the latter are active and passive labour market policies (Figure 1). (We use the term sectoral policies rather than industrial policies hereafter, to make explicit that we refer to not just industry in the narrow sense of the term, but also the agricultural and service sectors.)

Figure 1: Employment Policy Overview



While each chapter of the GEPR is meant to stand on its own, we nonetheless gave priority in this first edition of the GEPR to selecting chapters that address the structural transformation of economies. Central to the notion of structural transformation are compositional shifts in employment and output towards higher productivity sectors of the economy, particularly “leading sectors” characterized by economies of scale and macroeconomic spillovers. Such shifts are argued to give rise to productivity gains within both contracting and expanding sectors. These productivity gains enable higher worker incomes, shorter working hours, and better working conditions more generally, provided productivity gains are equitably distributed. In this sense, structural transformation from the ILO perspective is

¹ As of 2019, 113 ILO member States have ratified Convention 122.

concerned with both the quantity and quality of employment. Such compositional shifts also typically occur alongside shifts from rural to urban areas, which can give rise to increased urban informal employment and so are linked to rural development policies. In a narrow sense, sectoral policies are about facilitating structural transformation towards more productive sectors and product and process upgrading within all sectors. But sectoral policies also involve investments in infrastructure and skills development as well as conducive macroeconomic and trade policies, often with the objective of stronger integration into international markets. In the pressing context of climate change, sectoral strategies must also address the job creation potential of investments in climate change mitigation and adaptation.

This edition of the GEPR does not purport to be a comprehensive report on structural transformation and sectoral policies. Nonetheless, the chapters of the GEPR address many of the above issues. These include chapters on the following:

1. Processes and institutions underlying the design and implementation of sectoral policies, together with a comparative survey of methods for identifying potentially promising sectors for structural transformation and trade expansion
2. Developing skills policies for promoting trade and employment
3. The role of employment-intensive investment programmes in contributing to peace and resilience
4. Developing policies that combine the creation of decent work alongside a just transition to environmental sustainability, particularly in the context of national employment policies (NEPs)
5. A comparison of policy approaches for transitioning to formal employment in Africa, Asia and Latin America

This introduction closes with a brief summary of each of these five chapters. Before these summaries, though, we next provide a brief discussion of why there has been a resurgence of interest in sectoral policies and structural transformation in recent years, for which the works of Stiglitz et al. (2013), Salazar et al. (2014), UNCTAD (2016) Rodrik, McMillan and Sepulveda (2016), and Cherif and Hasanov (2019) provide particularly useful perspectives.

Sectoral policies are a means to the end of structural transformation and were prevalent in development policy discourse and practice in the immediate post-World War Two decades, which experienced exceptionally high rates of economic growth. As argued by UNCTAD (2016), “No country has made the arduous journey from widespread rural poverty to post-industrial prosperity without employing targeted and selective government policies to shift the production structure...” (p. 176). Sectoral policies were challenged in the 1980s by the emergence of the so-called Washington Consensus, which focused on macroeconomic aggregates such as government debt and deficit targeting as well as inflation targeting, and gave considerable emphasis to policies to attract foreign investment. Such targeting was central to Washington Consensus structural adjustment policies, though the meaning of “structural” was of course fundamentally different than in structural transformation, concerned as the latter is with compositional shifts in output and employment and their macroeconomic and developmental implications. The Washington Consensus arose amidst the broader attack in the 1980s on the role of the State alongside the liberalization of international capital markets with the collapse of the Bretton Woods System.

Yet even during the height of the Washington Consensus, the most rapidly growing developing countries made extensive use of sectoral policies, with the cases of the East Asian Tigers and China more recently providing perhaps the most visible examples. Set against these examples were the relative failure of many developing countries that hewed closely to structural adjustment policies. The

global crisis of 2007-2008 also led to considerable questioning by mainstream economists of the core tenets of the Washington Consensus. Taken together, these developments led to a renewed interest in and appreciation of the positive role that sectoral policies played and can continue to play in economic development. Though WTO rules have created constraints on sectoral policies, there is a consensus that considerable scope remains for developing countries to undertake such policies (Aggarwal and Evenett, 2014; UNCTAD, 2016).

There is a recognition that sectoral policies can indeed have negative distorting effects and that protective tariffs can be overdone. Yet key contributors to these debates also argue that even ostensibly horizontal development policies – such as investments in education and infrastructure – will inevitably end up benefitting some sectors over others, and thus that vertical sectoral targeting is in a sense inevitable (Stiglitz et al. 2013; UNCTAD, 2016). Approaches to sectoral targeting have evolved, however, with Salazar et al. (2014) writing that “The use of top-down planning mechanisms in support of infant firms has, over the years, given way to a more decentralized approach, using an expanded range of support measures and instruments which aim to build clusters and linkages” (p. 20). At the same time, there is a wide appreciation that sectoral policies need to be accompanied by supportive macroeconomic, trade, labour market and skills policies in integrated policy packages and that sectoral policies should promote inclusive structural transformation that centrally addresses the equitable distribution of productivity gains and the creation of decent jobs.

The current discussion on sectoral policies is also widening in scope to consider learning and knowledge accumulation as central objectives (Stiglitz et al. 2013; Salazar et al. 2014). Stiglitz et al. (2013) argue that “the issues of diffusion of learning throughout society to equip and empower all private agents have received little attention, in marked contrast to those of resources allocation...Externalities in learning and discovery support and *infant economy* argument for governmental intervention that Greenwald and Stiglitz (2013) argue is far more robust than the conventional *infant industry* argument” (pp. 10-11, emphasis added). Learning implies uncertainty and risk. So a key preoccupation of sectoral policies must be how and when to shift away from policies that have not panned out, not least policies that failed in successfully promoting the expansion of a targeted sector.

Structural transformation and sectoral policies are central to the work of ILO, given its significant work programmes on macroeconomic, skills, labour market, trade and labour market policies, as well as on employment impact assessments of policy interventions, transitioning to formal employment, and infrastructure investments. It is hoped that this first edition of the GEPR will provide insights into some aspects of our work in this regard that will prove useful to policy makers and other readers.

Chapter Summaries

Summary of Chapter 1: Industrial policies for structural transformation: processes, institutions and methods

Authors: David Kucera, Dorothea Schmidt-Klau, Johannes Weiss

There is a renewed interest in a new generation of industrial policies (IPs), which is motivated by the belief that well designed and implemented IPs are key to sustainable structural transition processes. This leads to questions such as the following: How can policy makers ensure that they get the process to design IPs right? What factors have an impact on the implementation of such processes? What methodologies exist to select the “right” industries? This chapter seeks to answer these questions.

Part one includes the following five country case studies: (1) Basque Country, (2) Costa Rica, (3) Ghana, (4) South Africa, and (5) Vietnam. These cases show that a solid document called “industrial policy” is not a guarantee for implementation success, which in turn leads to structural transformation in a country. Where the design phase was used to really discover the nature of the economy and the potential of sectors, there was a higher likelihood of implementation success. Moreover, IPs need time to be designed and implemented properly. They need to be part of a coherent policy package and aim for the same developmental and economic goals as the overall strategy for the country. They also have to be a moving target, which regularly re-adjusts to changing circumstances. Possibly the most important lesson that can be drawn from the comparison is that the identification of sectors as well as the constant monitoring and evaluation will only succeed when as many partners as possible are involved. This means in particular that a selection of industries dominated by the government will not have the stakeholder buy-in for successful implementation. The analysis also found little evidence of involvement from workers organizations in most cases and it is likely that their involvement would further increase policy effectiveness.

One of the outcomes of this first part is that identifying the right sectors is crucial and needed as part of a self-discovery process but complicated. It needs to be based on dialogue and wide-ranging participation of all relevant stakeholders and on a solid analysis of the situation within a country. This is why part two of this chapter identifies three methods to provide guidance in identifying promising products and corresponding sectors for promoting export expansion and structural transformation. These are (1) the growth identification and facilitation framework, (2) the economic complexity and product space method, and (3) the International Trade Centre’s (ITC) export potential and product diversification indicators.

Part two considers each of these three methods in turn and compares results among them. It uses Uganda as an illustrative example because the methods have been applied to in-depth studies of this country. As the economic complexity and product space and ITC methods each yield two distinct sets of sectors, results for five sets of sectors are considered altogether. Part two closes with an overall assessment including implications for the creation of decent work. Overall, structural transformation should not be viewed as an end in itself, but as a means to create more and better jobs, i.e. “decent work”. This occurs through compositional shifts toward higher productivity sectors (whether new or established), associated increases in productivity within both expanding and contracting sectors, and economic growth more broadly. While all three methods are concerned with job creation, they differ in how integral this is to the methods themselves.

Summary of Chapter 2: Making trade more employment friendly: the role of skills policies

Authors: Cornelius Gregg, Bolormaa Tumurchudur-Klok, Olga Strietska-Ilina

Over recent decades, trade has helped to drive economic growth in developing, emerging and industrialized economies, raising incomes, and sharply reducing the incidence of poverty in emerging and developing countries. In recent years, however, growth in trade has slowed, and the consensus in favour of continued trade liberalization has weakened. There has been an increasing perception that the global trading system is not delivering opportunities for all; that too many are being left behind, and that a tilted playing field affects the outcomes of trade.

Investing in skills can help make trade more acceptable, through making it more inclusive and employment friendly, and through helping to rebalance the playing field for competition in trade.

Investing in skills is both a necessary enabler for effective participation in trade by countries at all levels of development, and one of the key levers to improve the labour market outcomes of trade.

Along with technology, trade is a key factor shaping the future of work, both through the global diffusion of knowledge it drives, and the competitive pressures it exercises. It drives the continual change in workplace skills needs calling for effective lifelong learning, from pre-school to retirement, and making it centrally important to employability of workers at all occupational levels. This sharpens the need for lifelong learning to be inclusive, embracing not only those who are already well skilled, but also those at risk of being left behind.

It is mostly recognized by policymakers that skills development is important to trade outcomes, and this is reflected both in national trade strategies and national skills strategies. However, these strategies frequently lack the granularity in focus required to formulate actionable skills policies for tradable industries. The sense of urgency for such policies is growing due to rapid technological changes which are shifting the contours of the global trading system. The chapter aims to highlight key aspects of this shift relevant to policy learning, and to address key elements for effective skills response measures. It makes use of evidence from ILO STED sector skills studies, from a review of national policies trade and on skills, with corroboration from a US case study on recovering manufacturing sectors that uses big data on vacancies advertisements.

The chapter starts by exploring what is known about skills and trade, drawing both on the literature and on empirical evidence from the ILO's policy work. It reviews the connection between skills and trade in policies, looking at the place of skills in national trade policies, and the position of trade in national skills policies, and at the place of skills in achieving a level playing field in international trade. It looks at how to respond to trade related changes in skills demand, reviewing the constraints on effective responses, and presenting case study evidence based on the ILO's work including analysis of jobs vacancies Big Data. Finally, it draws conclusions, focusing particularly on priorities to respond to change in skills demand.

Summary of Chapter 3: The transformative role of employment-intensive investment public employment programmes in peace and resilience

Authors: Mito Tsukamoto, Anna McCord

This chapter outlines the potential for Employment Intensive Investment Programmes (EIIP) to respond to profound changes in an increasingly globalized economic system, which makes millions of workers either surplus to the requirements of the labour market or engaged in the market, but without earning a decent living wage. This situation is exacerbated by factors including technological advances, protracted conflicts, accelerating climate change and environmental degradation. All this is contributing to social unrest, migration and conflict. In this context, this chapter explains how ILO-supported EIIP play a transformative role in addressing these challenges, thus contributing to peace and resilience.

EIIP can take the form of both public infrastructure programmes (PIP), which increase aggregate demand within the national economy, and government implemented public employment programmes (PEP). PIP contribute to aggregate employment by promoting increases in the labour intensity of government expenditure and often combine the objectives of public asset or service production with reducing poverty. PEP create employment directly to address government responsibility to ensure that working age populations have access to adequate income and offer short term employment in response to temporary labour market disruptions. These interventions

contribute to positive economic, labour market and climate change transformations and build on a century of ILO experience in this field as well as more recent ILO-supported programming innovations from around the world.

The chapter focuses mainly on PEPs and describes e.g. how ILO innovations in relation to EIIP can contribute to social justice, promote investment in capabilities, promote resilience through the sustainability of assets created, and contribute to peace building. It outlines how PEPs promote a human-centred agenda and attempt to address the challenges of inequality, exclusion and vulnerability by creating a more inclusive labour market. Moreover, the chapter outlines how PEP contribute to household and community resilience via the provision of quality infrastructure and sustainable assets, which are specified and constructed using engineering standards and appropriate technical and managerial inputs, as well as community and local government engagement. The analysis also describes how these programmes can be designed to contribute to a peace-building agenda using lessons learned from the Jobs for Peace and Resilience (JPR) programme.

Finally, the chapter explores how EIIP contribute to sustainable development, addressing income inequality and ending poverty, paying special attention to areas affected by conflict, disaster and other humanitarian emergencies. It concludes with the insight that the EIIP's operational experience over recent decades has illustrated that working together with both community-level and national stakeholders can strengthen and build local institutions and contribute to a more inclusive and productive society, and that finding the fiscal space to implement multi-sectoral national public employment programmes, which address today's economic, social and environmental challenges, may well be one appropriate response to building the more resilient and peaceful society that we need going forward.

Summary of Chapter 4: National employment policies and environmental sustainability: forging stronger ties

Authors: Valter Nebuloni, Christoph Ernst, Daniele Epifanio

“It is time to grow clean, to go green”. Towards this end, and accepting that the transition to greener economies is not neutral in terms of labour market outcomes, informed policy-making will require a good understanding of the links and trade-offs between environmental sustainability and job creation. Global projections indicate that, although the net overall employment impact of a structural transformation towards a green economy may be positive in the near future, there would be winners and losers. In spite of this realization, many national governments are yet to embark on deeper reflection and shape policies that address the environmental and social challenges simultaneously and effectively. Admittedly, this is a complicated issue adding to the already demanding mandates of ministries in charge of employment or environment.

Meant as coherent and integrated country-level policy frameworks to enhance the quantity and the quality of jobs, National Employment Policies (NEPs) represent a viable entry point to reconcile employment and environmental goals, notably through the promotion of ‘green jobs’. Over the past years, NEP frameworks have become more environmentally friendly, encompassing different policy measures for the creation of decent jobs in the green economy, which ranged from tax incentives and catalytic investment in promising sectors to training and skills development, including re-skilling as part of active labour market programmes. However, there is scope to improve further the design of such policy measures and to make their implementation more effective through an integrated approach.

In a more general perspective, green jobs issues were often included in broader national development frameworks, an alternative to a green NEP with its own pros and cons. Therefore, there is the need for a coherent set of well-coordinated policies – in particular financial, industrial, employment/labour market, education, and skills development policies – to promote green jobs and a greener economy. The structural transformation towards a green economy with social justice implies radical changes in the way we produce, we consume and we work, which in turn requires a strong buy-in and commitment by all parts of the society. Importantly, it should happen fast.

Chapter 4 of the Global Employment Policy Review 2019 starts with a brief introduction on climate change and the transition to a green and fair economy. It then delves into the interdependencies and transmission channels between the environmental, social and economic spheres, by also introducing the green jobs concept. considers NEP and other policy frameworks and measures to promote employment while addressing the effects of climate change; based on the findings of policy reviews and selected country cases, the chapter concludes by drawing a number of policy implications and orientations for the transition to a sustainable future.

Summary of Chapter 5: The transition to formality: Comparing policy approaches in Africa, Asia and Latin America

Authors: Juan Chacaltana, Vicky Leung

Almost five decades after the first use of the term “informal sector” in 1972 by the ILO, and after intense debates around the concept and definition of informality, current international discussion emphasises the need for innovative policy approaches for transition to formality. In this context, R204 and SDGs provide an international consensus regarding policies for the transition to formality.

In this chapter, we explore the regional dimension of formalisation policies focusing on Africa, Asia and Latin America and the Caribbean, where informality rates range above 50% of total employment. Given the vast heterogeneity of informality, it is clear that there is no “*single bullet*” solution for the transition to formality and multiple and coordinated interventions are needed (integrated approach).

Based on the analysis of a diverse set of information, including some formalisation episodes in a number of countries, we describe how these policy choices heavily depend on productive structures, composition of labour markets, the nature of informality, institutional settings and so on. This means that the pertinent policy mix has different emphasis of drivers depending on relative nature and composition of informality in each country or region. In particular, we find that productivity increases matter tremendously through economic growth and structural transformation processes, especially in those cases of higher informality rate. The evidence shows that these economic drivers boost their potential when properly combined with institutional policies, such as incentives and enforcement measures. The evidence also indicates that impacts tend to be limited when interventions are implemented in an isolated manner, therefore it is better to accumulate and complement different interventions, thus supporting the idea of multiple and coordinated measures. Different regions need to prescribe the dosage of economic and institutional policies according to their own needs and the proportion of 6:4 in LAC has shown to be effective.

Regarding the way forward, as many studies point out, labour markets are generating new business models and new forms of employment at a speedy pace and policy making should try to adapt to it. Technologies indeed offer the possibility of transforming or upgrading the way that labour market policies are implemented, in particular those related to the transition to formality. Fortunately, an increasing number of countries are in practice using new technologies for supporting the transition to

formality. These e-solutions bring more transparency, information and innovative approaches to policy makers. However, these tools can only be considered complements (not substitution) to the structural drivers of the transition to formality or can help the implementation process to facilitate the transition to formality. No matter what other transformations the future might bring, tripartite social dialogue remains the vehicle to ensure that the transition to formality always leads to better and decent jobs. Informal economy actors know the best their own problems and concerns and social dialogue provides them a channel for their voice to be heard in policymaking process towards transition to formality.

References Introduction

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