

# **INCLUSIVE GROWTH, FULL EMPLOYMENT, AND STRUCTURAL CHANGE**

## **Implications and Policies for Developing Asia**

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# ***Objectives of the Book***

- To provide policy content to the term *inclusive growth*
- To provide a unified treatment of the policies needed to achieve full employment in developing Asia in the face of “structural change”, “globalization” and “competitiveness”
- To challenge policy makers to think *outside the box*. Many current policies are not pro inclusive growth

# Key Messages

- Growth, alone, does not mean much and should not be *the* primary objective of economic policy
- Structural change drives growth and employment dynamics. Market alone does not do it
- Growth is *inclusive* when it allows all members of a society to participate in the growth process
- Full Employment should be the primary objective of economic policy in developing Asia
- Needed: A set of policies that lead to Full Employment in the context of the challenges posed by structural change: (i) **Agriculture**; (ii) **Public Investment**; (iii) **Industrial Policy**; (iv) **Fiscal and Monetary**; (v) **Job Guarantee Programs**

## *The problem:*

### ***Many segments of society are demanding more than “simply” growth. Why?***

- “...sustained and rapid growth will be essential for reducing poverty ...However [...] growth in itself will certainly not be enough”

*H. Kuroda, ADB President*

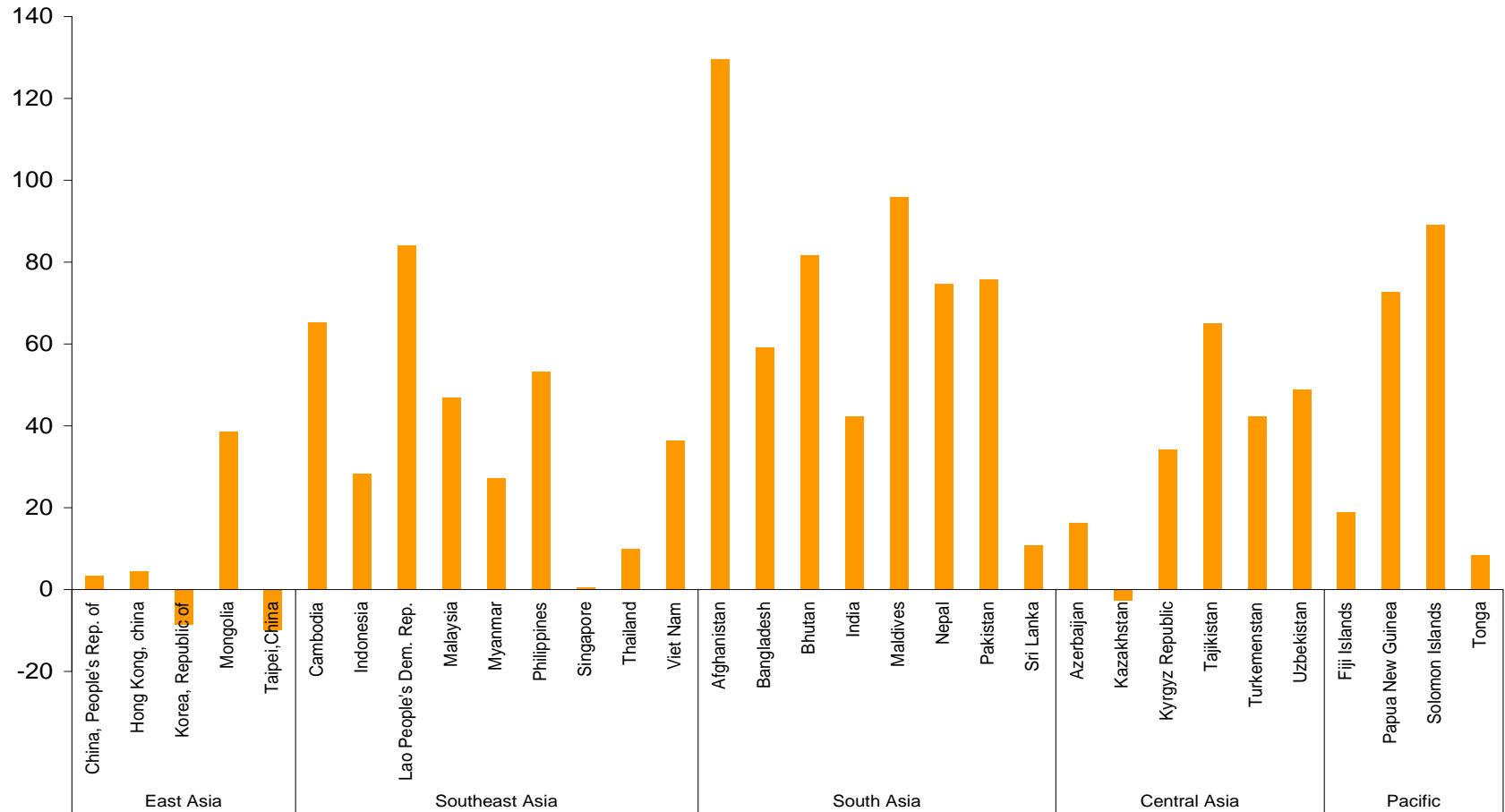
- In particular, fast growth in developing Asia is not generating enough employment to accommodate all entrants into the labor force. This condemns millions of people to misery
- There are huge resources idle across the region (labor). Lack of a job is the major cause of poverty
- Developing Asia is home to about **500 million** people unemployed and underemployed. These phenomena are pervasive in China, India, Pakistan, Bangladesh, Indonesia, Philippines....

# **2009...**

- "...will represent the worst global performance on record in terms of employment creation" (ILO)
- "The economic crisis is projected to increase poverty by around 46 million people in 2009. The principal transmission channels will be via employment and wage effects..." (World Bank)

# Potentially, a time bomb: what will “they” do?

Percentage Change in Labor Force Projections, 2005-2030



# ***What is Inclusive Growth?***

- *IG is growth that allows all members of society to participate and contribute to the growth process*
- How to participate? Through a productive and decent job
- Massive Unempl/Underemp is not due to skills mismatch or lack of human capital. It is a systemic failure of the economy to create enough jobs
- For this reason, Full Employment must be brought to the top of the policy agenda (do not assume it)

# ***From Inclusive Growth to Full Employment***

- Employment is a basic right
- Full Employment: Nobody who is willing and ready to work for an appropriate wage is without a job. Can it be afforded, illusion?
- Societies must be able to provide jobs for all those willing to work
- And for the workers they have...not for the ones they wish they had...

# ***The market economy....***

- ...is the best way to organize production....
- ...but there are market failures
- Of all the market failures, none is perhaps more important for its social consequences than the failure of an economy to utilize its resources fully, especially employment

## ***Why is it so difficult to achieve Full Employment?***

- (i) Use of labor-saving technologies
- (ii) Huge reserves of labor that enter the formal economy only after a longer phase of rising demand for labor and increasing wages
- (iii) Insufficient spending: lack of political will?

# ***Are priorities and policies right?***

- During the last decades, it was thought that growth and low inflation would lead to the generation of employment
- Policy makers were concerned with controlling inflation and fiscal deficits. These variables have become the yardstick to evaluate a country's economic performance

# *What should DCGs aim at?*

## *Unemployment: tool or target?*

- **Economic growth?** Growth is important and an economy that does not grow does not generate employment. But it should be a means to achieving better living standards – not an end in itself
- **Equilibrium BOP and budget balance?** No, misrepresented
- Objectives should be:
  - a) Full Employment;
  - b) Price Stability;
  - c) Equitable income distribution

# ***What can 500 million Asians do?***

## ***The benefits of Full Employment***

- Labor underutilization creates huge net income losses. Country's resources will be fully utilized
- Higher income and higher taxes
- Lower unemployment and reduced need for subsidies
- Lower social costs: poverty, misery, crime and injustice
- Higher political stability

# ***Structural Change and Growth***

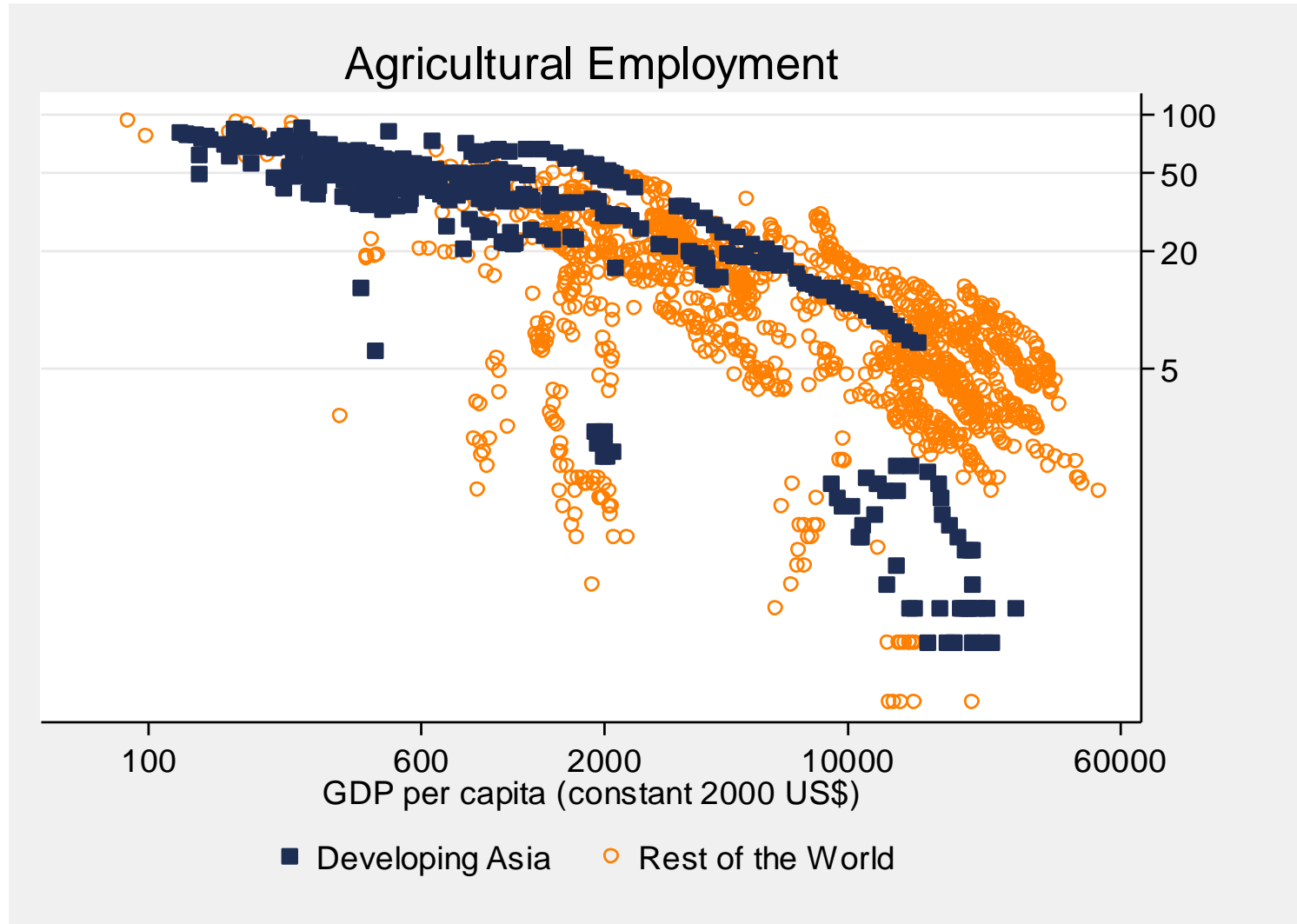
- Growth is the result of structural change:

*(i)* shift in resources from the less productive sectors of the economy to the more productive sectors;

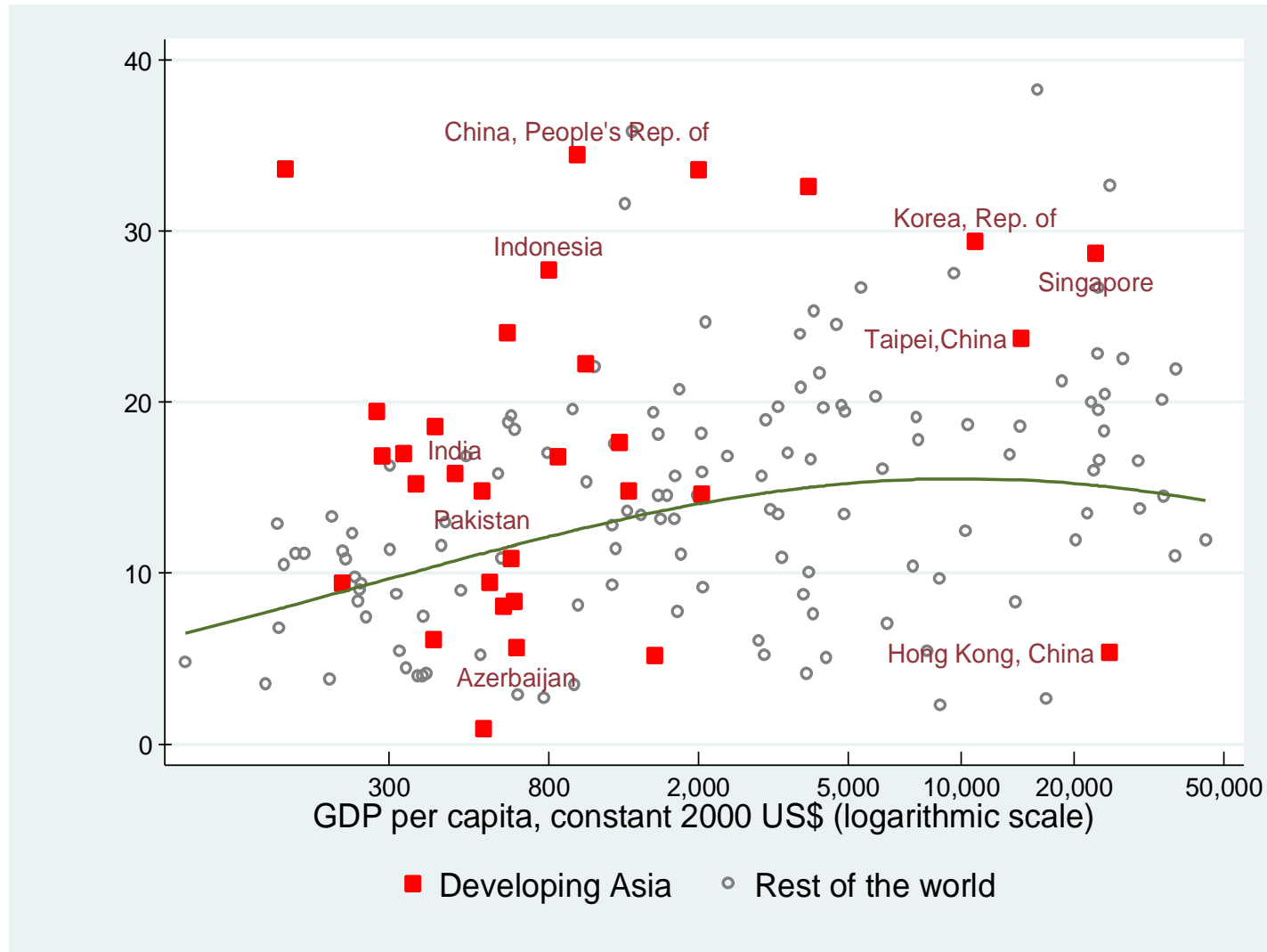
*(ii)* diversification and sophistication of production and exports increase;

*(iii)* Discovery of new products

# Agricultural employment share vs. per capita GDP



# “Successful” countries have larger than expected manufacturing shares in GDP



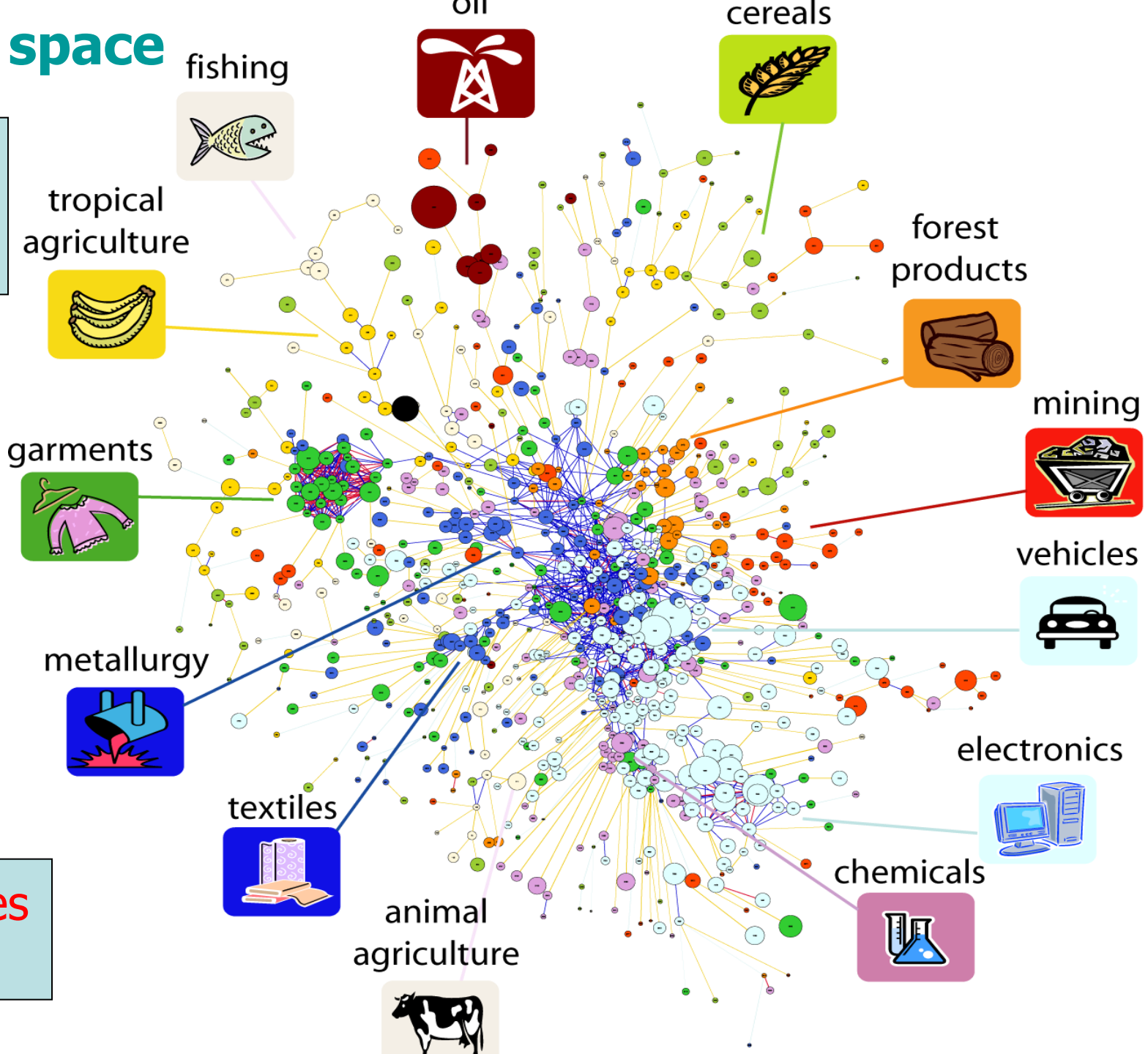
# Product space

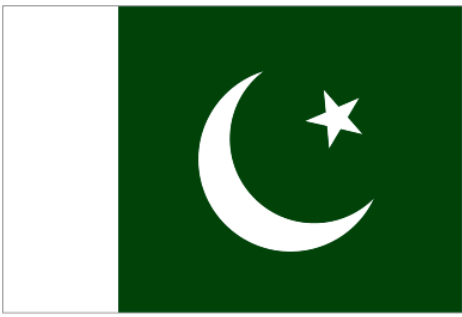
Periphery  
to  
center

Very  
difficult

Capabilities

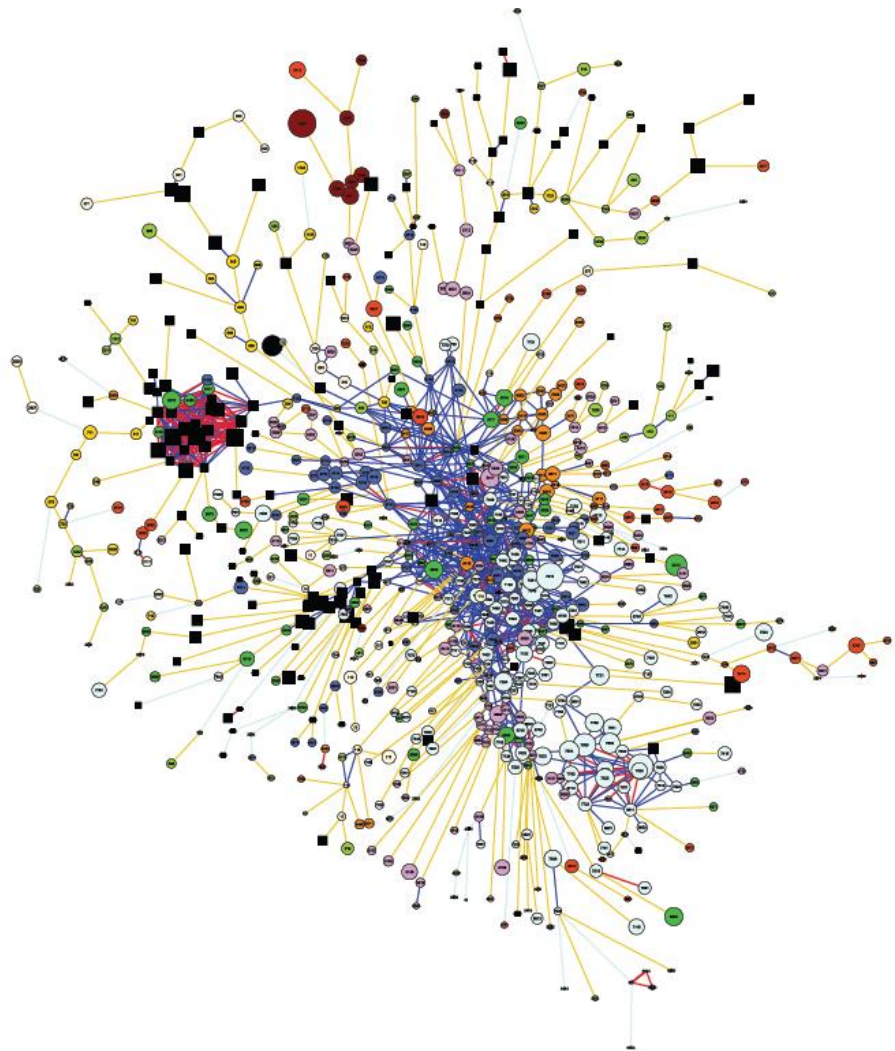
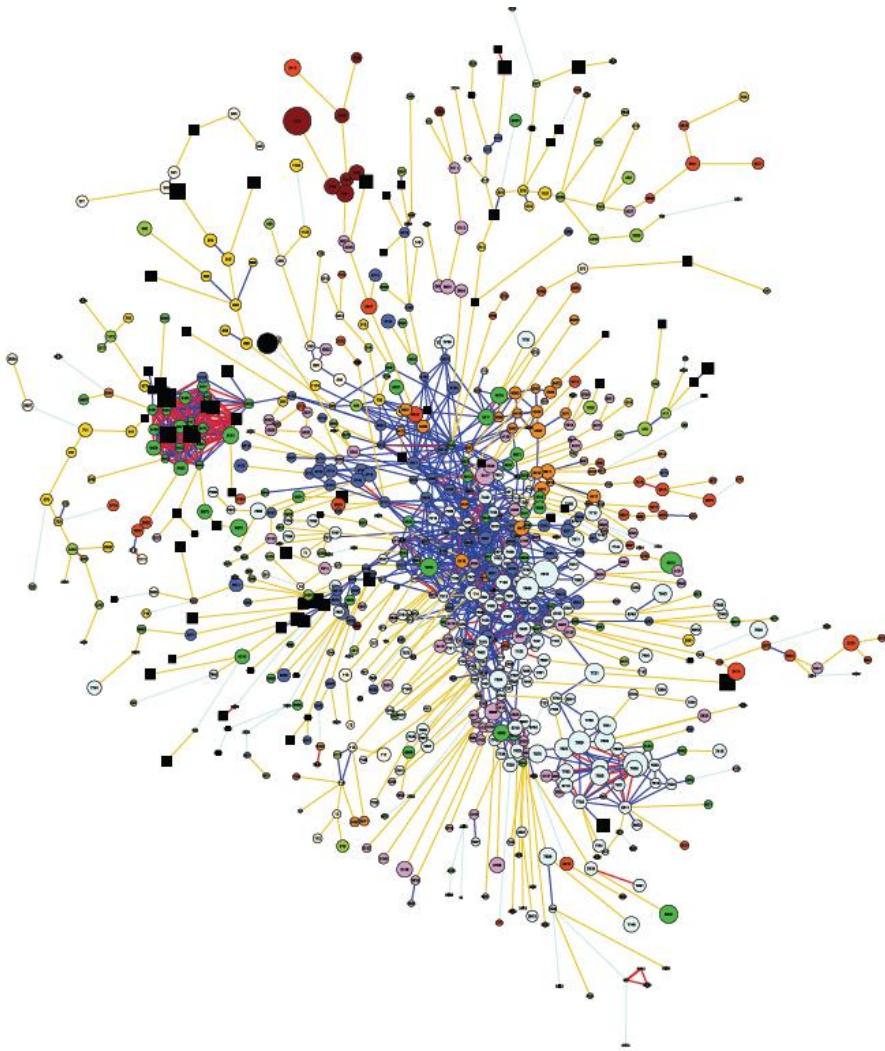
Policy does  
matter

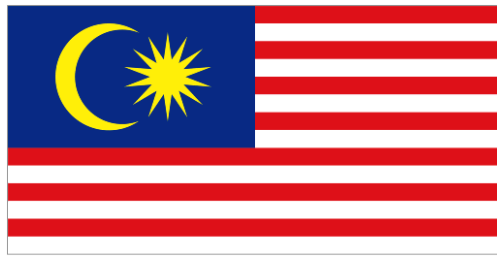




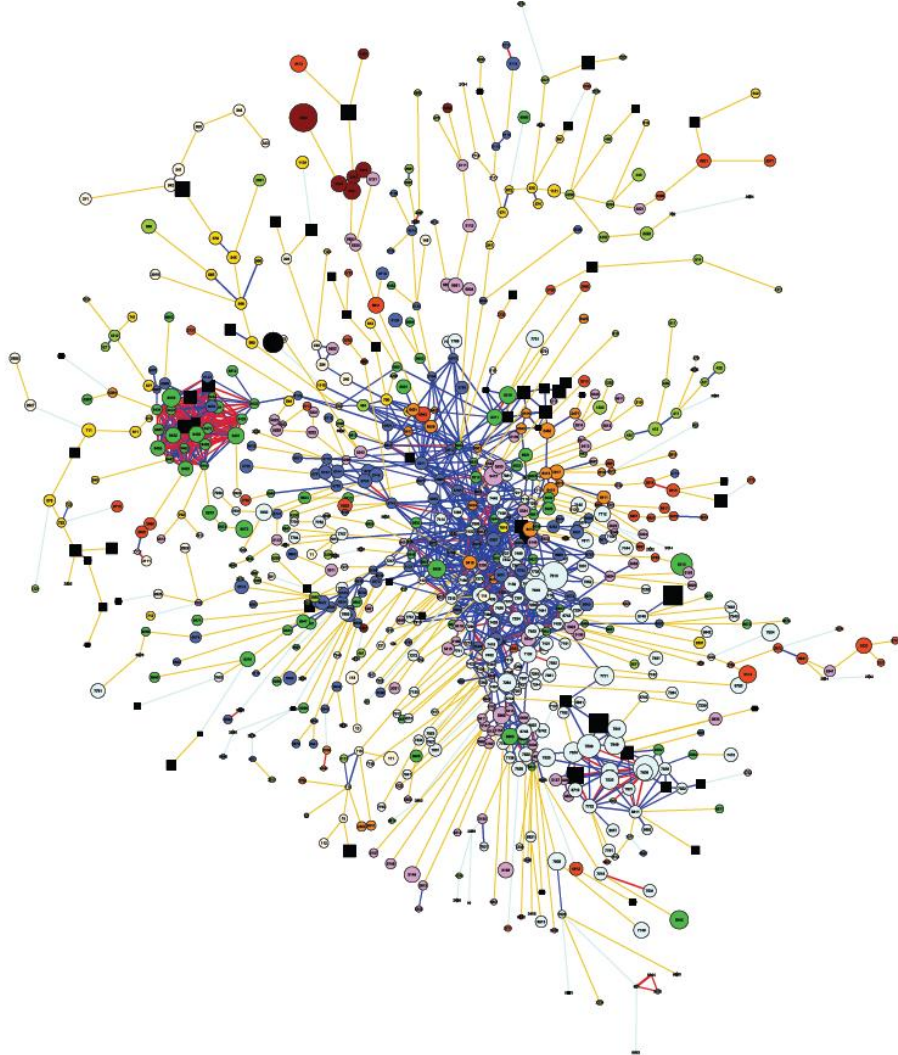
1975

2006

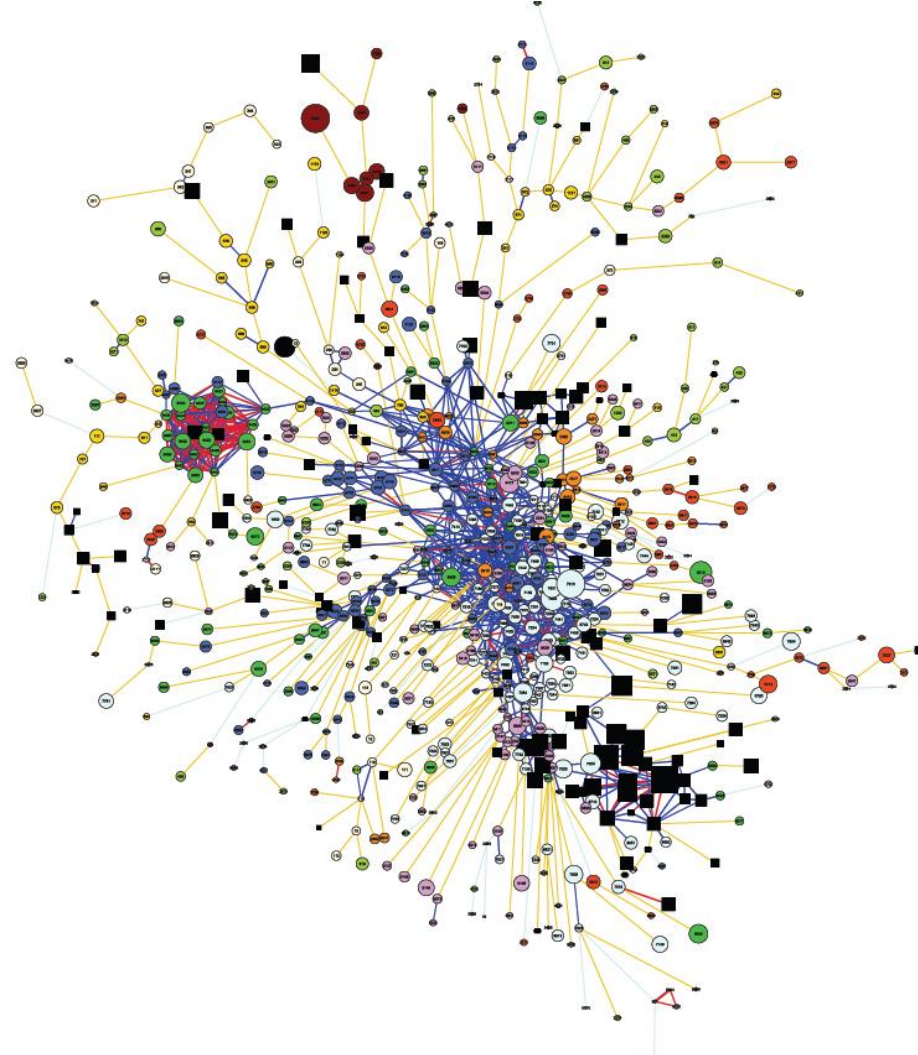




1975

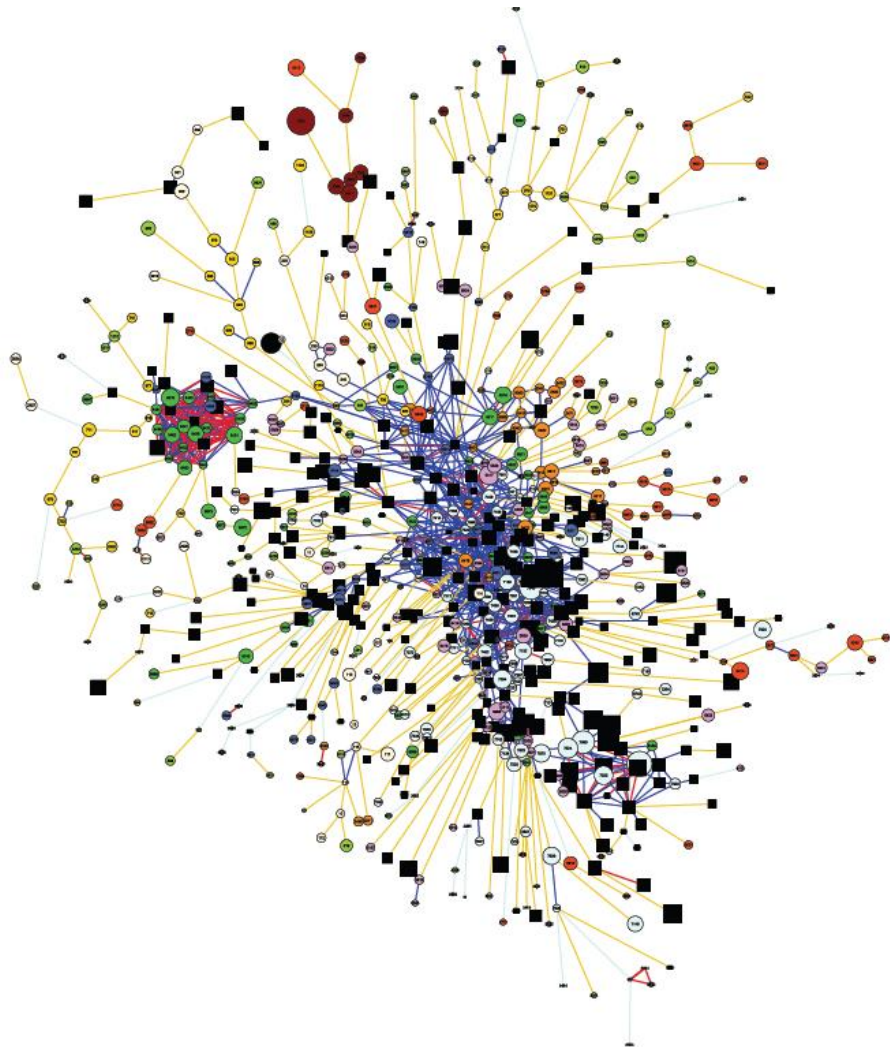


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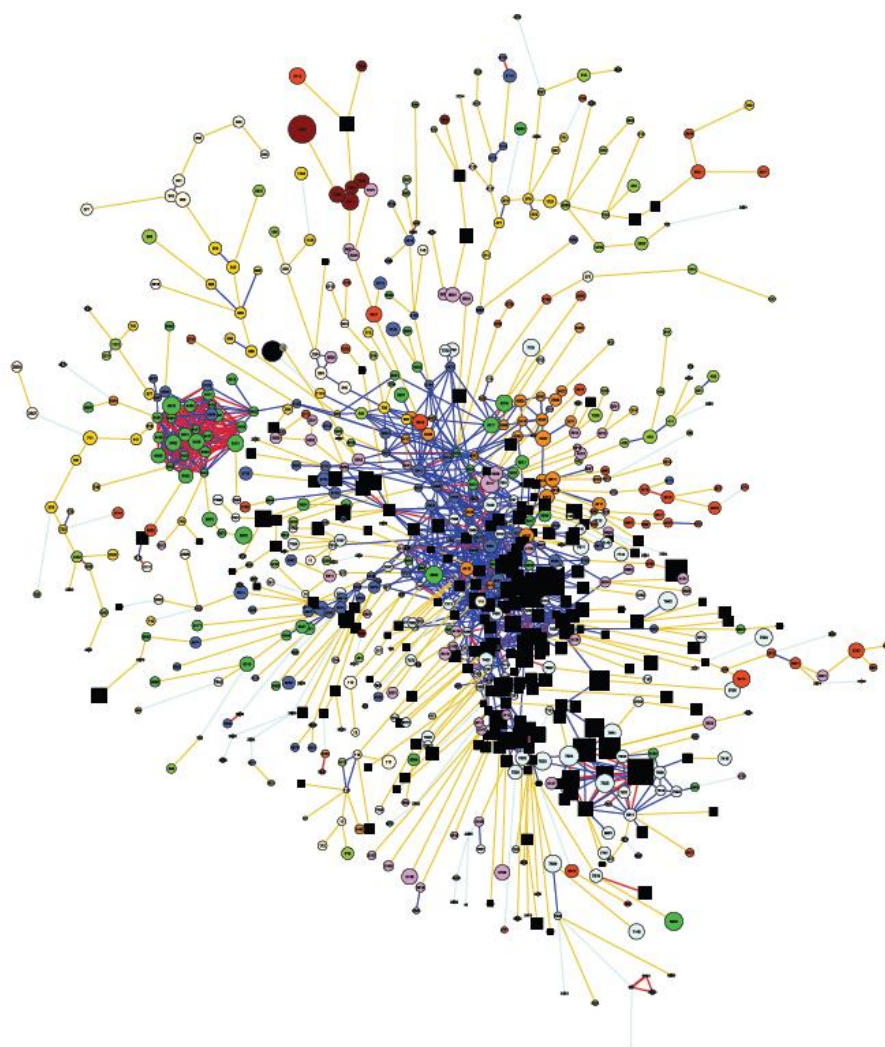




1975



2006



# ***A love-hate relationship***

- No Structural transformation, no sustained growth
- But ST entails significant labor reallocation across sectors and it is impossible to coordinate this process
- Yes, structural change generates unemployment
- Service sector (low productivity) is absorbing employment

# ***Policies: country specific***

- **Agriculture:** Still major employer across the region. This is where ST starts
- **Public Investment:** In key infrastructure. Government spending is key for development
- **Industrial Policy:** Public-Private collaboration to solve information and coordination problems that make private investment difficult
- **Fiscal and Monetary:** *Deficit fetishism and myths.* Countries cannot nation-build without the national government running deficits
- **Job Guarantee Programs:** Buffer stocks, “reserve army of the employed”

# ***Government and private sector***

- Private sector generates wealth and employment
- *A level playing field* for the private sector: yes, but enough?
- It *cannot* be responsible...
- Societies make governments responsible

## ***...condemned to work together***

- Development needs to be “planned” and “coordinated”:
  - *(i)* Let the private sector operate and spend whatever it desires
  - *(ii)* Government must spend so as to close the gap to full employment (this is the limit)

# ***Globalization, competitiveness, the crisis***

- Globalization is good and creates opportunities, but it produces winners while others are left out. *Not a bowl of cherries...*
- The current crisis has increased the tension as unemployment and underemployment are increasing
- It has been estimated that up to 41 million Chinese workers have lost their jobs during the crisis (40% of the total global lay offs). The central Government aims to create 9 million new jobs this year
- Felipe and Hasan (2006) estimated that in the 1980s, it took 3% GDP growth to generate 1% employment growth. In the 1990s, it was needed 8% GDP growth to generate the same result
- If employment were made the China's Government top priority (ahead of GDP-boosting infrastructure projects) the country could create 73 million jobs

# ***I am optimistic about the future of developing Asia, but....***

- Many current policies are not pro inclusive growth:
  - neglect of agriculture;
  - belief that all is needed is some basic level playing field for the private sector;
  - emphasis on controlling inflation and, perhaps unknowingly, using unemployment as a tool

## ***...Policy makers in developing Asia...***

- Must think outside the box, and must not be afraid of coming up with innovative policy packages that deliver full employment, price stability and equity. *The proof of the pudding is in the eating*
- ...and they must understand the structural change dimension of growth and the forces that prevent the achievement of Full Employment
- Also needed is political will and commitment of the elites in some countries

**THANK YOU**