

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

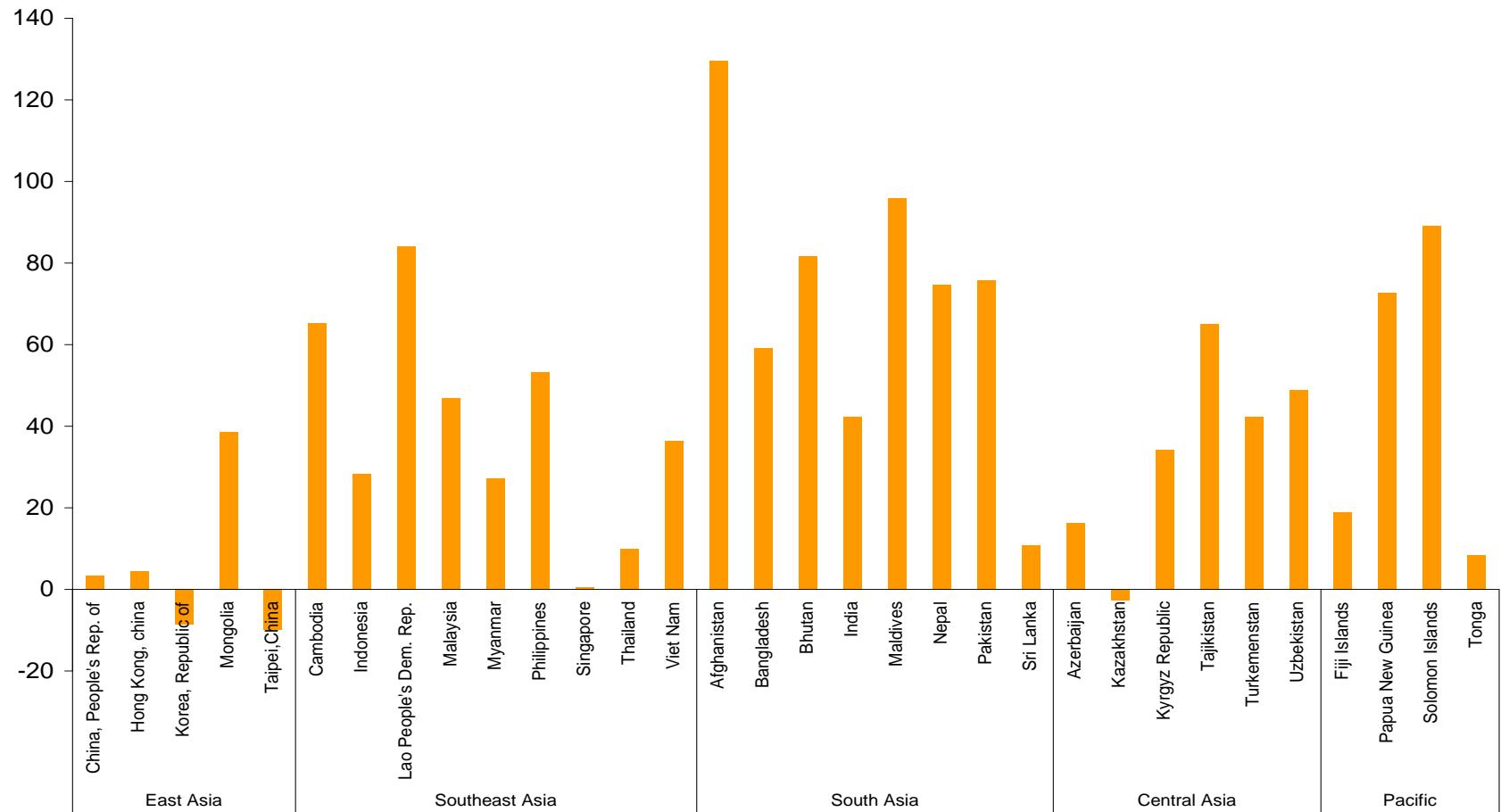
- In particular, fast growth in developing Asia is not generating enough employment to accommodate all entrants into the labor force. This condemns millions of people to misery
- There are huge resources idle across the region (labor). Lack of a job is the major cause of poverty
- Developing Asia is 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

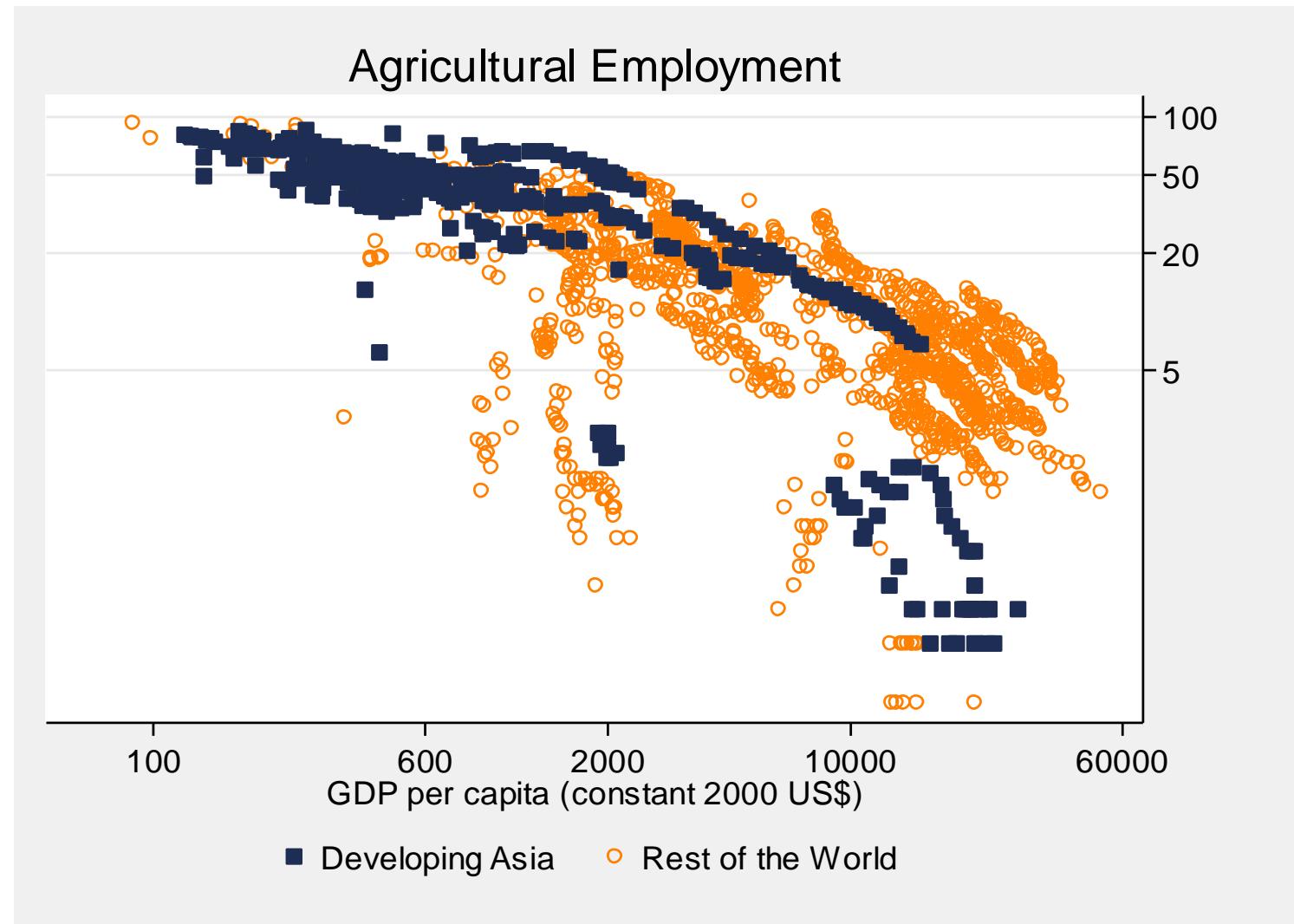
What can 500 million Asians do? The benefits of Full Employment

- 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

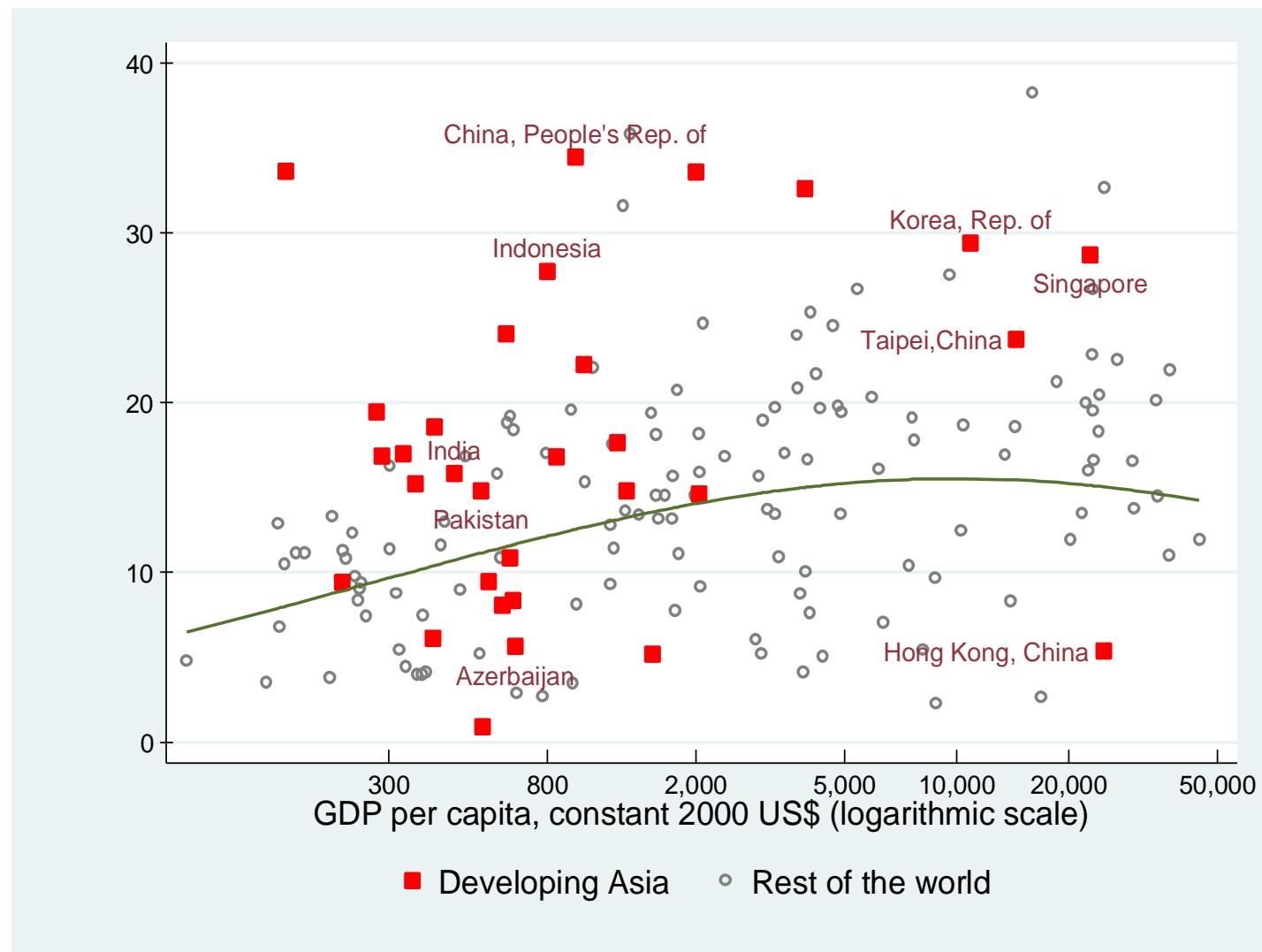
Structural Change and Growth

- 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



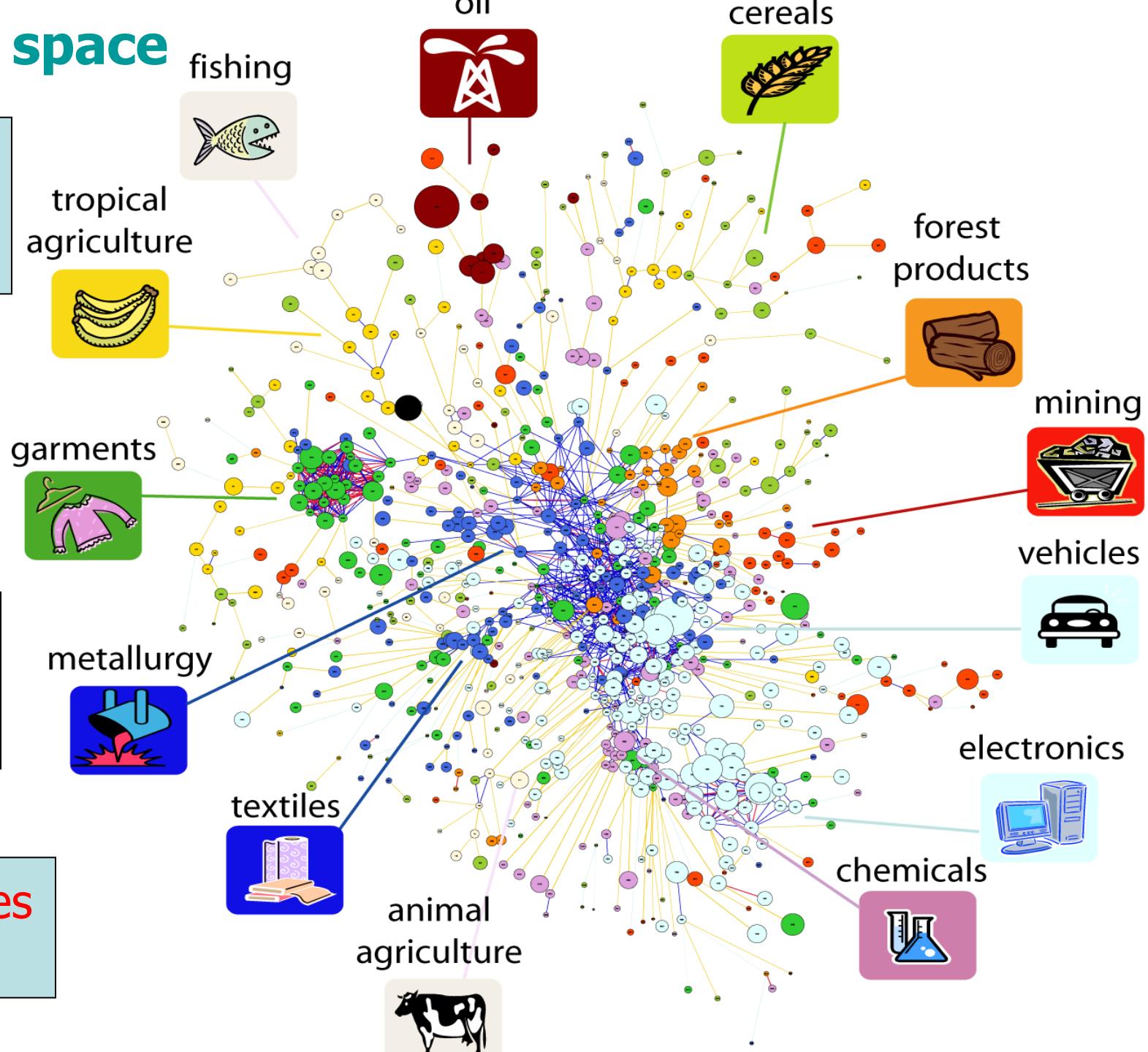
Product space

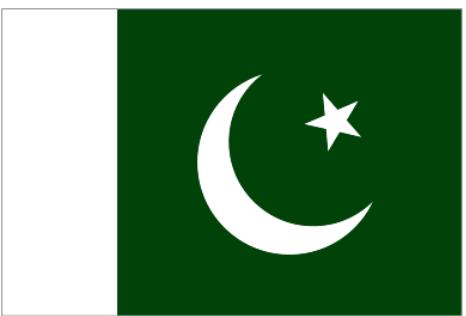
Periphery
to
center

Very
difficult

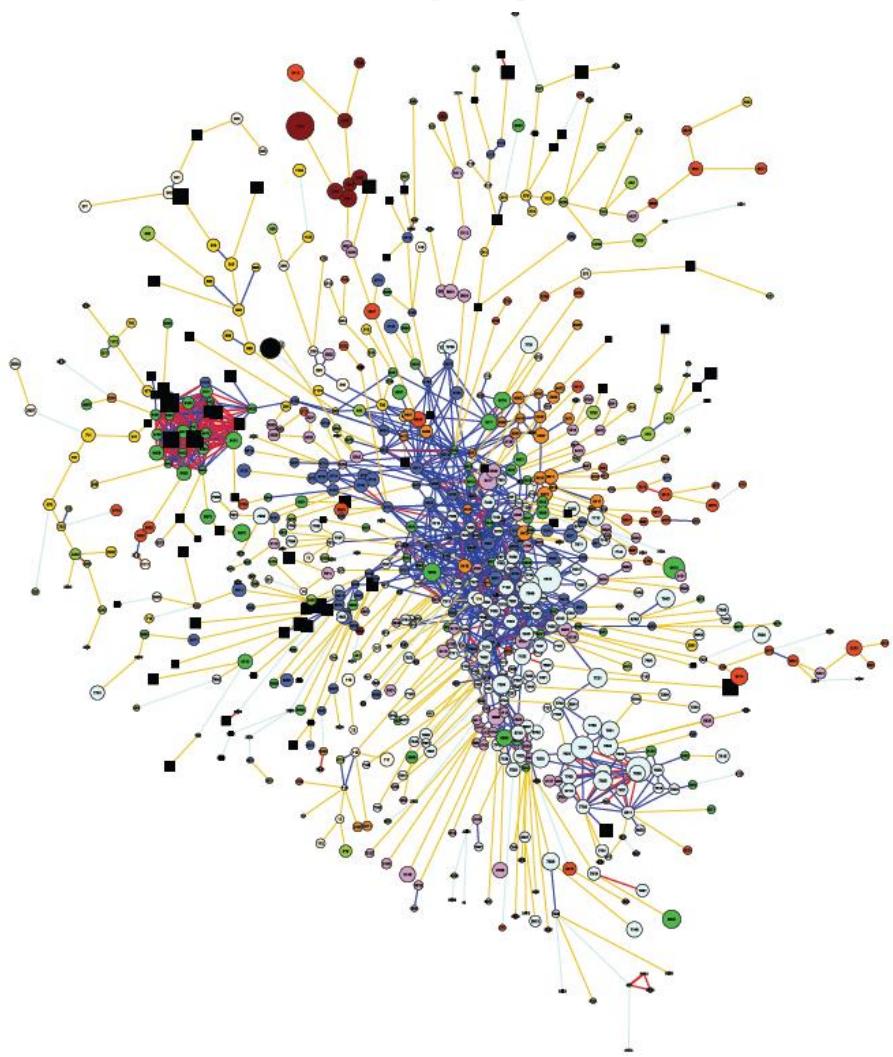
Capabilities

Policy does
matter

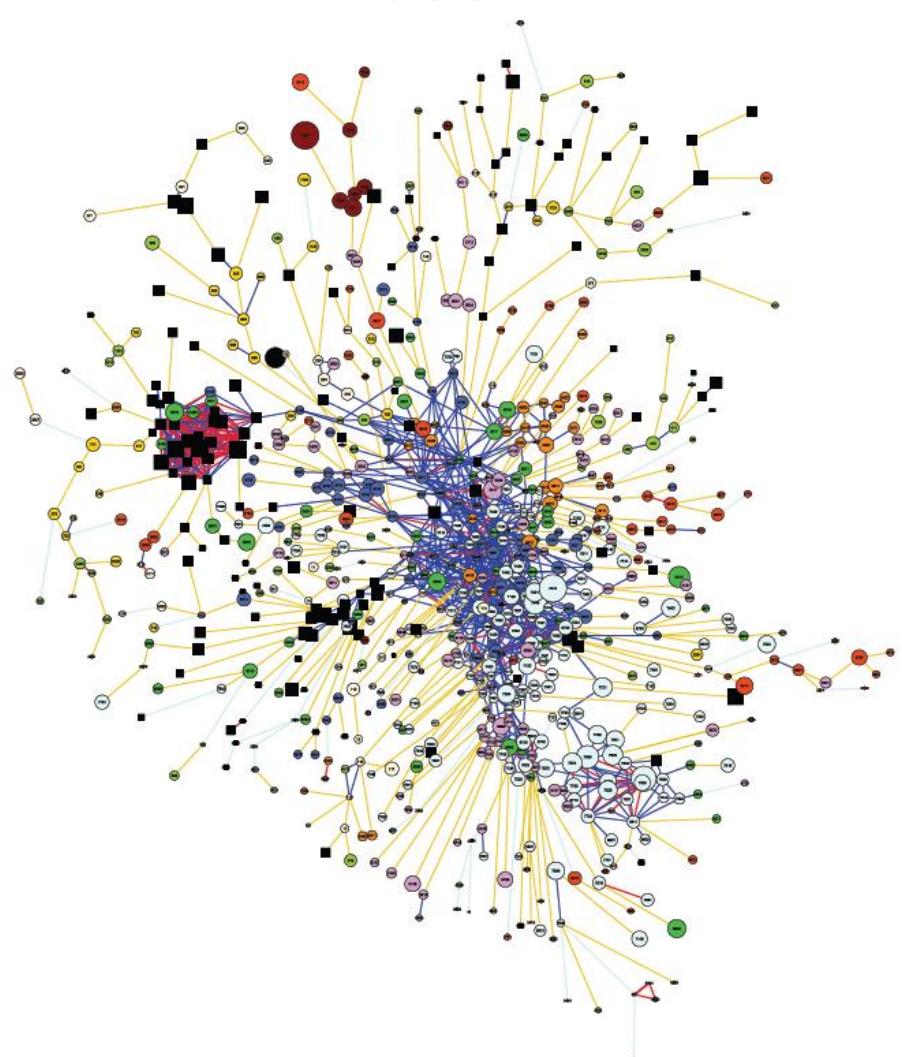


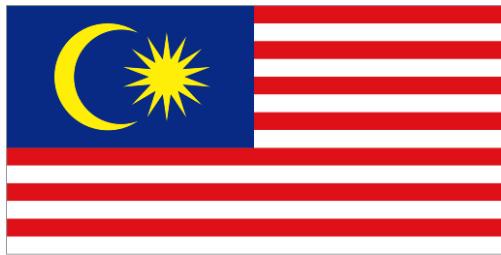


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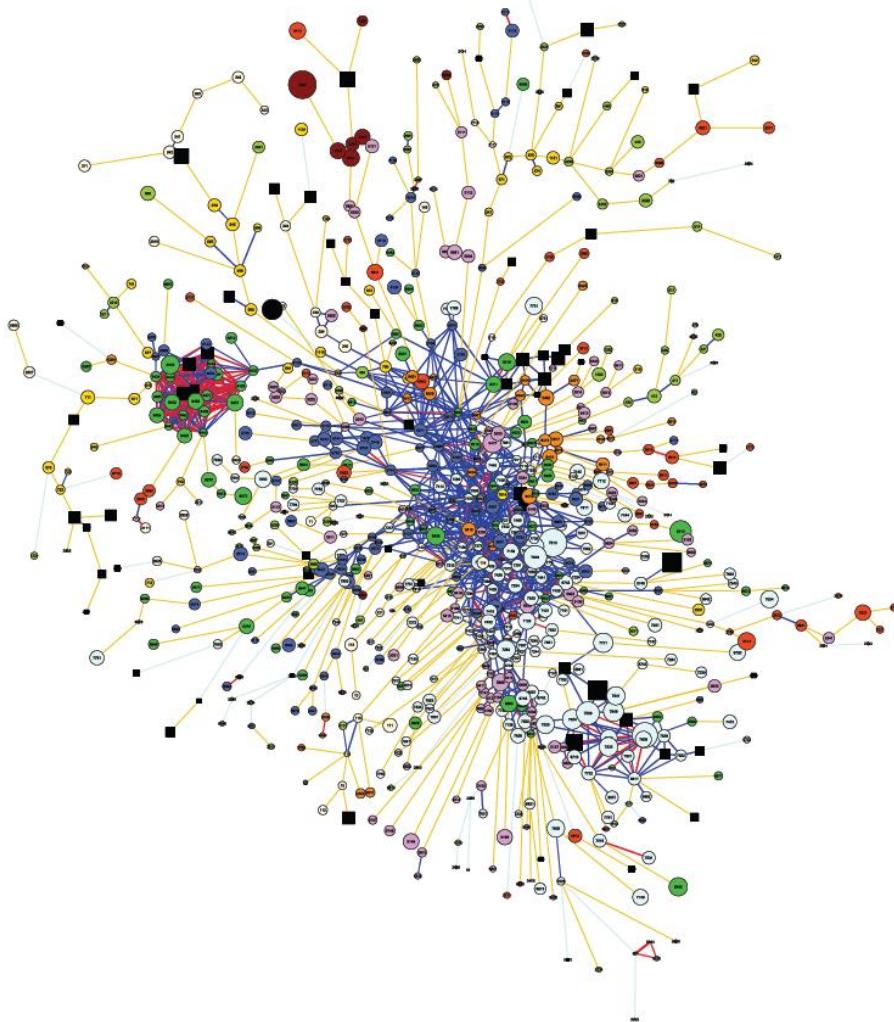


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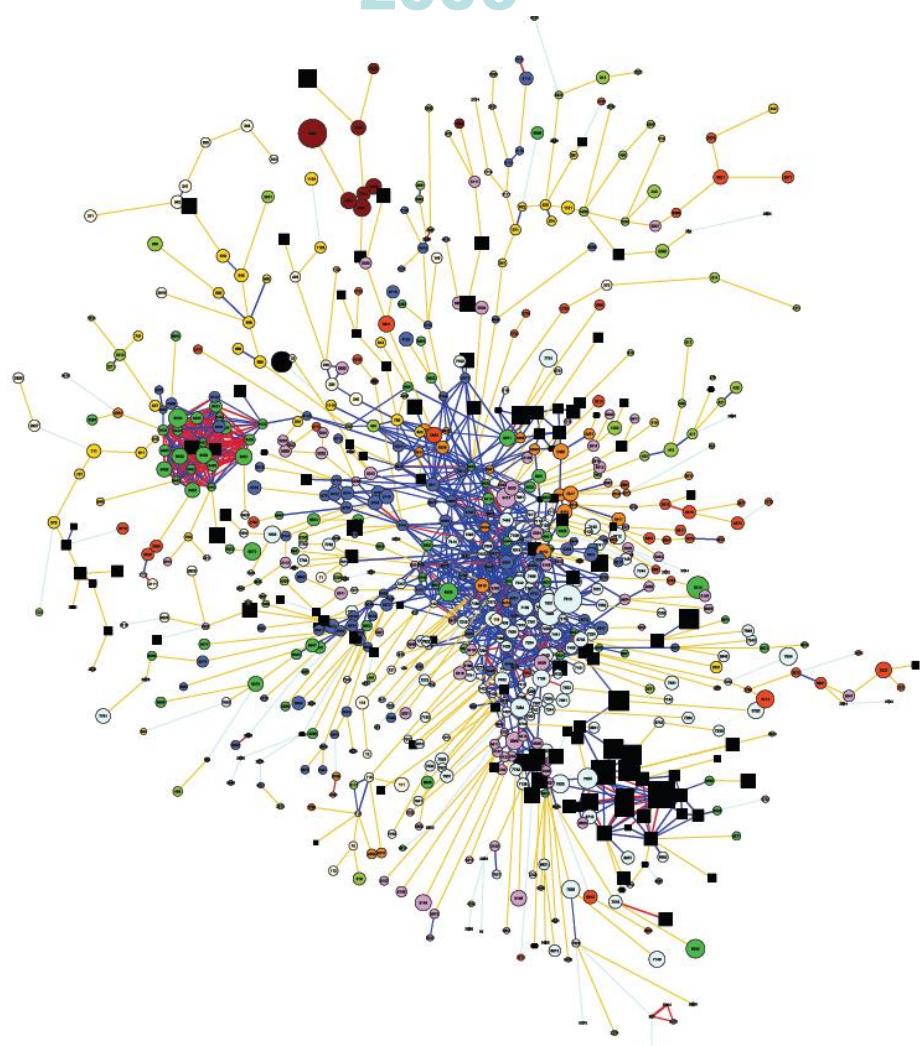


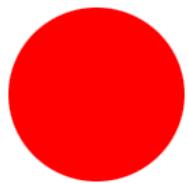


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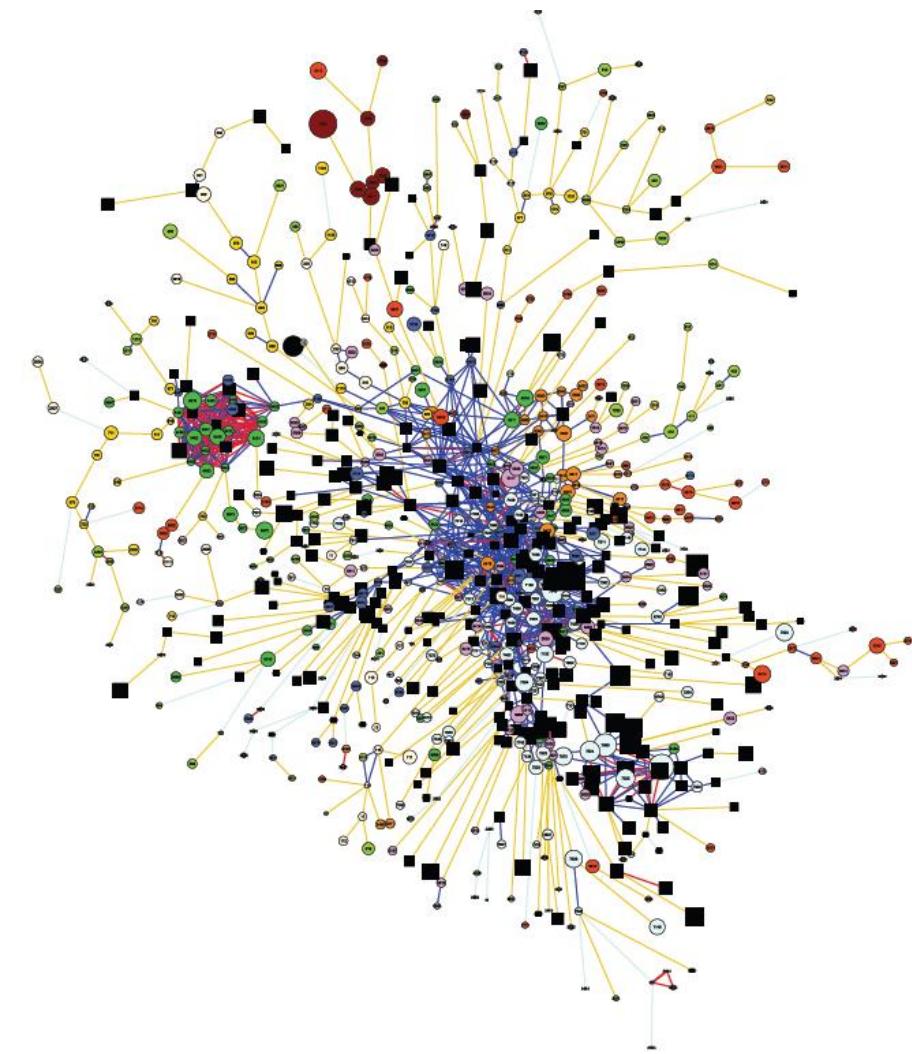


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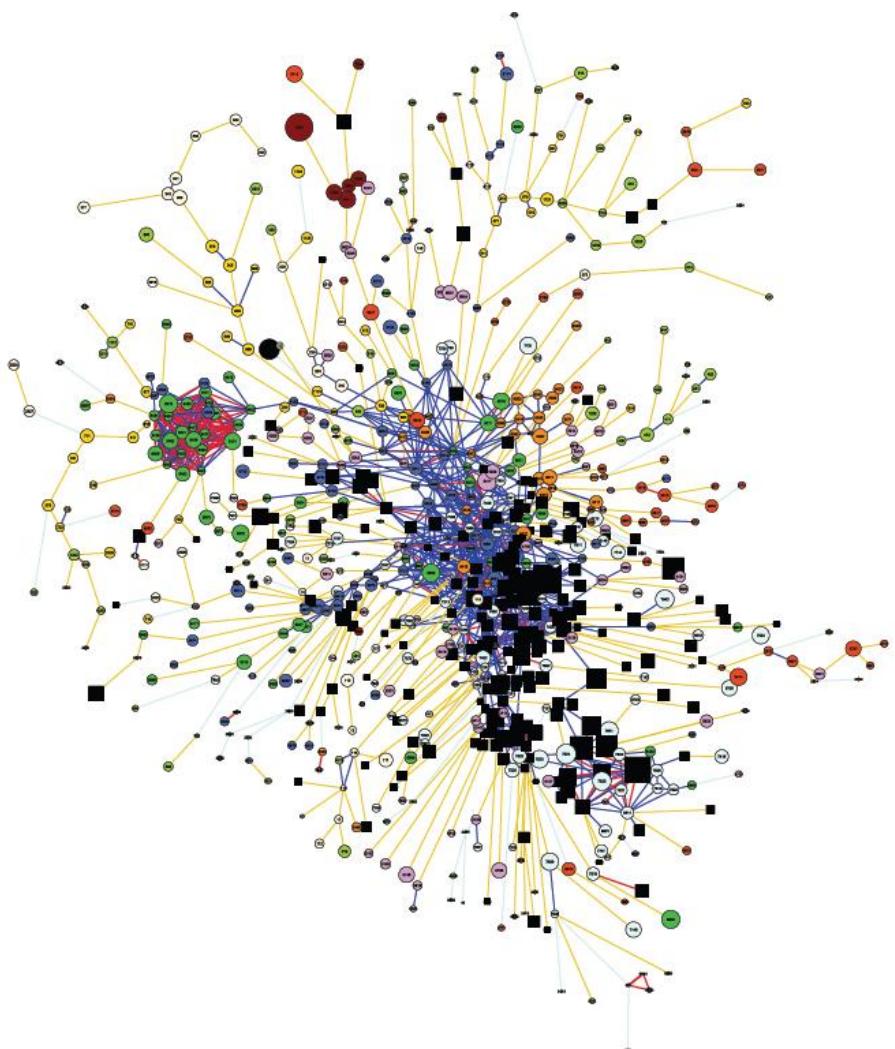




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A love-hate relationship

- 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