

Inclusive Growth and Structural Change:

Which job crisis and what can aid do about it?

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Introduction

Five basic arguments:

- I. Three curves can illustrate the job crisis
- II. The basis of the job crisis is a tension between two key development goals
- III. The nature of the crisis differs hugely by region
- IV. Structural change can be inclusive but there are trade offs
- V. Aid can do things national funds can't but there are trade offs

I. Three curves can illustrate the job crisis



The three curves



Curve 1: Demography curve

Dependency ratio; working age population and labour force annual growth

Crisis: Too many vs. too few new labour force entrants



Curve 2: Structural change curve

Share of GDP and employment by sector and inter- and intra-sectoral reallocations

Crisis: (Re)industrialisation vs. service sector



Curve 3: Employment growth curve

Employment growth vis-à-vis value added growth overall; and differences by sector

Crisis: Employment growth vs. productivity growth

II. The basis of the job crisis is a tension between two key development goals



The two goals

Inequality

Goal I

Structural change

Inter- and intra-sectoral reallocations as source of productivity gains; safer bet than commodity price export led growth; tends to push inequality up and squeeze poorer end of distribution (Kuznets revenge?)

Goal II

Inclusive growth

Genealogy in pro-poor growth; growth with equity; shared prosperity etc; expanded to include participation in growth via employment and the fruits of growth (expand capabilities); ideally requires static or falling inequality to maximise inclusivity

Inequality

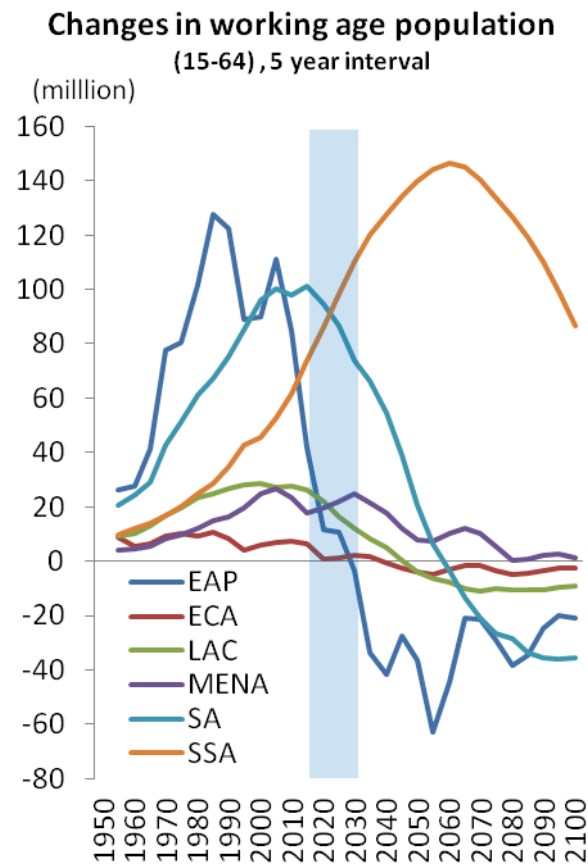
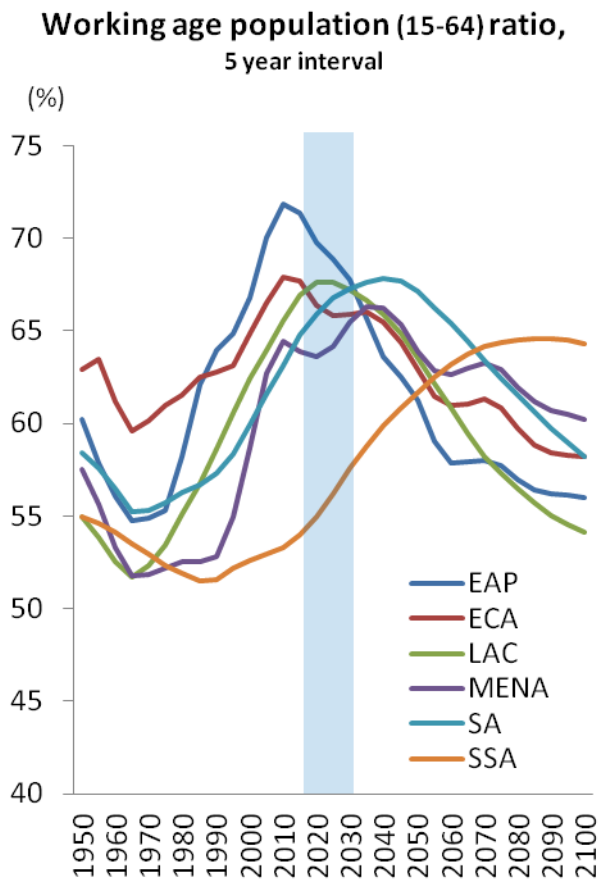
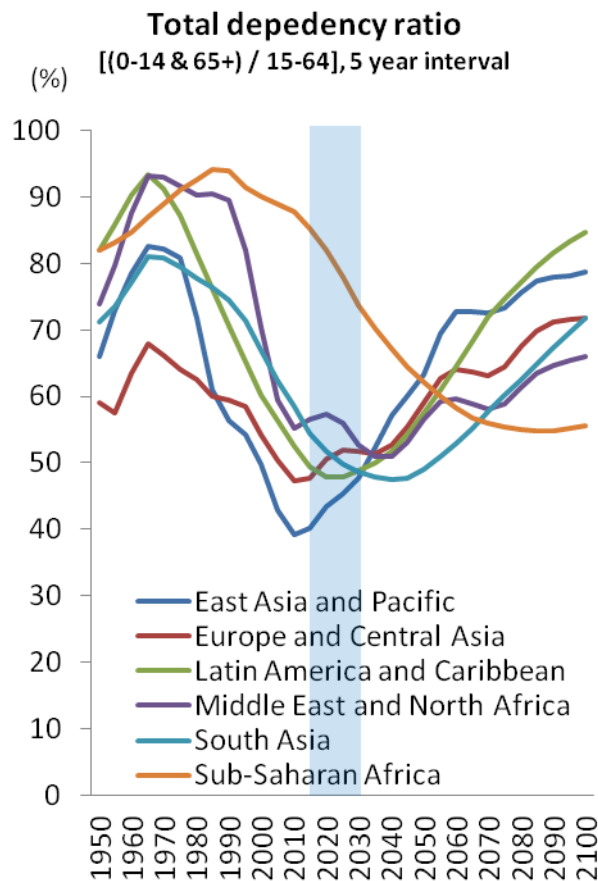


III. The nature of the jobs crisis differs hugely by region

Three questions

- How many jobs needed?
- Dig it, make it or sell it?
- How many jobs are being created?

Qu 1: How many jobs need?



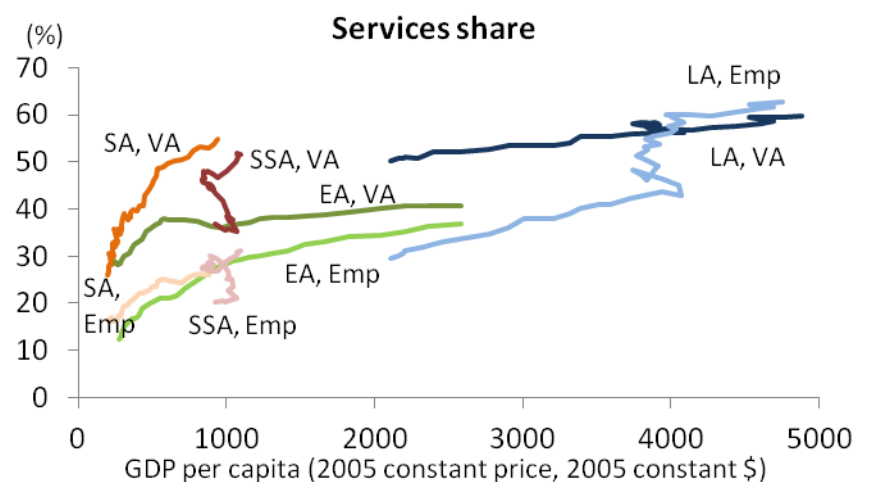
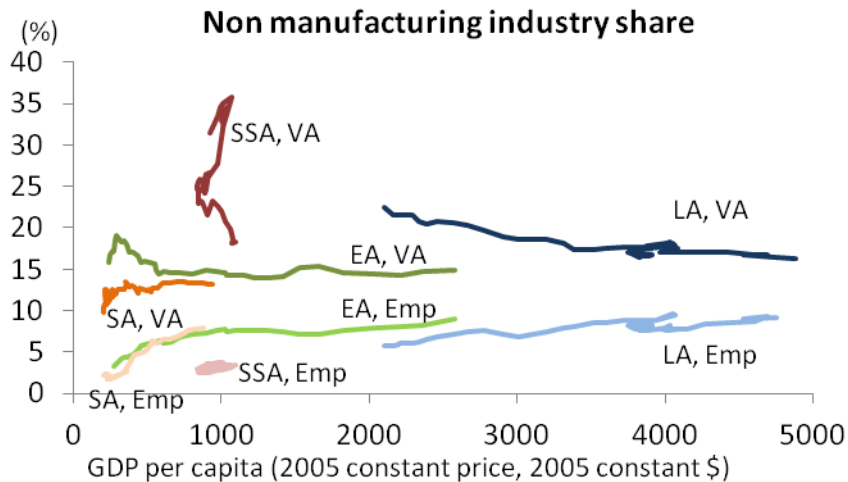
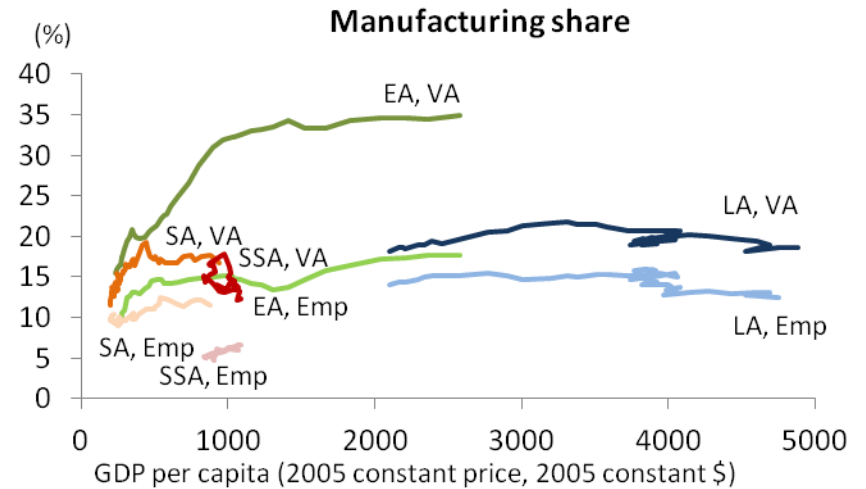
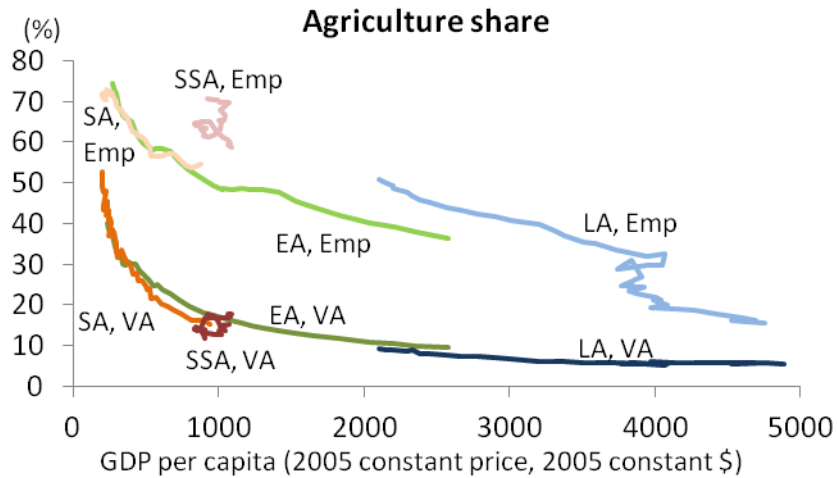
Source: UN Population Division, World Population Prospects, the 2015 Revision

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Note: Regions according to the World Bank's regional groups (developing only)

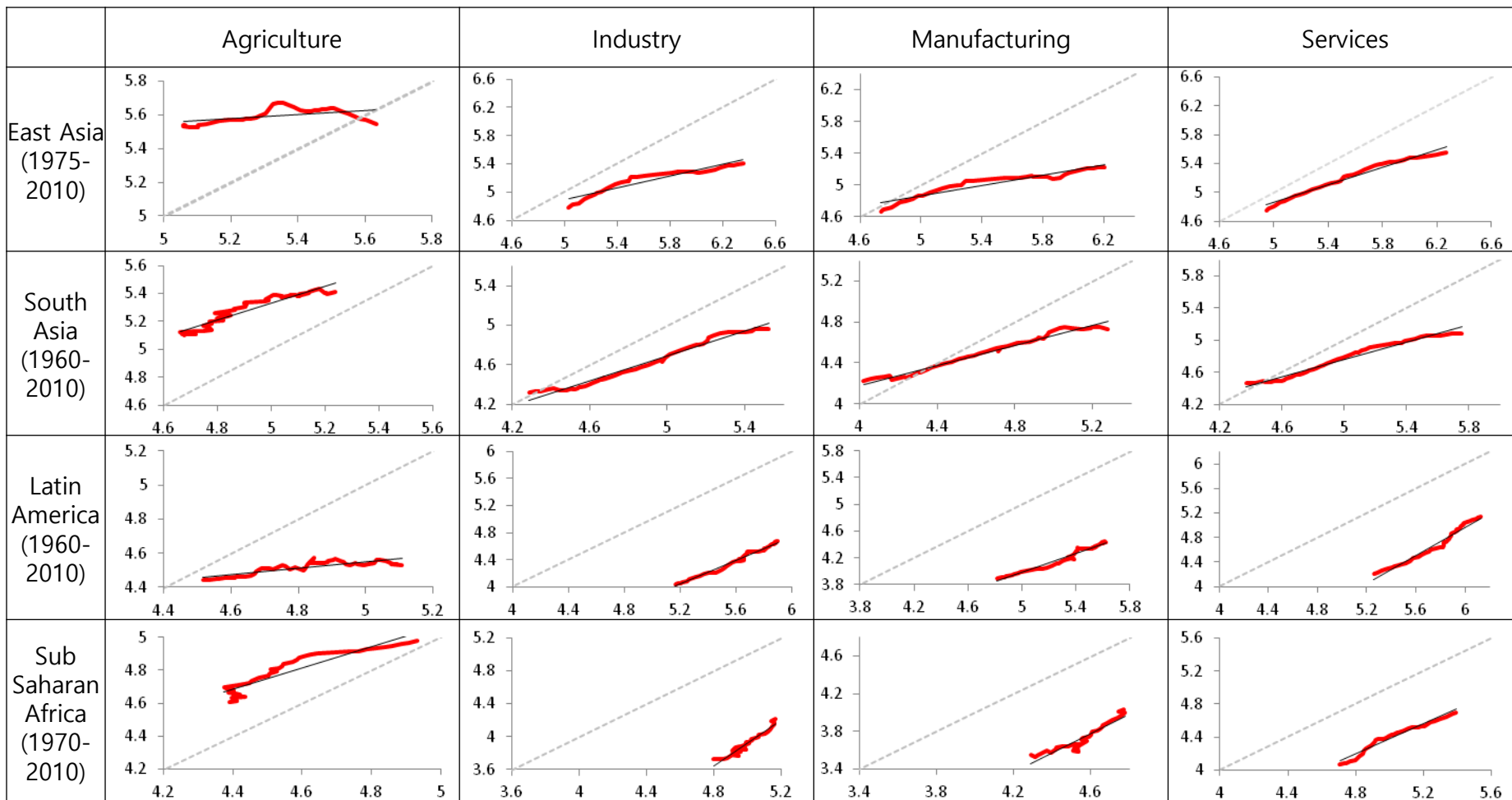
Qu 2: Dig it, make it or sell it?



Note: East Asia includes China, Indonesia, Malaysia, Philippines, Thailand; South Asia includes India; Latin America includes Argentina, Bolivia, Brazil, Colombia, Costa Rica, Mexico, Peru, Venezuela; Sub Saharan Africa includes Botswana, Ethiopia, Ghana, Kenya, Malawi, Nigeria, Senegal, South Africa, Tanzania

Source: GGDC, 10-sector Database, version 2014; UN Population division World Population Prospects the 2015 revision

Qu 3: How many jobs are being created?



Note 1 (Axis label): X axis: Log of value added (GDP, 2005 constant price, 2005 constant \$, million); Y axis: Log of employment (thousand)

Note 2 (Regions): East Asia includes China, Indonesia, Malaysia, Philippines, Thailand; South Asia includes India; Latin America includes Argentina, Bolivia, Brazil, Colombia, Costa Rica, Mexico, Peru, Venezuela; Sub Saharan Africa includes Botswana, Ethiopia, Ghana, Kenya, Malawi, Nigeria, Senegal, South Africa, Tanzania

Source: GGDC, 10-sector Database, version 2014

IV. Structural change can be inclusive but there are trade offs

When is structural change synonymous with inclusive growth?

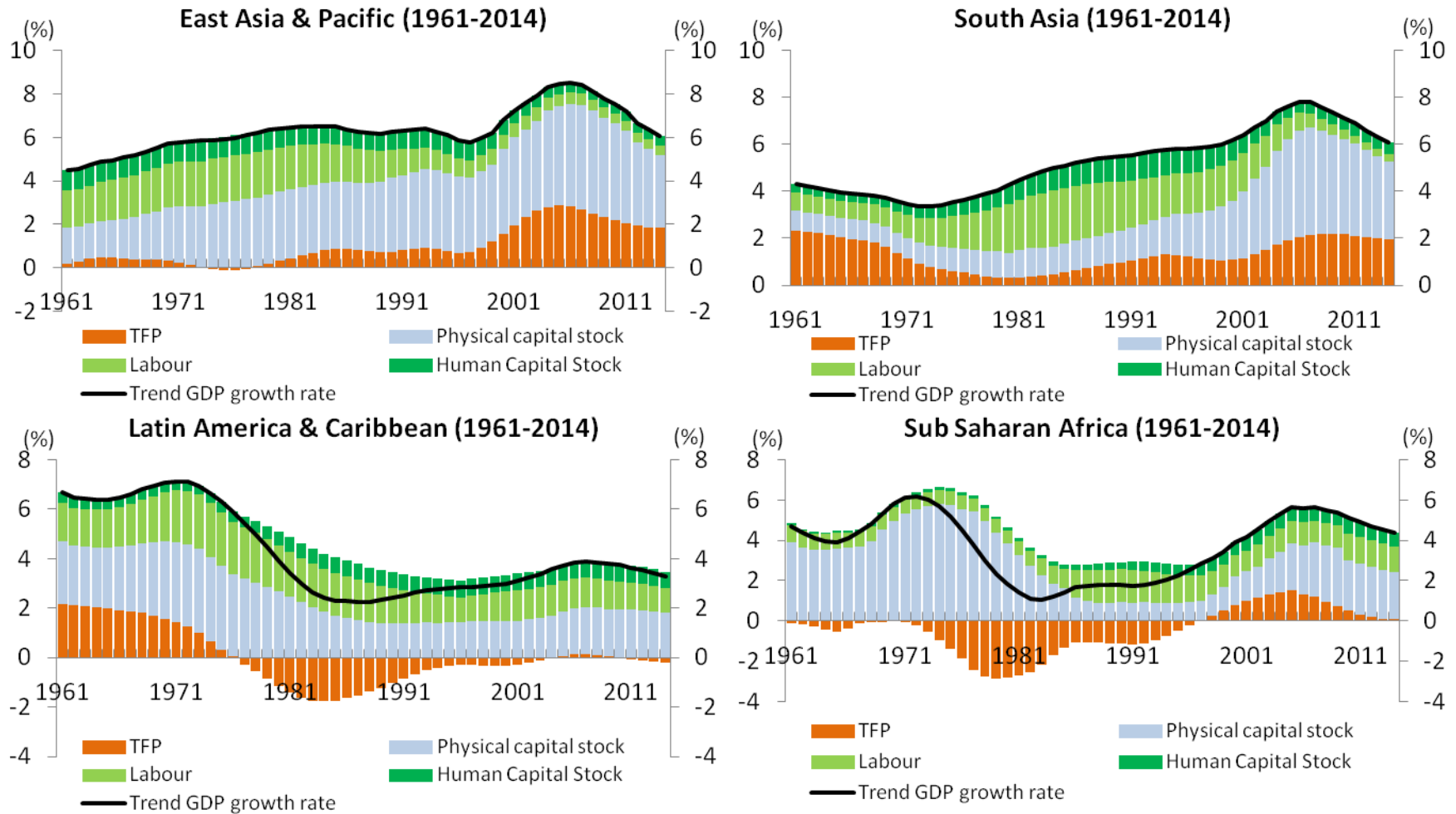
A focus on **workers by education level to favour those with relatively lower education and those working in small and medium enterprises (SMEs)** and –

- **Employment to GDP ratios in sub-sectors where poor/lower educated concentrated** – but what about productivity gains?
- **Composition of employment shifting towards formal sector** among lower education workers but fewer jobs?
- **Share of investment orientated bank loans to SMEs** versus large companies might mean more jobs but trade offs on GDP, productivity, exports etc.?
- All above decomposed between and within sectors and **privilege sectors where lower education workers but weaken higher productivity gains?**

Tensions and trade offs

- Minority/majority owned SOEs easiest route but productivity/sustainability;
- Liberalise SME climate but informal/low productivity jobs;
- Foreign direct investment with joint ventures and job requirements difficult to negotiate (and global rules) and generate educated worker jobs;
- Labour market flexibility associated with more jobs (maybe) but squeeze GNI share to poorest

What matters most for growth?



Note: East Asia includes China, Indonesia, Malaysia, Philippines, Thailand; South Asia includes India and Sri Lanka; Latin America includes Argentina, Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Jamaica, Mexico, Peru, Venezuela; Sub Saharan Africa includes Burkina Faso, Cameroon, Côte d'Ivoire, Kenya, Mozambique, Niger, Nigeria, Senegal, South Africa, Tanzania. Components growth weighted by their share in regional output-side real GDP at current PPPs (in mil. 2011US\$).

Source: GGDC, PWT 9.0

**V. Aid can do things national funds can't but
there are trade offs**

Three views on what aid can do about jobs

- a) **Not much** - employment isn't a donor problem; sustainability of ODA-led job creation weak; focus instead on technical assistance and supporting medium & small enterprises (and climate for SMEs)?
- b) **A lot but crudely** - quick reorientation to big push; reallocate from social spending to economic development spending - especially high cost infrastructure with returns way ahead of current parliament; good evidence on impact
- c) **Something more nuanced** – a longer reorientation towards inclusive structural change - focus on spatial inequality and lower education workers and link lagging regions to growth poles.

Conclusions

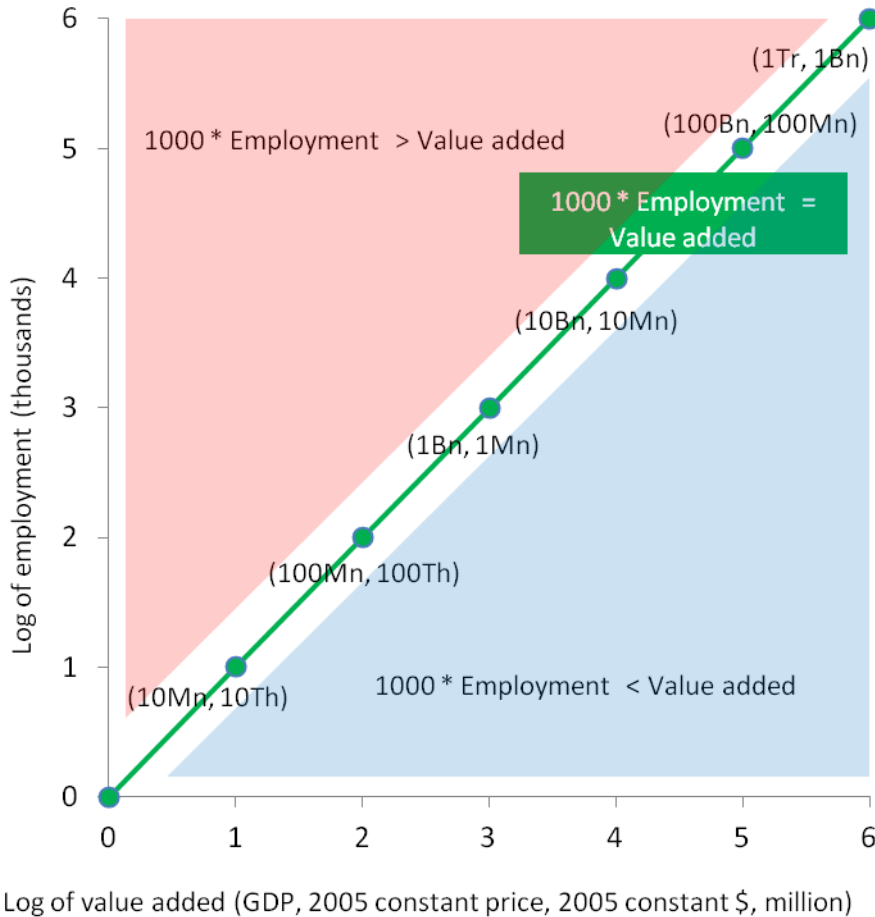
Conclusions

- Three curves can illustrate the job crisis
- The basis of the job crisis is a tension between two key development goals
- The nature of the crisis differs hugely by region
- Structural change can be inclusive but there are trade offs
- Aid can do things national funds can't but there are trade offs

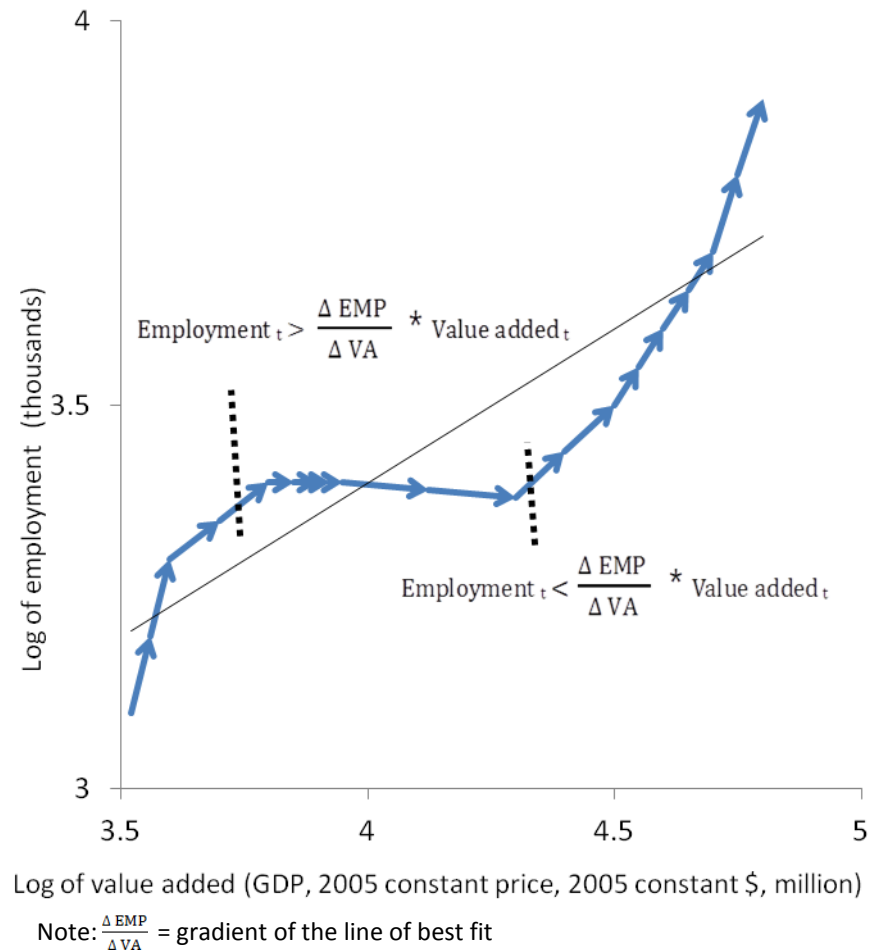
Qu 3: How many jobs are being created?

Depends on employment elasticity curve(s)

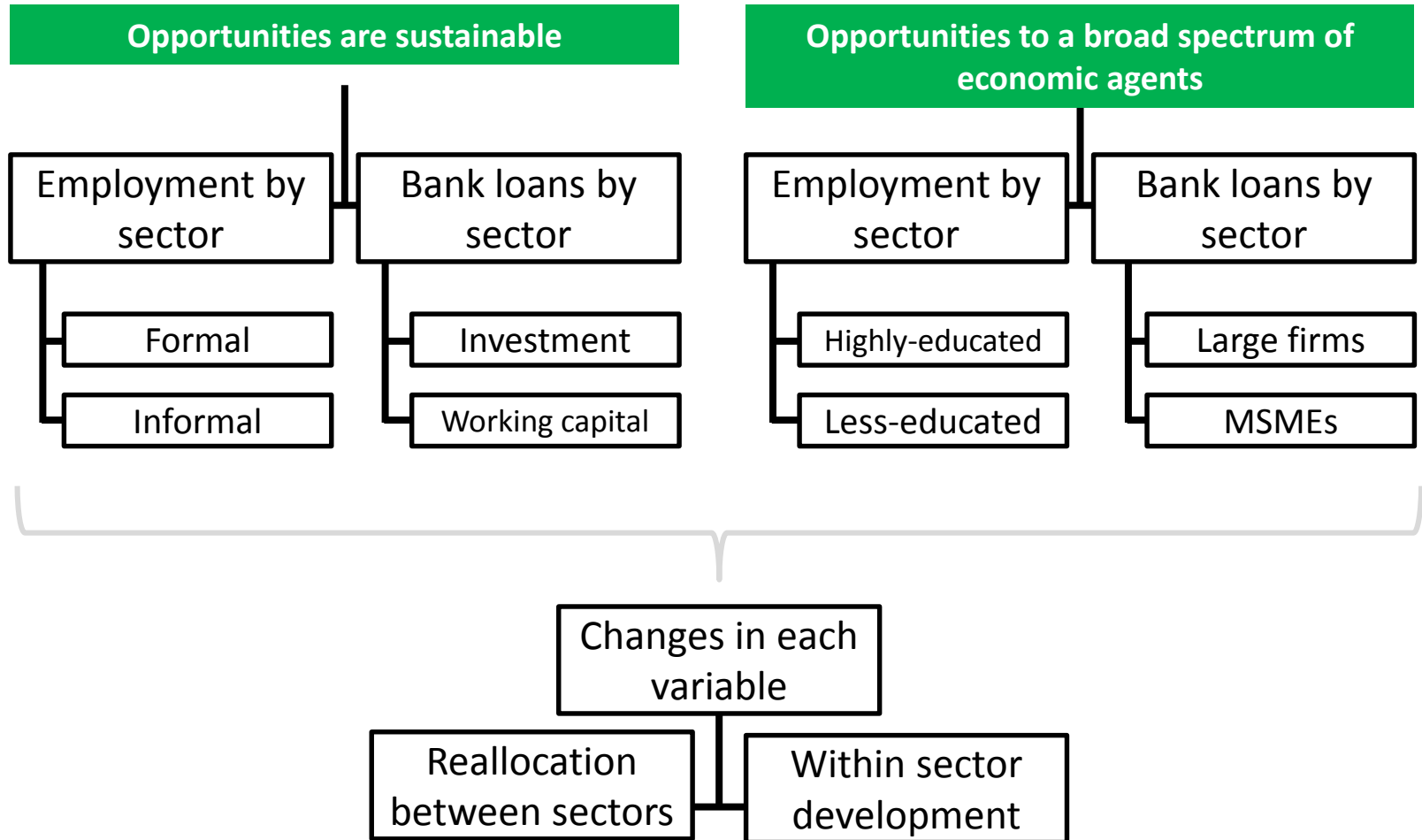
The 1:1 trade off line



Line of best fit: Converging or diverging?

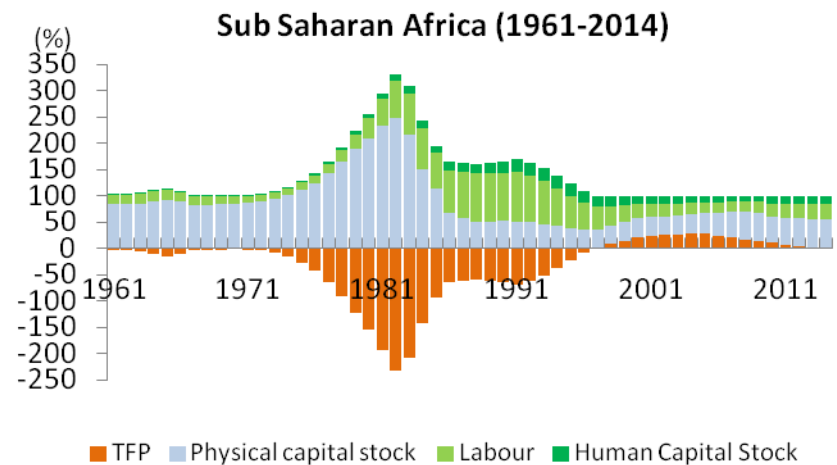
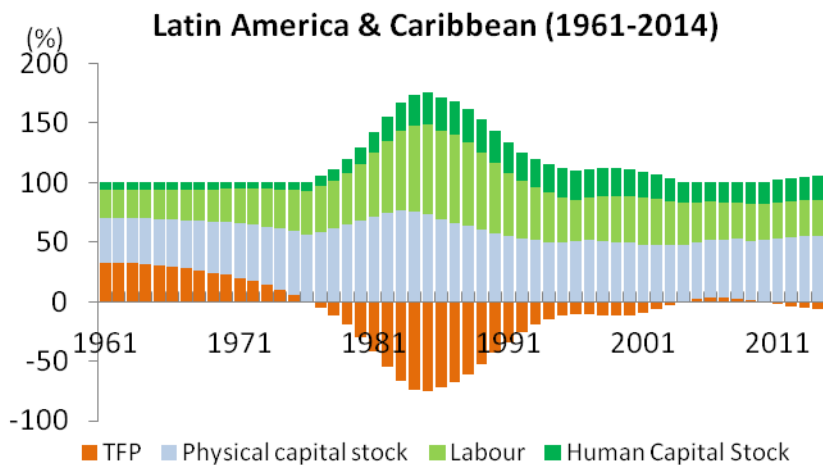
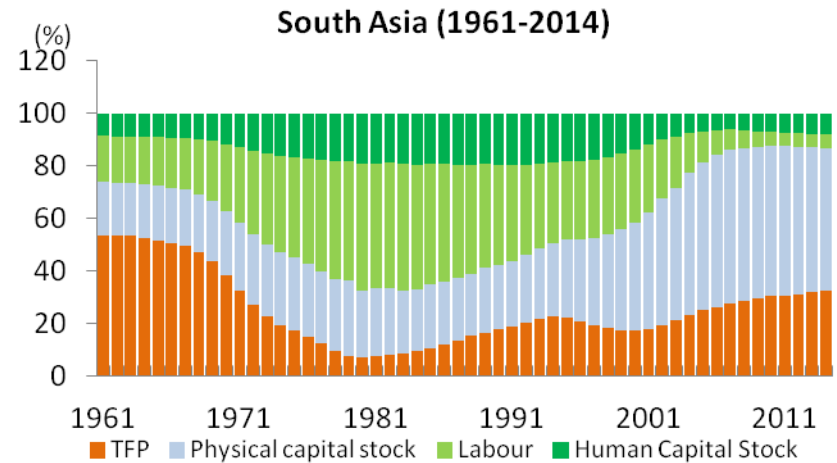
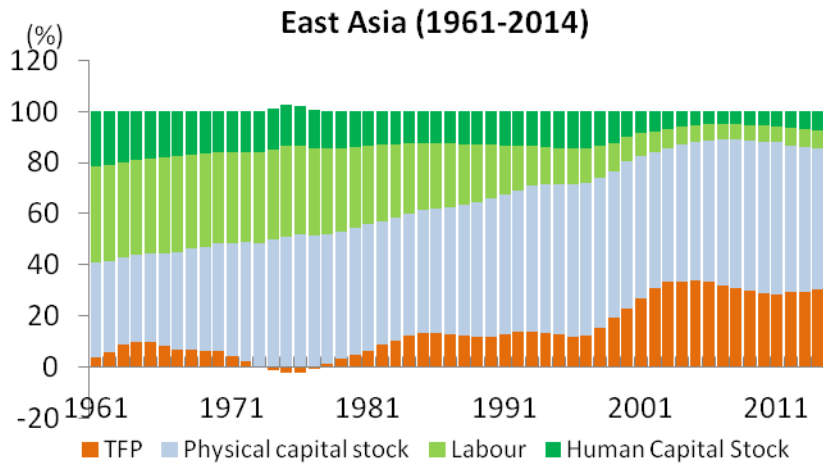


What is inclusive structural change?



Productivity vs. labour in growth

(Changes in growth=100%)



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