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

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
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

Total dependency ratio
[(0-14 & 65+) / 15-64], 5 year interval

Working age population (15-64) ratio,
5 year interval

Changes in working age population
(15-64), 5 year interval

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

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?

Note: $\frac{\Delta EMP}{\Delta VA}$ = gradient of the line of best fit
What is inclusive structural change?

Opportunities are sustainable
- Employment by sector
  - Formal
  - Informal
- Bank loans by sector
  - Investment
  - Working capital

Opportunities to a broad spectrum of economic agents
- Employment by sector
  - Highly-educated
  - Less-educated
- Bank loans by sector
  - Large firms
  - MSMEs

Changes in each variable
- Reallocation between sectors
- Within sector development

Source: Kyunghoon, Yusuf & Sumner et al., 2016
Productivity vs. labour in growth
(Changes in growth=100%)

East Asia (1961-2014)

South Asia (1961-2014)

Latin America & Caribbean (1961-2014)

Sub Saharan Africa (1961-2014)

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