Trinity College Dublin
Coláiste na Tríonóide, Baile Átha Cliath
The University of Dublin

Jobs and Productivity

Carol Newman
Trinity College Dublin

Introduction

- The reallocation of labour from low productivity to high productivity activities is an important source of growth in developing countries
- Job creation (extensive margin) is important but so too is creating better jobs (intensive margin)

- In order to create more and better jobs where should the focus of policy and aid efforts be?
- Most jobs in developing countries are in micro, small and medium sized enterprises (MSMEs) – estimated to account for 90% of all workers
- But MSMEs:
    - Create few jobs on net
    - Offer less secure employment than large firms
    - Pay much lower wages than large firms

- MSMEs are unlikely to be a source of more and better jobs

Introduction

Strong case for focussing efforts on large firms:

- Larger firms create higher paid more secure jobs (Page and Soderbom, 2015)
- Larger firms are more innovative and productive than small firms (WDR, 2013)
- And…. productivity matters for firm survival and growth (Syverson, 2011)

What are the constraints to enterprise growth in developing countries?

- Firm capabilities
- Resource misallocation

Constraint 1: Firm capabilities

L2C: Learning to Compete

Collaborative research programme between UNU-WIDER, the AfDB and The Brookings Institution

Three track approach

- Detailed case studies of industrialization and the evolution of public policies
- Econometric analysis of the stock of firm level surveys
- Qualitative surveys of FDI firms and linked domestic firms.

Eleven countries

- Nine African : Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Senegal, Tanzania, Tunisia and Uganda.
- Two Asian: Vietnam, Cambodia.

National researchers

- Teamed with global experts

Firm capabilities

Cambodia, Ghana, Kenya, Ethiopia, Mozambique, Uganda, Vietnam

Africa lacks capable mid-sized firms (50-70 workers)

- Management of a growing labor force is a major constraint

Firms learn capabilities from exporting

Firm to firm knowledge transfers are an important source of capabilities

- FDI is a major source of higher capabilities
- Vertical linkages along supply chains are important for learning

Exports and capabilities

Cambodia, Ethiopia, Mozambique, Senegal, Tunisia, Vietnam

Confirming expectations

- More productive firms select into exporting
- Large (and foreign) firms are more likely to export
- Exporting further raises productivity
- Learning effects are stronger in
  - Domestically owned firms
  - More sophisticated products
  - Higher income (or more distant) markets
  - The initial years of exporting

Some surprises

- Many African exporters are "born global" (both FDI and local)
- Few firms "learn to export" over time (few partial exporters and few switchers)
- Export activity is highly persistent
- The productivity premium is higher with low national (or sectoral) export participation rates

Exporting is important for productivity, firm survival, firm growth and expansion

Exporting firms are a source of more and better jobs

Agglomeration and capabilities

Cambodia, Ethiopia, Tunisia and Vietnam

Industrial clusters confer significant productivity gains

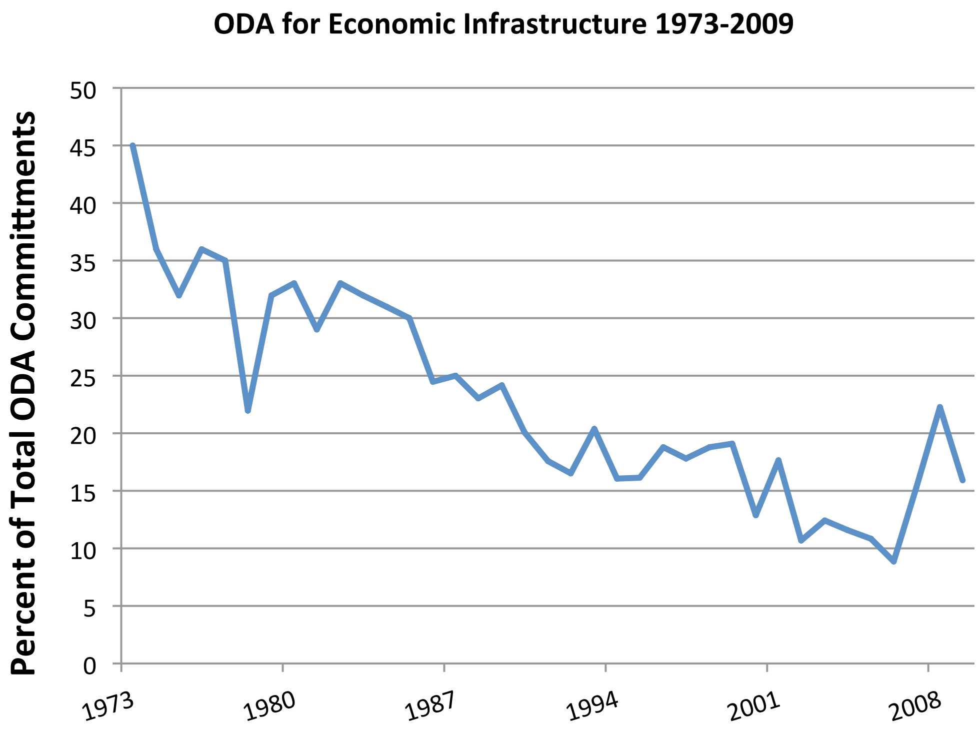
- Jobs created in clusters have additional impacts on the productivity of others
  - Firms (and workers) located in close proximity learn from each other
  - Firms in clusters benefit from a broader pool of skilled labour
  - Clusters help to link local firms with foreign firms and export markets where further learning takes place
- Localization ("cluster") effects are strongest in lower income countries
- Large (formal) firms benefit more than small (informal) firms

A strategy for industrial development

New directions for industrial policy (1)
Reform the investment climate agenda

Focus on infrastructure and skills development relevant to industry

Support institutional development for FDI and SEZs



New directions for industrial policy (2)
Mounting an "export push"

Productivity gains but high private costs of entry

- Knowledge of potential markets' is the most serious constraint for international market entry.

Entering global markets will need an "East Asian style" export push

- A broadly owned strategy and effective institutions (leadership from the top)
- Trade related infrastructure and trade logistics

Support for regional institutions and infrastructure

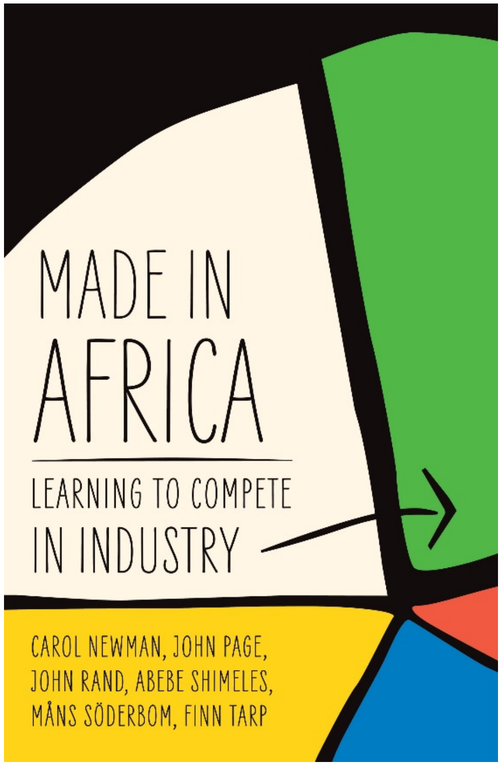
New directions for industrial policy (3)
Capabilities and clusters

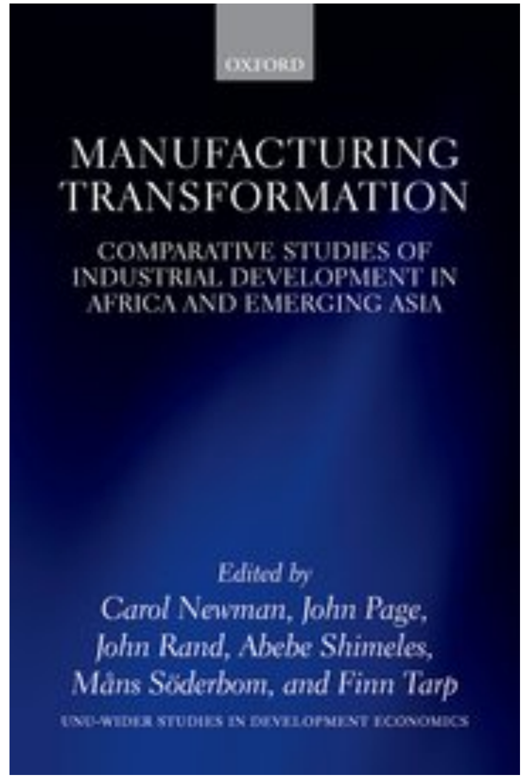
Building Firm Capabilities

- An export push is a major source of capabilities (demanding buyers; repeated relationships)
- Build effective FDI agencies
- Strengthen domestic value chain relationships

Creating Clusters

- SEZs are a means of creating clusters
- Bring Africa’s SEZs up to world class
- Strengthen the links between firms in the SEZ and domestic suppliers/purchasers





The practice of industrial policy (OUP)

Case studies of government-business relationships

Special Issue of Journal of African Economies

Learning by exporting

Constraint 2: Resource misallocation

Resource misallocation

- The reallocation of labour across sectors is an important driver of productivity growth
- Resource misallocation occurs where distortions exist that prevent the flow of capital and labour from less productive to more productive firms
- Dispersion in productivity greater in developing countries highlighting that the extent of misallocation is greater
- Misallocation of labour and capital resources can greatly reduce aggregate productivity in an economy.
    - Hsieh and Klenow (2009) calculate potential TFP gains of 30-50 per cent in China and 40-60 per cent in India if resources were reallocated to equalize marginal products to US levels.
- Source of misallocation are distortions that drive a wedge between MRPL and MRPK across firms

Resource misallocation

- Possible channels of misallocation:
  - Credit constraints lead to a misallocation of capital (and as a result labour) across firms (Caballero et al., 2008; Midrigan and Xu, 2014; Gopinath et al, 2015; Caggese and Cunat, 2013)
  - Rigidities that prevent firms from formalizing (e.g. labor market regulations, high cost of business registration) will lead to more resources in informal firms even if they have a lower MRPL
  - Gender or race discrimination can affect the allocation of talent (Hsieh et al, 2013)
  - Labour may be misallocated due to policies that affect the size distribution of firms, for example policies that support large State-owned enterprises (Guner et al., 2008; Bento and Restuccia, 2015).

- Need for significantly more research in this area in developing country contexts

Conclusion

- To address the jobs crisis attention needs to be focussed on creating more jobs but also better jobs

- Africa has a chance to break into the global market for industrial goods which represents a key opportunity for the emergence of a highly productive industrial sector
  - Changes in Asia
  - Trade in tasks
  - Industries without smokestacks

- This will require a new direction for industrial policy that focuses on
  - Infrastructure
  - Exporting
  - Developing and fostering SEZs

Conclusion

- We still know very little about the sources of misallocation of resources in developing country contexts

- Designing policies that remove distortions that prevent the efficient allocation of labour and capital will have important implications for productivity and employment growth

- Explaining the very large dispersion in within-sector firm-level productivity is a very important area for future research

Thank You!