

INCLUSIVE GROWTH, FULL EMPLOYMENT, AND STRUCTURAL CHANGE

Implications and Policies for Developing Asia

Jesus Felipe
Asian Development Bank
jfelipe@adb.org

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Key Messages

- Growth (alone): not be *the* primary objective of economic policy
- Structural change drives growth and employment dynamics
- 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: policies that lead to Full Employment: (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

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

H. Kuroda, ADB President

Why?

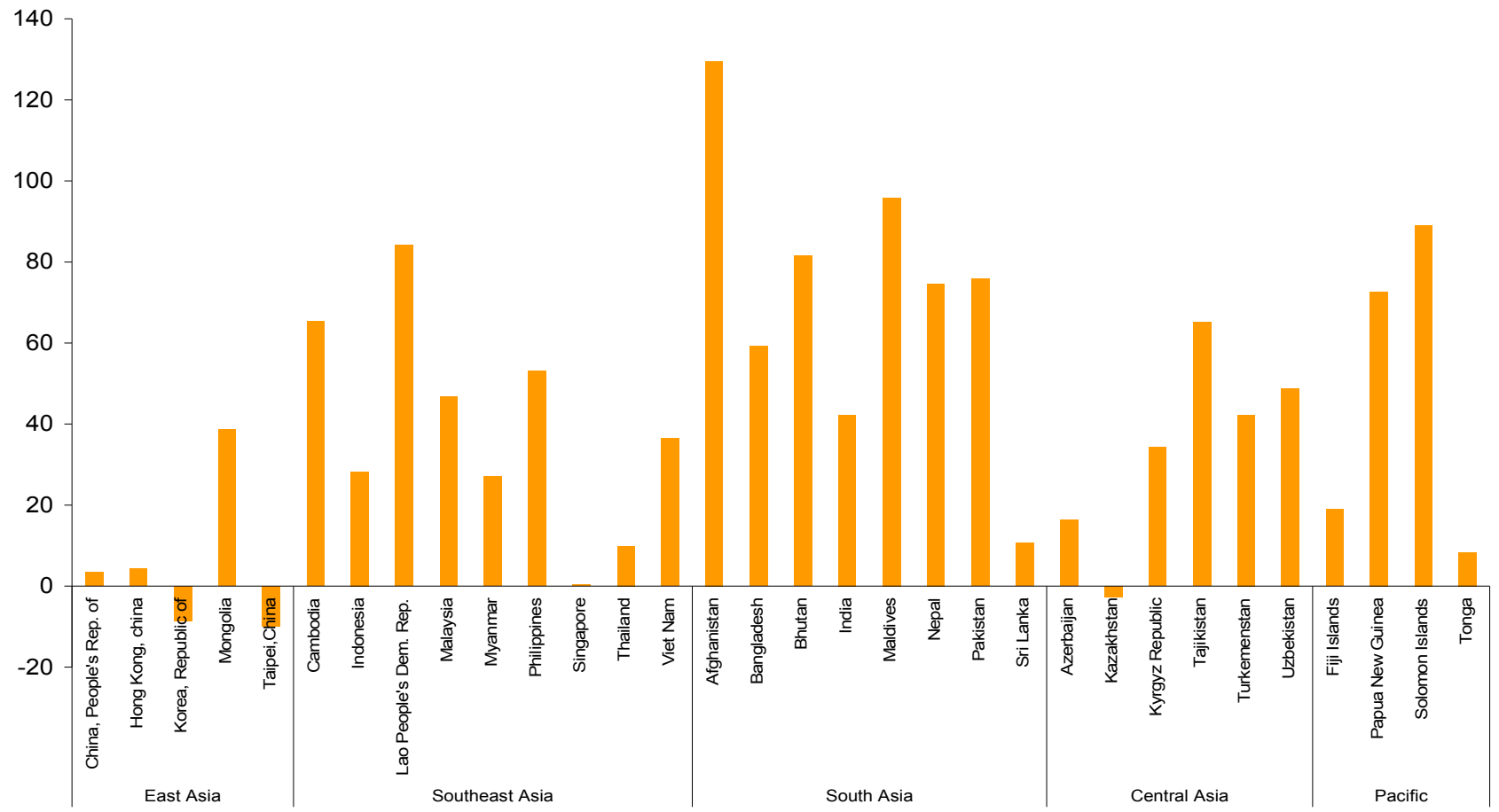
- Fast growth in developing Asia is not generating enough employment to accommodate all entrants into the labor force
- Developing Asia is home to about **500 million** people unemployed and underemployed

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 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

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”
- 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
- The worst market failure: 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
- (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 (yes, also in developing countries, e.g., 30% of Gov spending in the Philippines is interest payments...). And IT is in fashion

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...
- **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

- Labour underutilization creates huge net income losses
- 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

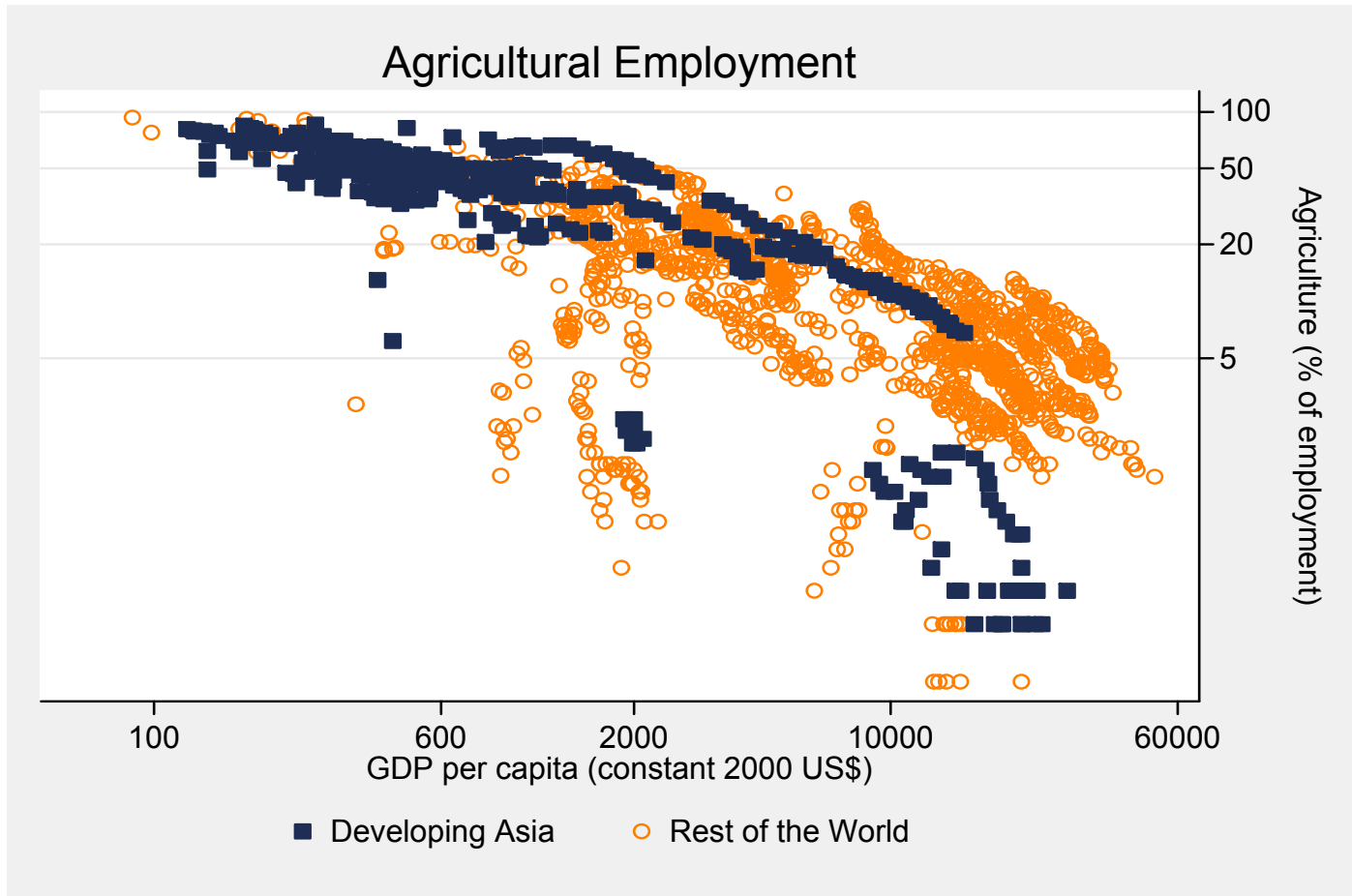
- Growth is the result of structural change:

(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;

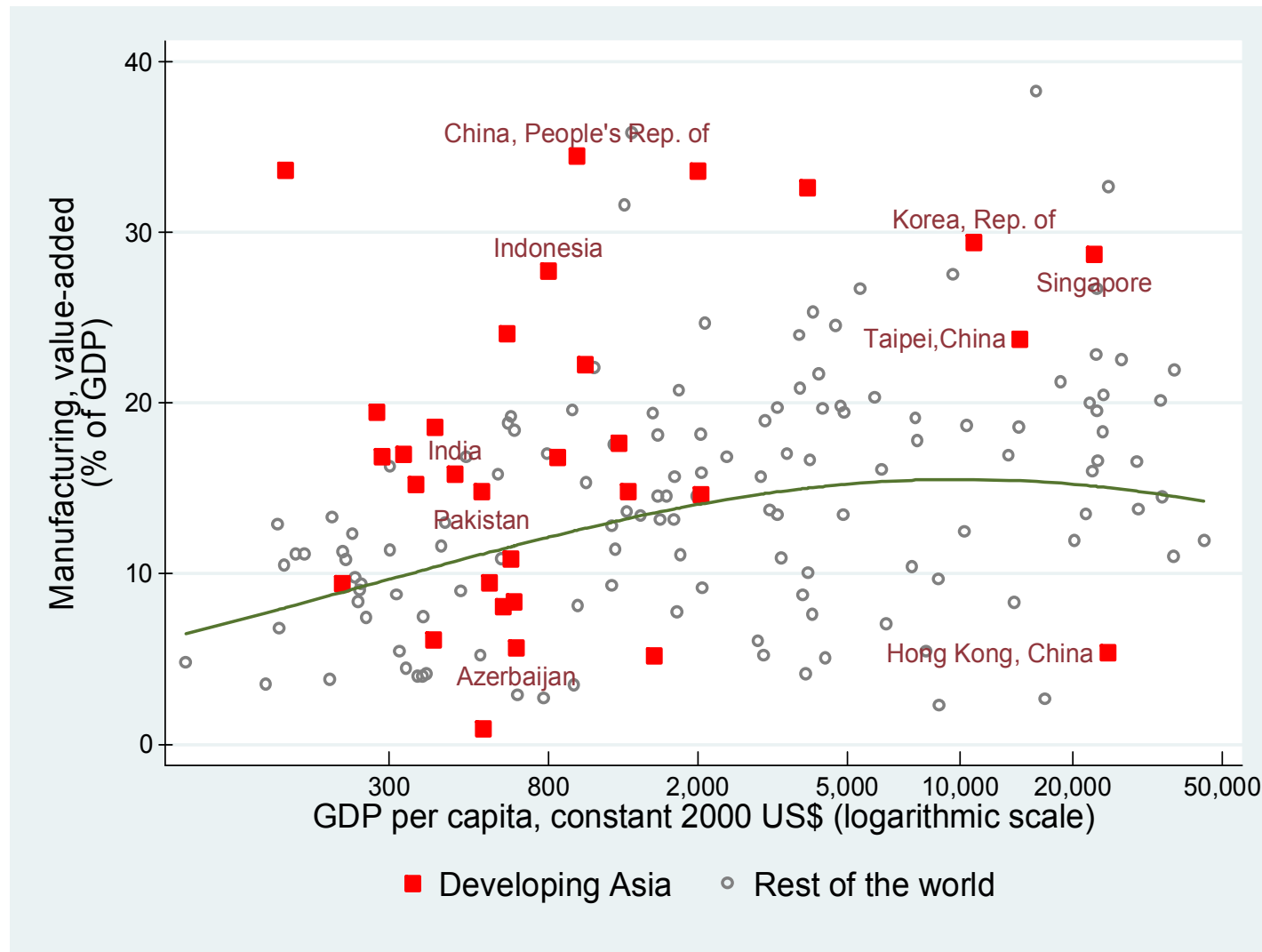
(iii) Discovery of new products

Agricultural employment share vs. per capita GDP



Source: WDI

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



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

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 (integration of the world) is “good” because it creates opportunities; but many people are being left out
- It has been estimated that up to 41 million Chinese workers have lost their jobs during the crisis
- 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
- ...and 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

And the developed world better make
sure that all this works...

THANK YOU