Talking Points for Kick-Off session of Jobs Diagnostics Course, Nov 4th.

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Introduction

- Welcome to the first edition of the World Bank’s Jobs Diagnostics and Strategies Course - and thanks for being our Guinea Pigs!
- Following the request from IDA donors in IDA17, we’ve been producing JDs for several years now and there are well over 40 reports, covering all sorts of countries, not just IDA.
- Now, the donors to the Jobs MDTF have asked us to systematize what we have learned and provide guidance on how to go about producing JDs as a “global public good”.
- Responding to that, the idea of this course is to introduce practitioners to the available datasets and ways to use them to learn about jobs challenges. But we don’t just want to characterize the problems – we also want to focus on the policy take-aways, in the form of Jobs Strategies.
- This year, we have made available a global jobs data resource, JOIN (together with DEC) and we have also put online the related code for the analysis of job issues, including the macroeconomic setting; labor supply data and firm-side data which links into the demand for labor. You’ll be learning about how to access and use those resources, starting later today and tomorrow.
- As you know, Jobs is a complex and cross cutting challenge that involves macroeconomic, regulatory and sectoral issues. It isn’t anyone’s exclusive domain. That makes it very important to have a broad audience, and (as you could see from the round of introductions) we’ve pretty done well in that regard. We’re very pleased that we have an audience here today that includes senior policymakers from governments; international agencies and the Bank, who are dealing with these issues on a day to day basis.
- But before we get into the weeds, I’d like to take some time to set the stage, by talking a bit about how our understanding of jobs challenges has evolved.
- I’d also like to ask you to excuse me for not putting up a slide deck here. It doesn’t mean I haven’t thought carefully about what I want to say. But I’m somewhat averse to the plague of the Power Point and I want to see if I can keep your attention without visual aids. In any case, I’m sure you’ll see
plenty of slides as the week rolls out. And I’ll make sure to upload my TPs to the Course platform, so please don’t worry about taking detailed notes.

Growth, development and jobs

- There was a time when we thought that all that mattered for economic development, was growth. Then, we realized that poverty matters too, so we need to be concerned with the inclusiveness of growth. And we quickly realized that the key to inclusive growth is better jobs for poor people. So “jobless growth” doesn’t do the trick. That’s what led to the “Special Theme” of “Jobs and Economic Transformation” (JET) under IDA 18; and it has been reinforced for IDA 19.
- Governments want to see a development pattern that is truly transformational, in the sense that it produces better jobs for the mass of the population. And that goes well beyond IDA countries, which are concentrated in SSA and South Asia. It’s a common refrain, also, in MENA and LAC. Across the world, governments rightly think that there are big gains to society from getting people into better jobs, which the market under-values. Dani Rodrik recently referred to this as a “huge market failure”. It underlines the case for using public policies and resources to promote better jobs outcomes.
- We refer to the gains from better jobs as “jobs-linked externalities” - and they are a type of market failure. They have two important elements. One is simply the earnings gains that poor people and families get when they intensify the use of their labor and/or move into more productive jobs. When a firm hires someone, they aren’t concerned with the opportunity cost of the labor. They simply compute the market cost they have to pay and they go ahead if they can make a profit. But in Low Income Countries, where there are elements of “structural dualism” that divide the backwards and modern sectors, the market wage in the modern sector can be significantly above the social opportunity cost of labor in the backwards sector. That results in an income gain for a worker who moves across and it’s known in the literature as a labor externality. The other element of Jobs Linked Externalities is the potential gains to society at large when – say – a young man in a violent community gets a job that keeps him off the streets. Or a young women gets a job that leads her to delay family formation, have fewer children and be able to invest more in each child’s health care and education. We call those gains to society at large, “social externalities”.
Once JLEs are taken into account, the “break even point” for society from job-creating investments, is likely to be different from the private calculus of firms. So, we should aim to correct that by incentivizing firms to create more jobs than they would create on their own account.

**Jobs transformations in the history of economic thought**

- Worrying about the reallocation of the labor force into more productive jobs is nothing new in economic thought. What is perhaps new is the understanding that energetic public interventions are needed to make them happen. The market won’t fix this by itself.
- The great St. Lucian economist Arthur Lewis wrote his famous study on “Economic Development with Unlimited Supplies of Labour” in 1954, and Development Economics was born as a discipline. Since then, we have been worrying about how to accelerate agricultural productivity growth and shift of the surplus of under-employed, rural labor into the modern economy, where linkages to markets permit businesses to generate cash revenues. That, in turn, permits them to raise capital finance and to expand. They achieve productivity gains for their growing labor force by taking advantage of the division of labor; scale economies; and increased capital-labor ratios.

**From labor productivity to Total Factor Productivity: there and back again?**

- In recent years, development economics has shifted away from a narrow focus on labor productivity. With the emergence of “endogenous growth theory”, we’ve become fascinated with “total factor productivity”. That is, the growth in output that’s made possible by increased efficiency or changing technologies, rather than by increases in the amount of labor (controlling for skill levels, which we now call Human Capital); or in the amount of physical capital that each worker has available to them. Statistically, TFP is simply the residual in the growth regression: the part of output growth that we can’t explain based on the increase of labor and capital inputs. It’s what an earlier generation of economists called “Technological Progress”.
- In its extreme variant, “endogenous growth theory” postulates that “factor accumulation” doesn’t really matter anymore. Rather, what matters is our ability to use our economic resources better, by fixing the dysfunction of markets. We certainly need to think a lot about efficient markets and technological progress, and we have lots of theories about possible sources
of greater efficiency and productivity. “Agglomeration economies” are arguably the most popular variant of this story. The idea is that the closeness of other workers and businesses enables productive combinations that can’t happen when workers and businesses are more spread out. If so, a greater spatial concentration of our existing physical and human capital resources might enable faster growth and better jobs. Better infrastructure and internet communications might also shift the parameters of these relationships. Ricardo Haussmann likes to use the metaphor of a game of scrabble, where having more letters increases the words you can make. Similarly, in the economy, the proximity of possible complements (whether it is facilities with equipment, or other workers with different skills) enhances the options for productive combinations.

- I have no doubt that agglomeration economies exist – but I do wonder if we might have thrown out the baby with the bath-water here. I have seen studies of developing countries, which have registered high rates of GDP growth that can be fully “explained” by the growth of the labor supply plus capital formation - and which go on to conclude that the economy must have a problem, because there is no unexplained “TFP residual”. One case that sticks in my mind was a report on Peru, which has been growing at a steady tick of 6% to 7% a year and is surely one of LAC’s recent economic success stories.

So, does factor accumulation matter?

- I think the answer is a definitive “YES”. Even where technological progress is an important driver of growth, we should not assume that “capital deepening” (increasing the amount of capital per worker) doesn’t remain a key part of the development challenge. It can also be difficult in practice to disentangle the accumulation of physical and human capital from technological progress, which is often “embodied” in new investments.

- In “Jobs Group” parlance, we call the factors that affect the growth of investment that can enhance workers’ productivity the “demand side” of the jobs problem.

- One characteristic that’s shared by most economies that have achieved significant economic transformations in our life-times is high investment rates, often running above 40% of GDP, sustained over decades. This is most evident in the economies of EAP, starting with Japan in the 1950s and followed by Taiwan, South Korea and then (more recently, and with
somewhat different economic models) by China and Vietnam. Notwithstanding the inefficiencies, that led to big increases in labor productivity and many more better jobs, mainly wage jobs. When I first went there in the mid-1980s, early in the first phase of Deng’s market reforms, China was a peasant economy. Today, around 44% of Chinese working age people are in are wage jobs. And of those who are employed, 64% are waged.

- In the mean-time, much of the rest of the global south has struggled with structural transformation. This is true, even in countries that have grown quite fast. The contrast between China and India is striking: in India, notwithstanding rapid growth in recent years, only 26% of working age people are in waged jobs.

**Getting factor accumulation right**

- Factor accumulation matters, but it needs to be done in the right way. There are plenty of cases of economies that have sustained high capital investment rates without achieving much by way of structural transformation – often because it went mainly into extractives enclaves and drove up the real exchange rate, producing Dutch Disease effects that hampered the development of other, more labor intensive industries. Or into infrastructure megaprojects, which did little to transform productive possibilities for the mass of firms and workers.

- Similarly, human capital accumulation on its own doesn’t necessarily do the trick. When economies increase education attainment without creating enough better jobs, there’s a risk that better educated young people end up in similar jobs to their parents. I’m thinking here specifically of Honduras, in the period from around 1980-2000. What happened was education coverage improved (thanks to the “Education for All” initiative). But the growth of physical capital didn’t keep up with the growth of human capital, so the returns to human capital were flat-lining. When we ran our growth regressions, they told us there was a negative TFP residual. But the models were mis-specified. The idea that having more human capital, alone, will increase output per capita is based on an implicit assumption of substitutability between human and physical capital that may not be true. In fact, this flat-lining of the returns to human capital, in the range from completed primary education right up to 11th grade, is now observable
across the global south. This is a huge problem, because unfortunately, that’s also the attainment level of most of the emerging labor force.

- So, as Ricardo Haussmann also likes to remind us, labor and capital are best regarded as complements and we need to accumulate them in tandem. An excessive focus on their substitutability is arguably one of the big defects of the neoclassical world-view. The *IDA 19 JET paper* lays this out very well. We need a two-pronged strategy to generate more good jobs by creating markets and linking firms to them; and to skill-up the available labor force and link it to those jobs. I’m not talking here about tertiary degrees – I’m talking above all about TVET training systems that respond to the needs of business.

- That’s also why the World Bank’s *Human Capital Project* is focusing increasingly both on the need to improve health and education outcomes – which determine workers’ earnings potential - and on the need to improve the returns to human capital, by creating the jobs people need and can do. There is also an important feedback loop here. Increasingly, people accumulate human capital by learning “on the job” : work has become the school of the 21st century. The good news is that the expanded production of human capital will also call for the creation of a lot of new jobs, because education and health are labor intensive industries. And many of them will be jobs that are taken by women. I’ll come back to that later.

**Jobs syndromes**

- It’s not just IDA countries that have big challenges around the correlates between economic growth and better jobs. But the nature of the challenges varies. Our recent work in the Jobs Group has focused on trying to typify the “syndromes” related to market and policy failures which underly the unsatisfactory jobs outcomes we observe across the global south. This is still work in progress and we’ll be interested to get your feedback. But let me make a few broad-brush statements about what the problems might be and see whether they resonate. I will aim to be deliberately provocative and try to stimulate a debate.

**Sub Saharan Africa: raising the productivity of rural labor**

- In SSA, total jobs continue to grow more or less in line with the labor force, for the simple reason that, in the absence of a welfare system, people will
do whatever subsistence own-account jobs they can get into. The yawning gap is in the growth of better quality jobs.

- The big challenge is the persistence of a large mass of own-account workers in very low-productivity agriculture. The majority of the labor force remains concentrated in rural areas. But the incipient pattern of urbanization is also sub optimal – often with an exaggerated spatial concentration in the main city (where the political rents are centered). There’s also a growing concentration of jobs in household enterprises in the services sector, which employ only family members and have little potential to grow. Household enterprises often provide better-paying jobs than traditional field work, and our JD analysis shows that their expansion accounts for much of the increase in GDP. But low-quality self-employment service jobs offer little prospect of a dynamic path towards good jobs for the mass of the labor force and their expansion tends to pull down the average productivity of the service sector. That’s why jobs in HEs tend to peter out as wage jobs become available.

- Without doubt, in SSA, the very low level of human capital and the rural remoteness of the mass of the labor force are important factors limiting the shift towards modern, formal sector jobs. But infrastructure deficiencies and the lack of a dynamic private sector are just as important. We need to find ways to link rural jobs to modern production systems and markets – both domestic markets and export markets.

- Value chain linkages and aggregator schemes look like a very promising point of entry. They can result in significant earnings gains for own-account producers who sell their products to commercial aggregators. We’ll be showing you a video later in the week about work we’ve been doing in Mozambique on that agenda. Speeding the growth of urban centers that can provide the necessary market linkages will also help a lot. I’m not talking here about ramping up the megacities, but about supporting the development of regional urban hubs, which can transform the potential for the surrounding rural hinterland. We should also aim to promote the growth of better-quality, formal service sector firms and jobs in urban areas. This is not an impossible task. Our JD in Mozambique found that over a 10 year period, the share of private sector formal wage jobs had tripled, 5% to 15% of all jobs. The whole of the increase was accounted for by the service sector.
LAC: balancing Labor regulation and reducing the “tax wedge” that incentivizes informality

- In LAC, economies are now overwhelmingly middle income and urbanized. Most people are better educated than is the case in SSA, and they have wage jobs. In fact, this transition towards wage jobs is a key facet of structural transformation, as you’ll see when we discuss our report on “Pathways to Better Jobs in IDA Countries” later today. But there is a sub-optimal distribution of jobs and firms between atomized informal firms and larger formal firms, where capitalization and productivity are higher. The result is sluggish earnings growth and a socially damaging formal-informal bifurcation, which also limits social protection coverage. In this case, the binding constraint is no longer remoteness and illiteracy. It’s more likely to be a set of policy choices which create disincentives to investment and to formalization and reinforce the inefficient atomization of firms and jobs.
- That includes issues around labor market regulation and the financing of social insurance, which create a steep labor cost gradient (sometimes called the “tax wedge”) for firms that expand beyond the threshold where formalization is necessary. This also relates, more broadly, to challenges in the business climate and product market regulation, which further dampen formal sector growth.
- Our new World Bank Social Protection and Jobs White Paper, Protecting All, argues for a new approach to designing and financing social protection programs, which avoids reinforcing the disincentives to formality. It would do that by reducing the use of labor taxation and moving away from segregated social protection programs that are linked to employment status. Instead, we recommend shifting towards universal schemes that anyone can join and benefit from; and where subsidies are transparently targeted and funded from general taxation, rather than from labor taxes, which dampen the growth of good jobs.

MENA: Youth unemployment and weak private sector growth in rent seeking economies

- In MENA (outside the GCC countries) we observe a huge problem of unemployment of relatively well-educated young people, due to the sluggishness of the formal private sector. This is often linked to protected, politically administered markets and to high wage premia for public sector jobs. That produces queuing behavior, as workers wait to try to land a
lucrative position. In fact, rent seeking behavior by firms and workers is a problem in many developing countries. We need to re-design the policy frameworks that reinforce these low-level equilibria, to free up firms to create better jobs in expanding markets – and incent young workers to take them.

The gender jobs challenge

- Across the global south, there is a huge challenge of under-utilized female labor. As is well known, this reflects a complex set of discriminatory social norms which assign women to household tasks and childcare roles. In the absence of good childcare systems, women who could otherwise work get trapped at home. It also reflects patterns of gender segregation in jobs (which tend to push women towards less well-paid occupations); wage discrimination within jobs (so that women usually get paid less for the same work); and a series of risks and vulnerabilities linked to gender-based violence during travel to work or in the workplace itself.

- The details vary across regions and cultures, but the pattern persists. As women get more educated and their families become less poor, they are increasingly reluctant to take bad, risky jobs. They prefer to queue to get a good job. In India, this set of factors has produced a “U shaped” female labor supply curve. Overall, female LFP is under 30%, but once women achieve tertiary education and can secure good quality jobs, their participation shoots up. The problem is that most women don’t reach that level. Nor is this linked to the cultural specifics of India. Nepal has a similar cultural pattern but female LFP is over 70%, because the population is poorer and less educated. We can be pretty sure that Nepal’s female LFP will fall as incomes and education attainment rise. Across the other side of the world, in LAC, female LFP has been rising, but from a very low level, and it remains well below male LFP in most countries. In Honduras, 88% of “NEETs” (working age people who are Not in Education, Employment or Training) are women - and it’s pretty clear that many of them are queuing for better quality, more dignified jobs. We sometimes talk about this in terms of “reservation wages” - but the inference is perhaps misleading. The crux of the problem isn’t that these women are stubbornly asking for too much pay. It’s the lack of enough safe, dignified jobs. As I mentioned earlier, the expanded production of human capital services may help to provide part of the answer to this deficit. So might the expanding demand
for services in general as urban incomes rise; together with the relatively slow rate of job-destroying technological progress in most services industries.

Closing remarks
- I’ve touched on a lot of points that will crop up again as the week unfolds. I’ve missed out a lot, too. I really just wanted to give you a taste of some of the things we will be talking about and some of the conclusions that are starting to emerge from our work. It’s great to have you all here, and I’m really looking forward to our engagement this week.