

The global crisis

Causes, responses and challenges

EMPLOYMENT-LED GROWTH AND GROWTH-LED EMPLOYMENT IN THE RECOVERY

8

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Beyond the understandable focus on sustainable growth, the central problem facing labour markets in an interdependent global economy is distribution of productive employment opportunities. It is a commonplace that growth alone is inadequate for the creation of productive jobs; rather, it is the pattern of growth that matters. More recently, this sentiment has been reinforced by the view that the devastation wrought by the worst global economic downturn since the Great Depression offers the policy world an opportunity to rethink just that pattern of global growth resulting from an untempered reliance on the market. Opinion now, including that of the International Monetary Fund (IMF),¹ discounts any of the now abundant signs of recovery that do not also include a recovery of jobs. An employment-led recovery is the aim. Just what, however, does this mean?

This chapter explores a theme relating to the distribution of productive employment in developing countries, and argues that a meaningful distinction can be made between labour markets that are “employment-led” and those that are “growth-led”. And further, that an employment-led approach to growth does not take us very far, if left on its own.

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¹ Dominique Strauss-Kahn, IMF Director-General, speaking at the ILO/IMF Conference in Oslo, September 2011 (see ILO and IMF, 2010).

8.1 AN ADMITTEDLY IMPERFECT TAXONOMY: IS THE DEMAND FOR LABOUR DERIVED OR SELF-CREATED?

The thrust of much recent literature finds the well-known concept of a “dual economy” an exaggeration. “Traditional” and “modern” sectors are in fact not worlds apart; they are not separate, but more closely intertwined than hitherto believed. The observations are empirically compelling, but in implied policy terms, often misguided. At a time when a strong employment component of growth is, because of its absence, of widespread policy concern, it is useful to recall that there is an extant pattern of growth in which employment has been the lead, rather than the lag, variable in the growth equation.² The problem is that where employment drives growth or at least seeks to, the result has most often been widespread underemployment and working poverty. To help understand whether it is growth that drives employment or the reverse, it is useful to propose an imperfect taxonomy (table 8.1).

Table 8.1 A loose taxonomy of employment- vs. growth-led labour markets

Employment-led labour markets are ...	Growth-led labour markets are ...
	relatively more ...
“traditional”	“modern”
vulnerable in employment status	likely to have a higher share of wage-earners
part of the informal economy	part of the formal economy
rural	urban
likely to be less productive	likely to be more productive
credit-insufficient	access to credit
likely to have a lower capital/labour ratio	likely to have a higher capital/labour ratio
oriented to domestic, even local markets	oriented to domestic and international markets
sheltered from the impact of macroeconomic policies	exposed to macroeconomic policies
deficient in the quality of jobs	deficient in the quantity of jobs
likely to be less or unprotected	likely to have at least de jure protection
prone to greater earnings instability	stable and predictable in earnings and income

Source: Author.

² Following Ghose et al. (2008), this chapter’s premise finds continued relevance in the idea of a dual economy as characterizing developing country labour markets.

8.1.1 The “demands” for labour

The nature of demand itself – its origin, its strength, its sustainability – lies behind the employment-led versus growth-led continuum. The demand for anyone’s labour is never a “given” – nor, even where there is such demand, is there any guarantee that it is permanent. The strength and continuity of demand constitute a continuum – from strong to tenuous, from stable to erratic.

Imagine three types of labour demand. The first of these is the textbook case of labour as “derived demand”; that is, labour, not employed as an end in itself, but because it is needed to fulfil demand arising from the product market. An autoworker is an autoworker because there is a demand for the worker’s input in satisfying demand in the product market. While obvious, but nonetheless overlooked, this framework is entirely causal or sequential: growth leads to jobs.

A second source of labouring could be thought of as emanating from demand that is in fact auto- or self-derived. A subsistence farmer’s labour is derived from the farmer’s demand to eat. Here, moreover, is an instance where demand is indeed permanent. Here, too, is an instance where demand and need are synonymous in a way that does not apply to, say, the demand for an automobile.

The third type is the instance in which labour is in fact “chasing” or endeavouring to “stir up” demand, all too often in instances where such demand is rather feeble. This category would include the survivalist or distress strategies of street vendors to “create” often elusive demand.³

These different motivations to labour do not fully correspond to different statuses of employment. For example, labour that is more clearly derived from product-market demand does not solely apply to paid employees. Many self-employed are represented in this category. Similarly, paid employment is not necessarily a healthy and stable derivation of demand. Casual day labourers, for example, face uncertain demand, uncertain wages, and uncertain locations of work – a strong “demand search” component to their labour market involvement is clear.

While the first of these three demand types can be considered growth-led, deriving as it does from demand in the product market for a labour input, the latter two are employment-led – less derived from “growth” than contributions to it. But of what use is such an admittedly loose taxonomy when all categories, in the end, are responses to some form of demand, whether steady and strong, or uncertain and sought-after?

³ At the troubling extreme, it would also include those children and adults who trade their bodies for income.

Two answers are of possible relevance. First, these different “demand regimes” coexist. Simply ascribing underemployment and working poverty to inadequate demand masks the point that demand-deficient underemployment coexists with respectably demand-sufficient employment in many developing countries. One’s attention is therefore drawn to the need to look not only at the level of growth, but its repartition. It is the sheer magnitude of survivalism in otherwise healthily growing developing countries which argues against reliance on growth alone to solve labour market problems. While it is no doubt the case that there is too much supply chasing too little demand, a pertinent question might be to ask how that demand is accessed.

Second, in policy terms, one should be thinking just as much about how to improve employment’s contribution to growth as one should about how to improve growth’s contribution to employment. It is the latter, however, that occupies most policy attention.

8.1.2 *Improving employment’s contribution to growth*

When policy-makers focus on the notion that growth needs some help in creating jobs, one of the remedies that often comes to mind is to focus on the supply side of the labour market. A better educated, better trained, healthier supply of labour contributes to growth through the higher productivity that would accompany such an improved supply of labour, through the greater ease with which transitions to higher value addition and more rapid structural transformation could be made. There is no argument here. These are sound empirical conclusions to draw.

However, the question is how to improve employment’s contribution to growth. How to enable the transition from an employment-led growth model to one of growth-led employment? Employment-led growth exists as a survival strategy, as there is no alternative. There is no growth that is creating jobs for hundreds of millions of poor people – today or at any time in the past! Growth assumes consumption and the disposable income needed for this. These are wanting. It assumes investment by “capitalists” with a view to gaining an adequate return in the real economy. But the role of investment is uncertain in the absence of demand.

Yet there could be useful interventions for unleashing demand. For example, infrastructure has an important role to play in converting a subsistence farmer to a commercial farmer. For the street vendor, the chase after demand can be facilitated by measures to attract demand. Commercial zoning laws, product diversification and access to credit could all increase the throughput of the street vendor toward the end of greater income generation.

8.2 “EMPLOYMENT-LED GROWTH” IN ITS CONTEXT

Common features of the poorest countries are incomplete or unintegrated markets, whether for products, services, labour or capital, and inadequate demand in the economy to absorb new entrants into the labour market into relatively productive and stable employment. In the absence of alternatives for income generation, a substantial share of working men and women (and children) “create their own demand”, whether through subsistence farming, rudimentary trade such as rag-pickers or street vendors, or, more rarely, in paid employment. While such work is overwhelmingly in the informal economy, it is less the formal versus informal taxonomy that matters here than the barriers to demand.

The ILO defines as “vulnerable” workers those who are own-account workers and contributing family members in the labour market.⁴ Their participation in the economy is often but not always “employment-led”, as it is often but not always their supply that creates demand, or seeks to do so, rather than the reverse. Employment-led growth predates the modern economy. The place of the employment-led labour market in historical sequence is aptly evoked in Paul Collier’s description (2008) of the “bottom billion” as living and working in the 14th century. While Collier’s argument is quite convincingly concerned with the geo-political distribution of economic welfare, a different picture – or, rather, the same picture but of a different magnitude – emerges when political borders are removed and just the working population is concerned. When this is done, the population of the “bottom”, or the “have-nots”, is closer to 50 per cent of the global labour market, or, in population terms, closer to 3 rather than 1 billion. Vulnerable employment shares by subregion are shown in figure 8.1.

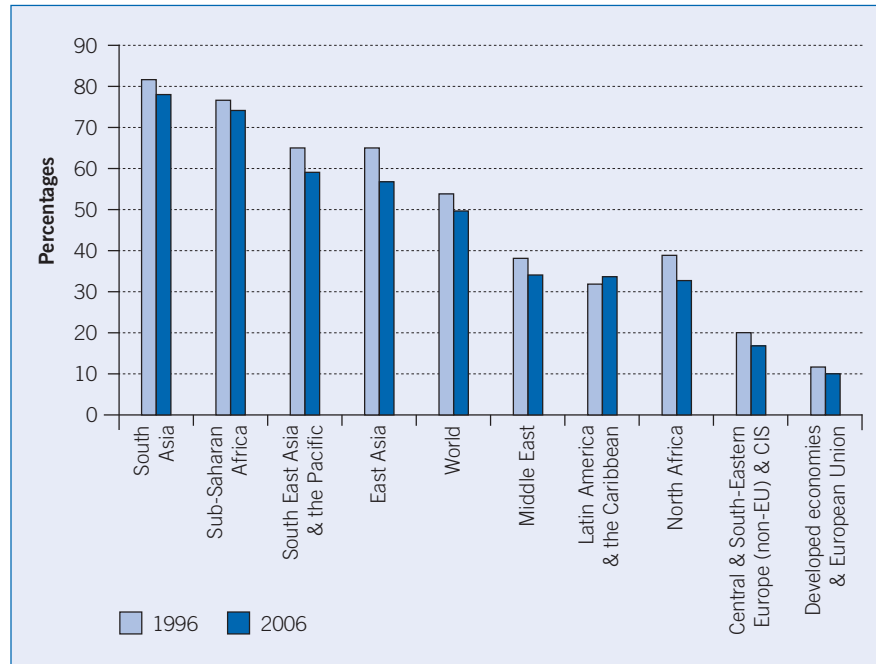
Thus, while, in population terms, the vast majority of the developing world’s people are living in countries that have enjoyed a sustained period of healthy GDP growth, and can be said to be converging with industrial countries (with variable lags), this says little of how growth is distributed within these countries.⁵ Averages conceal as much as they reveal.

Employment-led labour markets in developing countries coexist but are far from being fully integrated within the successful growth patterns of these countries. In fact, much of this labour-market group is beyond

⁴ By definition, therefore, paid employment is not considered as vulnerable work, although a more conventional understanding of the word vulnerable would include those casual day labourers whose wage work is neither predictable, regular, well remunerated, nor contractually protected.

⁵ It is also the case that most developing countries have substantially higher rates of population growth than industrialized countries. The apparent rate of convergence thus looks quite different when one compares the rate of GDP growth to that of GDP per capita growth.

Figure 8.1 Vulnerable employment shares, by region, 1996 and 2006



Source: ILO (2010k).

the influence of macroeconomic policies. For example: fiscal policies relative to health and education often do not reach this group or reach it inadequately; monetary policies are less effective for those who face a widespread lack of access to credit; and exchange-rate fluctuations are less important to those who neither import nor export.⁶

From this perspective, there is no obvious spillover of the fortunes of the modern, “growth-led” labour market on those of the employment-led labour force. Nor does one possible exception to this bode particularly well: the impact of the crisis has been to increase the size of the employment-led labour market in both relative and absolute terms (see ILO, 2011f). As the opportunities for paid employment in the growth-led segment of the labour market diminished, those either holding or

⁶ An argument can of course be convincingly made that domestic inflation – for instance, food prices – has a strongly adverse effect on the poor who comprise this group. In view of the poor’s greater share of expenditures on food, this will clearly be the case. Yet this negative would most adversely impact the urban poor, whereas the majority of the employment-led labour market is rural, and a substantial proportion of them are engaged in subsistence farming. They gain nothing from the surge in food prices nor are they much affected by it.

aspiring to paid employment had little option but to seek income-generating possibilities in the employment-led workforce. The extent to which this may have reduced earnings in that already overcrowded workforce is unknown, but that it has done so is a plausible outcome.

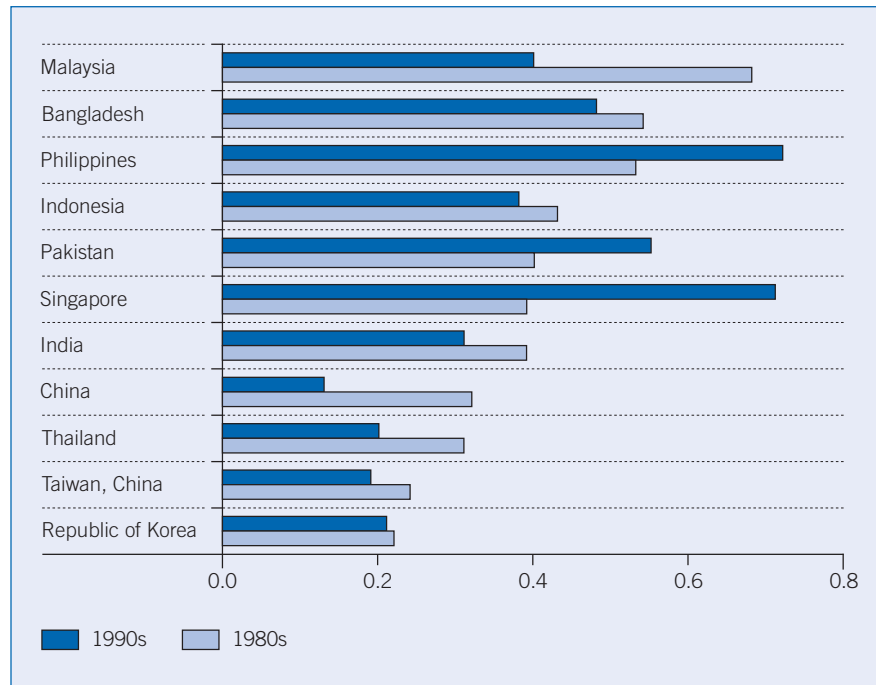
8.3 EMPLOYMENT DERIVING FROM DEMAND WHEN THE DEMAND IS TOO LITTLE OR IS SATISFIED WITH FEWER JOBS

Long-standing though it may be, the model of employment-led growth described in the foregoing paragraphs has been largely inadequate to lift workers and their families out of poverty, or to contribute in a robust way to economic growth. As a model of demand self-creation or survivalist activity, it has fallen short of sustaining hundreds of millions of people in their aspirations for a better life. This remains true even if some activities described as employment-led can hardly be defined as survivalist – many such activities are both dynamic and remunerative (OECD, 2009a).

However, the growth-led alternative has been equally inadequate. Indeed, growth-led employment has been beset by three empirical trends:

1. The majority of new job creation in the developing world is in the informal economy. While data limitations and methodological/definitional problems abound, one study published by the World Bank (Becker, 2004) found that, while 78 per cent of all non-agricultural employment in Africa was in the informal economy, 93 per cent of all new jobs were informal. For Latin America, the percentages were 57 and 83 per cent respectively.
2. The other side of the same coin is that formal-economy employment growth has stagnated. Common explanations include the impact of structural adjustment and associated decline of public-sector employment and intensified global competition and associated pressures to search for more flexible (and less formal) forms of employment.
3. A third tendency not unrelated to the rise in global competition: there has been an observed decline in the (formal-economy) employment intensity of growth, which may be related to the adoption of labour-saving technologies in the face of increased competition. This is consistent with the surprising observation that skill-biased technological change applies not only to the industrialized countries. Figure 8.2 compares the decades of the 1980s and the

Figure 8.2 Increase in employment associated with a 1 per cent increase in GDP, selected Asian countries, 1980s and 1990s (percentages)



Source: Kapsos (2005).

1990s for a sample of Asian countries, the majority of which have shown a declining employment intensity of growth in their formal economies.

To generalize, then, employment-led labour markets have disappointed in terms of the quality of livelihoods that they offer,⁷ while growth-led labour markets have been inadequate in terms of the quantity of jobs they produce. What, then, can be the relevant policy choices facing governments?

Chapters 12 and 13 in this volume look at various types of income-led growth strategies. Clearly, for the population of working men and women described in this chapter, a “wage-led” growth strategy is meaningless. They do not earn wages. Redistribution through income

⁷ “Quality” here refers only to the income dimension, not the several other criteria upon which the quality of a livelihood is based. And, of course, being in paid employment in the formal sector is no guarantee of the quality of that employment.

transfers is indeed promising – and is well described in Chapter 13 of this volume. But how about taking the distribution of productive employment more seriously as a macroeconomic priority?

8.4 AN APPLICATION OF THE FOREGOING DISCUSSION: TAKING EMPLOYMENT SERIOUSLY THROUGH SETTING EMPLOYMENT TARGETS

An obvious conclusion to draw is that a productive job for all those who want one in the context of healthy and sustained growth neither is, nor ever has been, a reality. Taking the world as it is, then, how can employment become at least a more central macroeconomic objective? The answer implies that policy be directed to *both* employment-led and growth-led labour markets, rather than assuming that the latter will ultimately absorb the former.⁸ Target both is the message.

A growing number of governments are seeking to embed employment targets in their growth and development strategies. The idea is to make an employment target an explicit political commitment to achieve an employment outcome within a specified time period. Examples are manifold, and would include time-bound efforts: to increase the employment-to-population ratio in the European Union, in view of the declining population trend; South Africa’s ambition to create five million jobs by 2020; or Viet Nam’s effort to create eight million jobs over a five-year period.

8.4.1 The ILO and employment targets

The ILO’s interest in efforts to increase the employment content of growth has taken several forms, among which are:

- “employment-targeted” programmes related to increasing the employment intensity of public expenditure on infrastructure;
- the use of the Dynamic Social Accounting Matrix methodology (DySAM) to evaluate the employment consequences at the sector level of different policy scenarios (for details see Chapter 10); and
- examination of the role that incomes policies play in balancing macroeconomic pricing targets with the highest level of employment.

Another initiative is to assist governments in establishing their own employment targets through the evaluation of labour market trends and

⁸ The argument here is quite consistent with OECD (2009a).

needs. Work of this nature is ongoing in several countries. The following brief example refers to Nepal.

8.4.2 *An implicit employment target that is universally shared: MDG 1*

Countries that do not have an explicit employment target have the means of constructing one through the universal adherence to the Millennium Development Goals (MDGs), the first one of which commits governments and the international community to halving the numbers of those living in extreme poverty from their share in 1990 to 2015. In Nepal, the ILO is assisting the National Planning Commission in converting the population poverty-reduction objective to one focusing on the halving of the share of the extreme working poor over the same time period. For argument, we imagine that poverty is homogeneously distributed in the labour market and in the population at large. This hunch proves to be accurate in Nepal.⁹

Three conclusions can be drawn from this sort of approach: an inclusive approach to employment policy must deal with both employment-led and growth-led labour markets; governments therefore need to think beyond the number of new entrants to the labour market and include in this number existing unproductive work that needs to be upgraded; and the GDP growth rate needed to do this will always be higher than the growth rate needed to absorb new entrants alone – and may indeed be a GDP growth rate unlikely to be achieved.

In the case of Nepal, work on attaining the working-poverty reduction goal by 2015 yielded two conclusions: first, the annual creation/conversion of jobs needed by 2015 is almost twice that of the new entrants alone – closer to 750,000 rather than 380,000; second, to attain this objective would require a GDP growth rate of approximately 6.3 per cent. Again, these higher-than-anticipated numbers are by no means unique to Nepal – nor is their significance in policy terms. The numbers teach two rather basic lessons. First, policy-makers need to think beyond “employment” and “unemployment” as meaningful indicators of labour market needs. The challenge is greater in magnitude than the usual “headline” numbers surrounding employment and unemployment. Indeed, Nepal’s current unemployment rate of just over 2 per cent becomes rather irrelevant in this analytical approach when 55 per cent of those working are in extreme poverty.

Second, if one is willing to assume that the relationship between the rate of change of output growth and that of employment creation is

⁹ The methodology – the basic arithmetic – is elaborated in a separate paper (Campbell et al., forthcoming). Intellectual antecedents of the paper are Ronnas and Kwong (2009); Kapsos (2004).

relatively constant, then this analytical approach will yield a “needed” GDP growth rate¹⁰ that is quite often higher than any that has been achieved in the country, or is likely to be achieved. This is true for the Nepal example. A similar targeting approach applied to a sample of sub-Saharan African countries found that GDP growth needed to attain the working poverty target by 2015 was precisely twice that actually attained, but not distributed, in the first decade of the millennium – when growth was actually quite reasonable.

8.5 CONCLUSIONS

The underlying concern that this chapter has sought to address is the problem of the distribution of productive employment opportunities, a problem inherent in both “employment-led” and “growth-led” labour markets – the former deficient in the quality of employment; the latter, in its quantity. Can policies address both these deficiencies and can a better balance be struck?

8.5.1 *Addressing the geographical distribution of unproductive employment*

Poverty is not homogeneously distributed in the world. Nor is it homogeneously distributed between the sexes – an issue not addressed in this chapter. Much of the effort to convert unproductive to productive work needs to focus on where the poor live and work. This is overwhelmingly in rural areas, principally in agriculture, and, more specifically still, in sub-Saharan Africa and South Asia. Part of the distributional challenge needs to address the agricultural sector, which has suffered a period of policy neglect. In the absence of alternative employment opportunities, moreover, much of the effort needs to be focused on measures to improve productivity that are not necessarily labour-displacing. The spectre of a looming second round of the food crisis adds urgency to this effort. Infrastructure is one among other issues to address in a world in which 30 per cent of commercial, agricultural output never makes it to market.

¹⁰ That is, the rate needed to attain the target.

8.5.2 *Addressing the structural distribution of opportunities for paid employment*

Growth that is inadequate to attain poverty objectives compels a rethinking of the pattern of growth, and more particularly how to promote structural transformation – the very source of rising living standards, and not occurring rapidly enough, particularly in least developed countries.¹¹ While sustained, strong growth is a prerequisite for productive employment creation, a relevant policy question to ask is whether the productive-employment content of growth can be increased irrespective of the rate of growth. Here, industrial and sectoral policies need to be elaborated that are consistent both with harnessing a country's comparative advantages in products for which there is market demand, and with a view to increasing the opportunities for paid employment. This also entails a need to address constraints to the development of potentially profitable sectors, notably in terms of inadequately qualified labour supply, barriers in access to credit, or inappropriate, costly, time-consuming regulations.

8.5.3 *Addressing the productive distribution of the existing status in employment*

Much of what this chapter understands as employment-led labour markets involves people who face barriers to increasing the demand they wish to create. For example, although subsistence farmers are part of the labour “market” by definition, they are in fact not really actual market participants to the extent that markets imply exchange. Infrastructure, skills training, access to credit and product diversification would be ingredients to increase the productivity, and thus earnings, of own-account workers. The policy message here is that a preoccupation with “formalizing the informal”, however worthy an objective, is secondary to the objective of improving the productivity and thus incomes of people irrespective of the “regulatory regime”¹² of which they are a part. Improving rather than ignoring employment-led labour markets is part of addressing the distributional challenge.

¹¹ Collier (2008) voices the concern of whether it is “too late” for many least-developed countries (LDCs) to transform their economies.

¹² The informal/formal distinction, while variously defined by governments, is nonetheless analytically appealing as both are part of the “economy” and both obey different rules, whether these are formal or informal rules. This is why the use of “organized” versus “unorganized” to describe this distinction is inappropriate: at base, there is no such thing as “unorganized” economic activity.

8.5.4 *Addressing the distribution of capital and labour in public spending*

Markets alone are seldom mechanisms that ensure equitable distribution. The latter is one of the primary roles of the State. Through public expenditure on infrastructure investment, governments can make technology choices that are more labour-intensive, and do so in an environment that is relatively sheltered from labour-saving competition. The result can be a relative increase in incomes to labour over those to capital, with both direct and indirect effects on local economic dynamism and (job-generating) growth. And surely the State, in its role as “employer of last resort”, has proved its worth in the last few years in its efforts to mitigate what one could call without exaggeration, a crisis of distribution. Not all of the distributional outcomes of human effort can be completely shared, nor should they be if effort itself is not to be diminished. It is clear, however, both ethically and economically, that the distribution of opportunity should be as egalitarian as possible. The four broad avenues with which this chapter concludes promote opportunity, while at one and the same time improving outcomes.