

SOCIAL PROTECTION AND JOBS

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Fundamentals: Macro and the Regulatory Environment

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[Jobs, Labor & Migration Course](#)

Roadmap

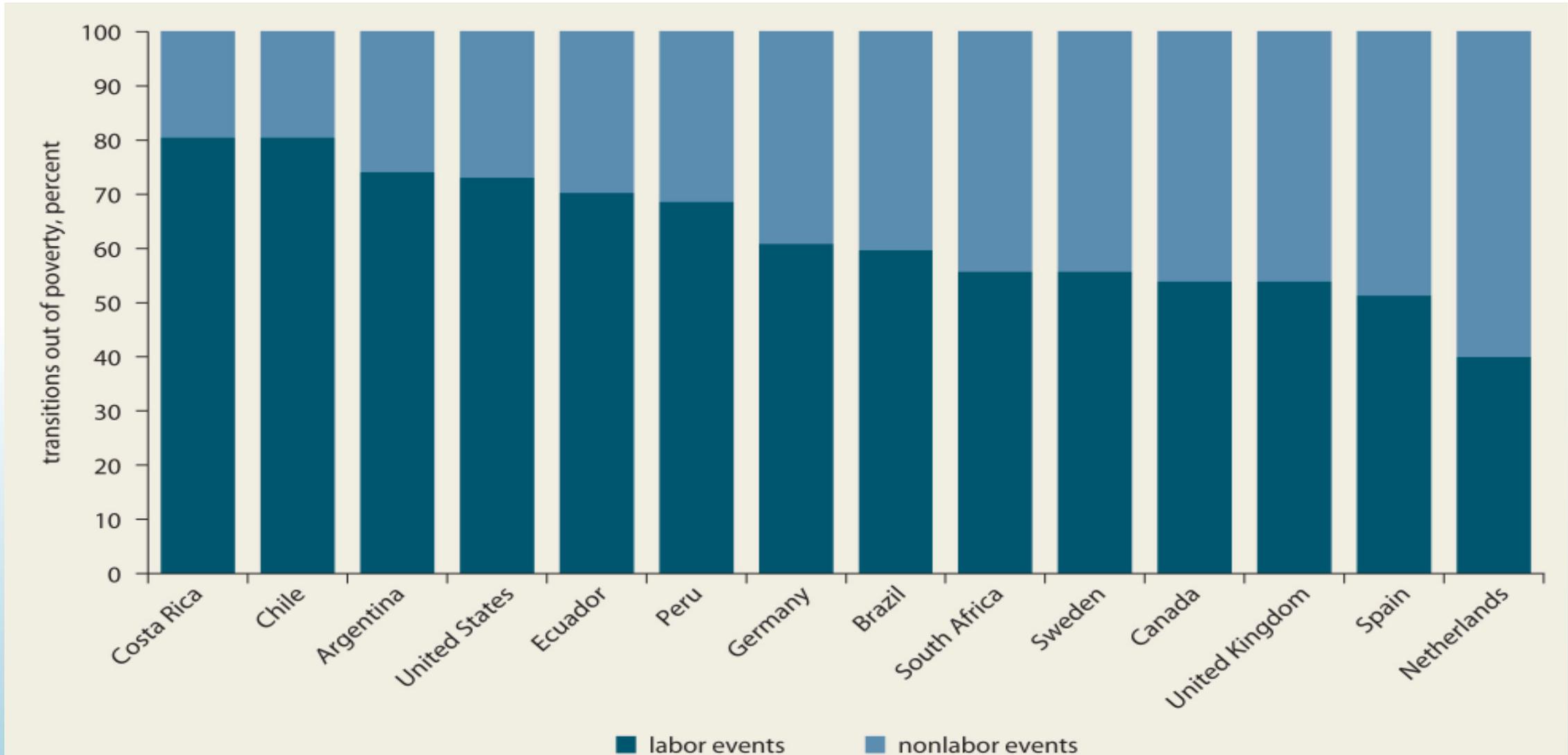
- Motivate the topic.
- Look at what macro policies are concerned about and how they go about addressing these concerns.
- Show that job growth (employment) is affected by economic growth.
- Discuss how a good microeconomic environment contributes to growth.
- Conclude and summarize.

Key messages

- Growth is a necessary, but insufficient, condition for job creation.
- Since growth is necessary, what can governments do to grow the economy and create jobs?
 - Have and maintain good macroeconomic fundamentals; and
 - Create a business environment that allows firms and workers to get the resources they need to prosper, adapt and take advantage of opportunities and be protected when things do not go well
- For some economies, growth is insufficient to create jobs.
 - Some of this is transitory—some growth cycles may be jobless
 - Informality is high—everyone has jobs, they need better ones
 - Some sectors grow but not labor intensive
 - Market signals in some sectors, such as agriculture (rural), are muted.

MOTIVATION

Why jobs? Research shows that a job is, by a wide margin, *the most important pathway out of poverty*



Macro policies, growth and strategies

“Commission on Growth and Development” led by Nobel Laureate Michael Spence recommended:

- Openness to the global economy;
- Macroeconomic stability;
- High rates of private and public investment (including on infrastructure), matched by domestic savings;
- Respect for market signals but not absolute deference to markets;
- Governments committed to trying out country-specific growth strategies and abandoning policies that are no longer useful; and
- Government provision of public goods.

Caveat...

This list of characteristics “...does not provide a formula for policy makers to apply—no generic formula exists. Each country has specific characteristics and historical experiences that must be reflected in its growth strategy.”



Summary of big picture

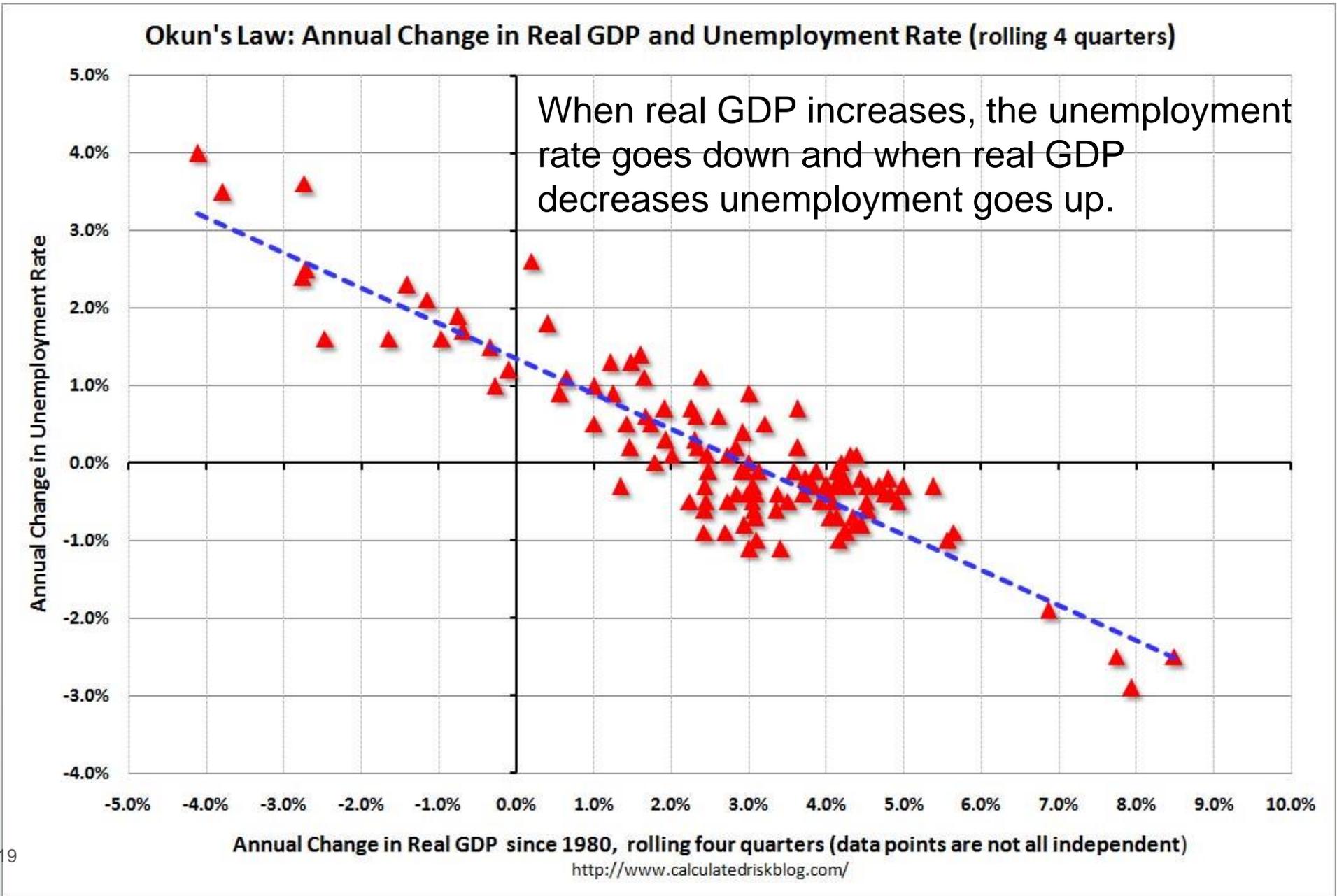
- Unemployment/underemployment and low pay are not just a labor market problem
 - Macro matters a lot
 - Focusing just on supply side measures (institutions, reservation wages, and matching) may be necessary, but seldom sufficient conditions for employment generation
 - Within the demand side, essential factors in determining employment growth include:
 - firm restructuring
 - firm dynamics
 - firm incentives
- Unlikely to be 'one size fits all' recipes for job creation.
 - The binding constraints, and thus the priorities, vary from country to country
- Addressing job creation requires a multi-sectoral approach, with emphasis on costs and risks to job creation, and to participation in the formal sector.

MACROECONOMICS

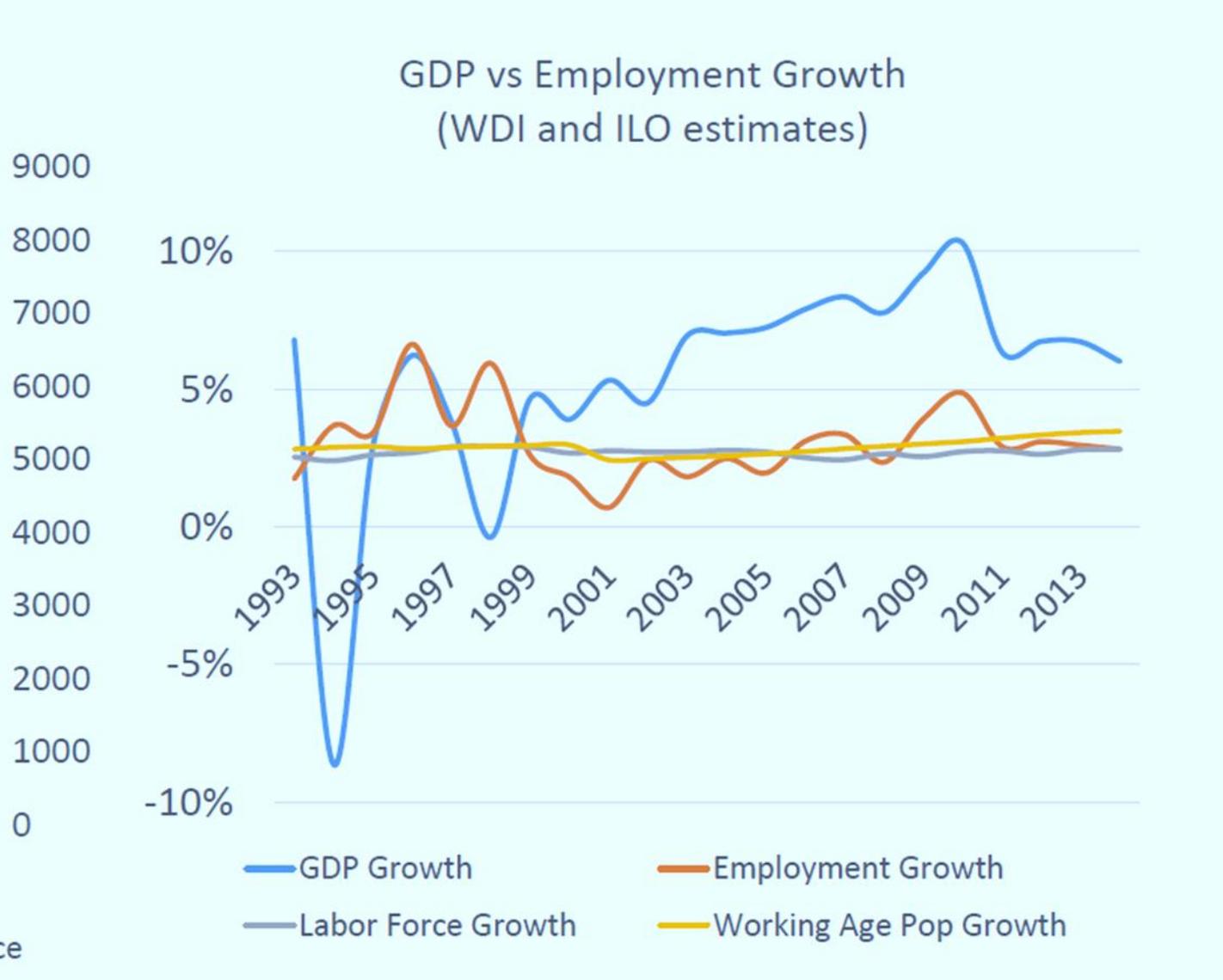
Macroeconomics

- Fundamental concern of macroeconomics is the overall performance of the economy.
 - Output (Income) and output per capita are the usual barometers of performance
 - Fully employed economy
 - No inflation – or reasonable amount of inflation
 - External balance – neither a deficit nor a surplus in current account
 - Long-run economic growth and equitable income distribution
 - Stability

Relationship between unemployment and growth – Okun's Law



But growth does not always lead to employment growth



MICROECONOMICS—REGULATION

Private sector key to addressing the jobs challenge

The private sector is the engine of job creation, but governments and development partners have a major role

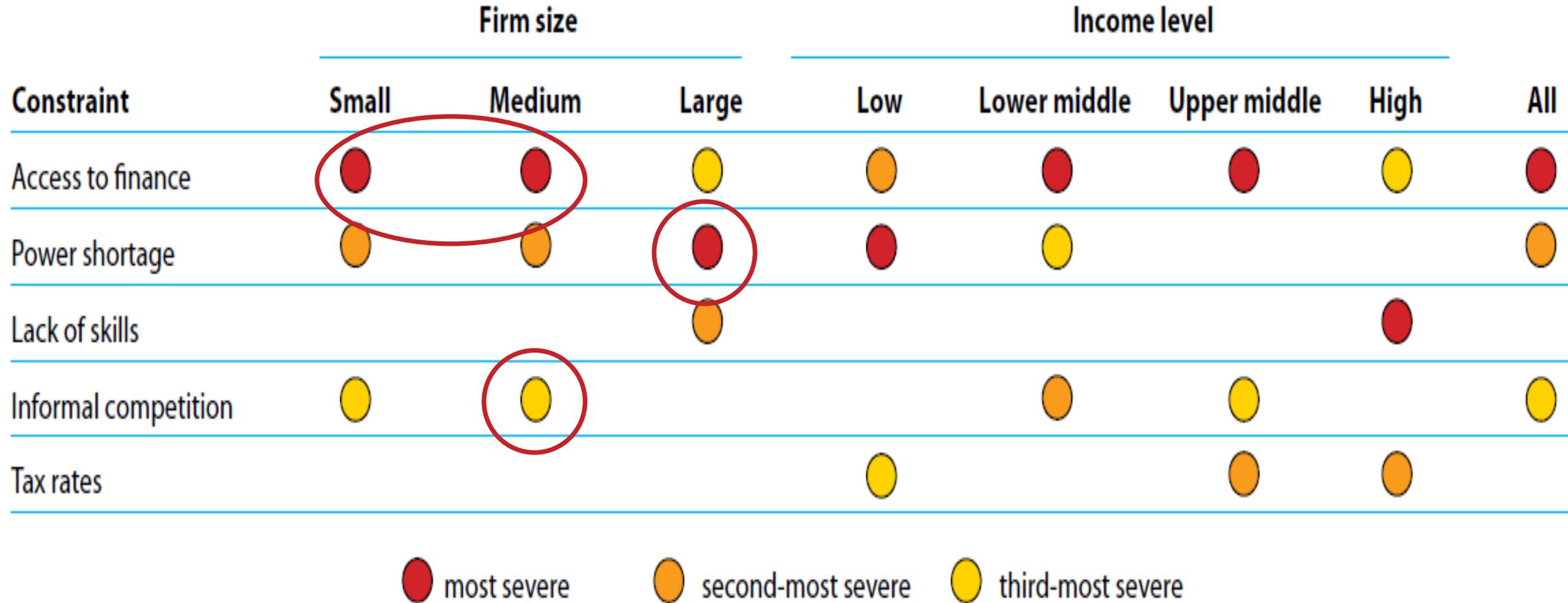
- **Private sector** provides 90% of all jobs in developing countries
- The only **sustainable** & long term solution – private sector
- But governments and development organizations play a critical role in **getting the basics right.**

What drives growth at the microeconomic level?

Burgess and Venables (2004)

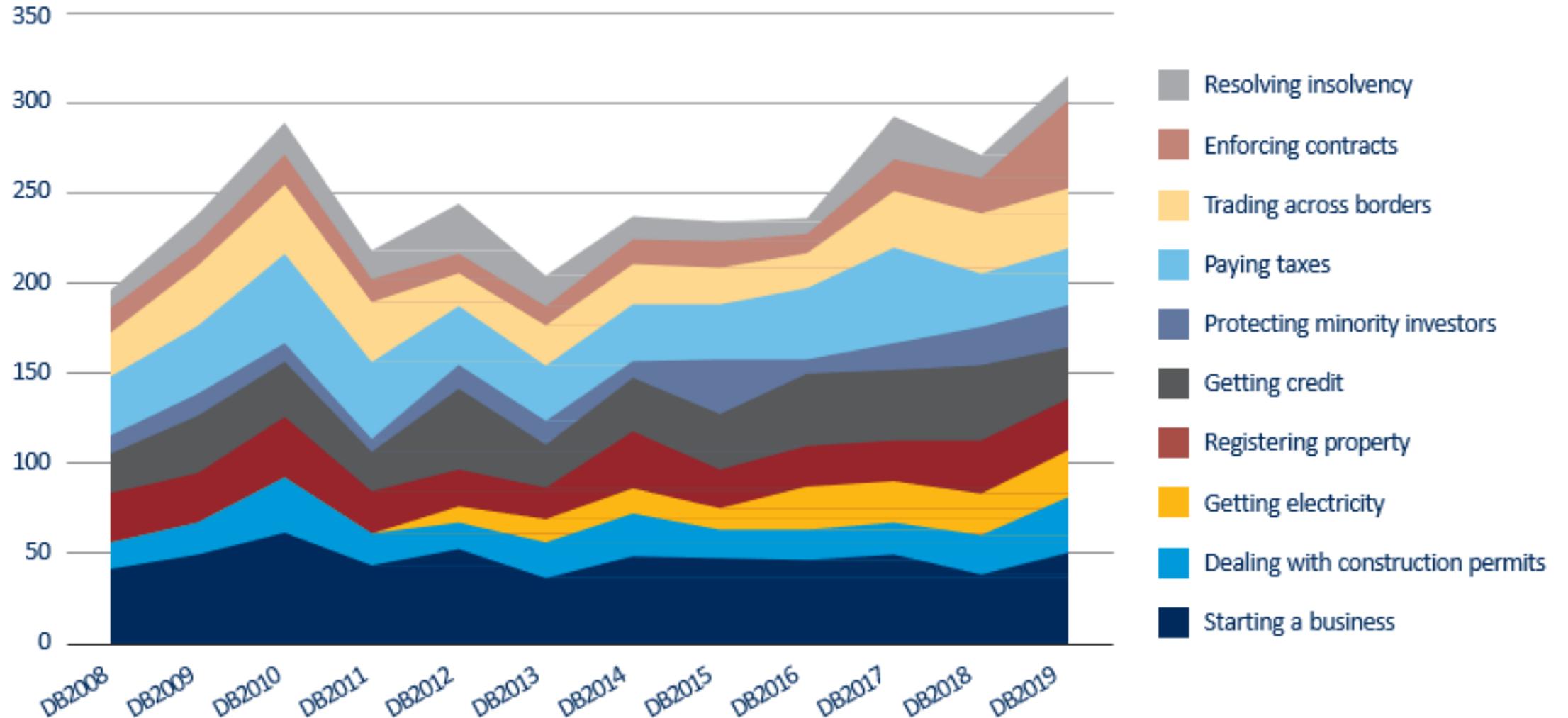
- **Factors affected by laws, rules and regulations**
 - Conditions that provide easy access to inputs (labor and capital) and markets, provision of basic infrastructure, and the institutional environment to secure property rights.
- **Factors affected by education institutions, improving institutional capabilities and sophisticated property right regimes**
 - Conditions that help to increase returns to scale and can lead to cumulative causation processes such as acquired by learning, through technological spillovers, or by the development of thick markets of suppliers and local skills.

Key constraints for private sector growth



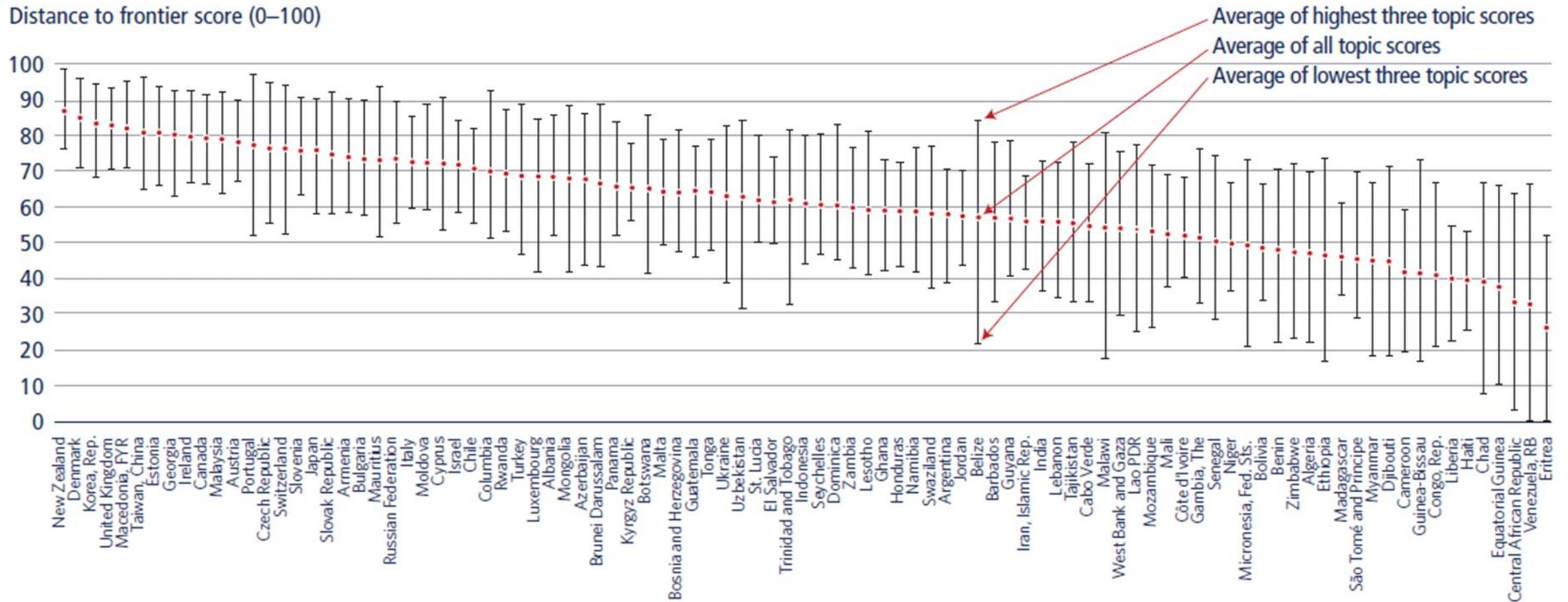
Some regulations are easier to reform than others

Reforms captured by
Doing Business year (number)



Efficiency of regulations vary within countries

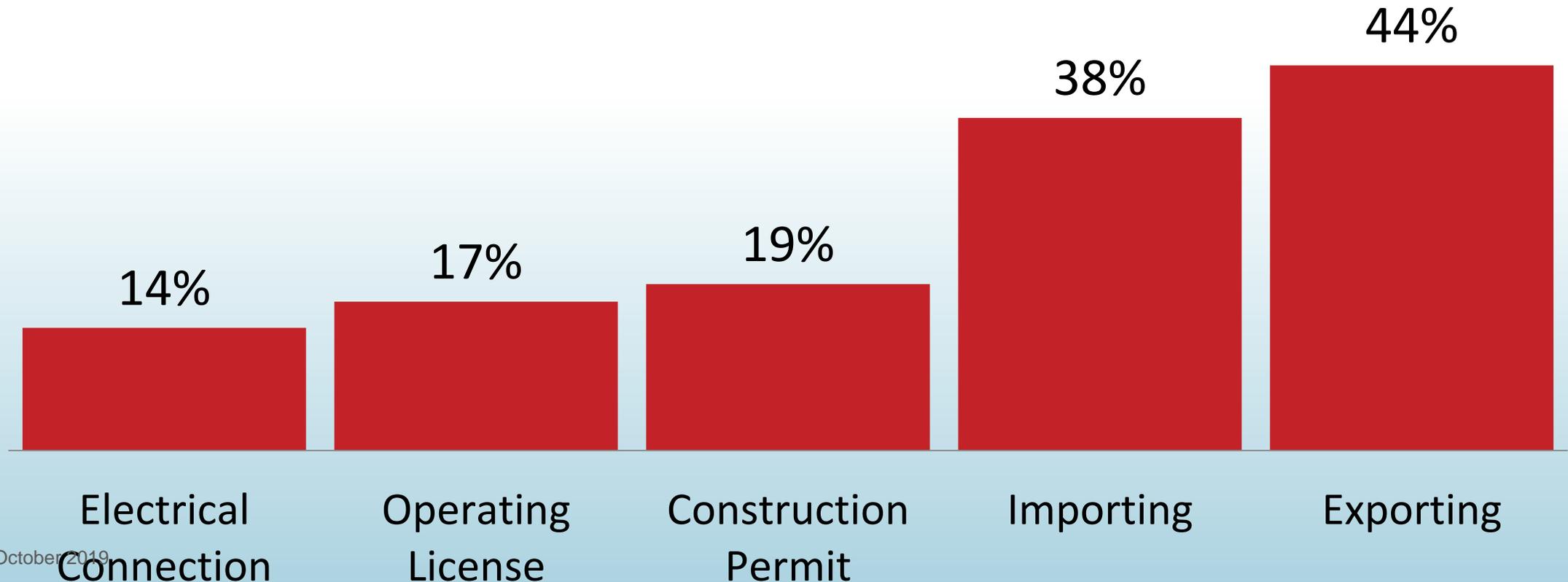
FIGURE 2.1 An economy's regulatory environment may be more business-friendly in some areas than in others

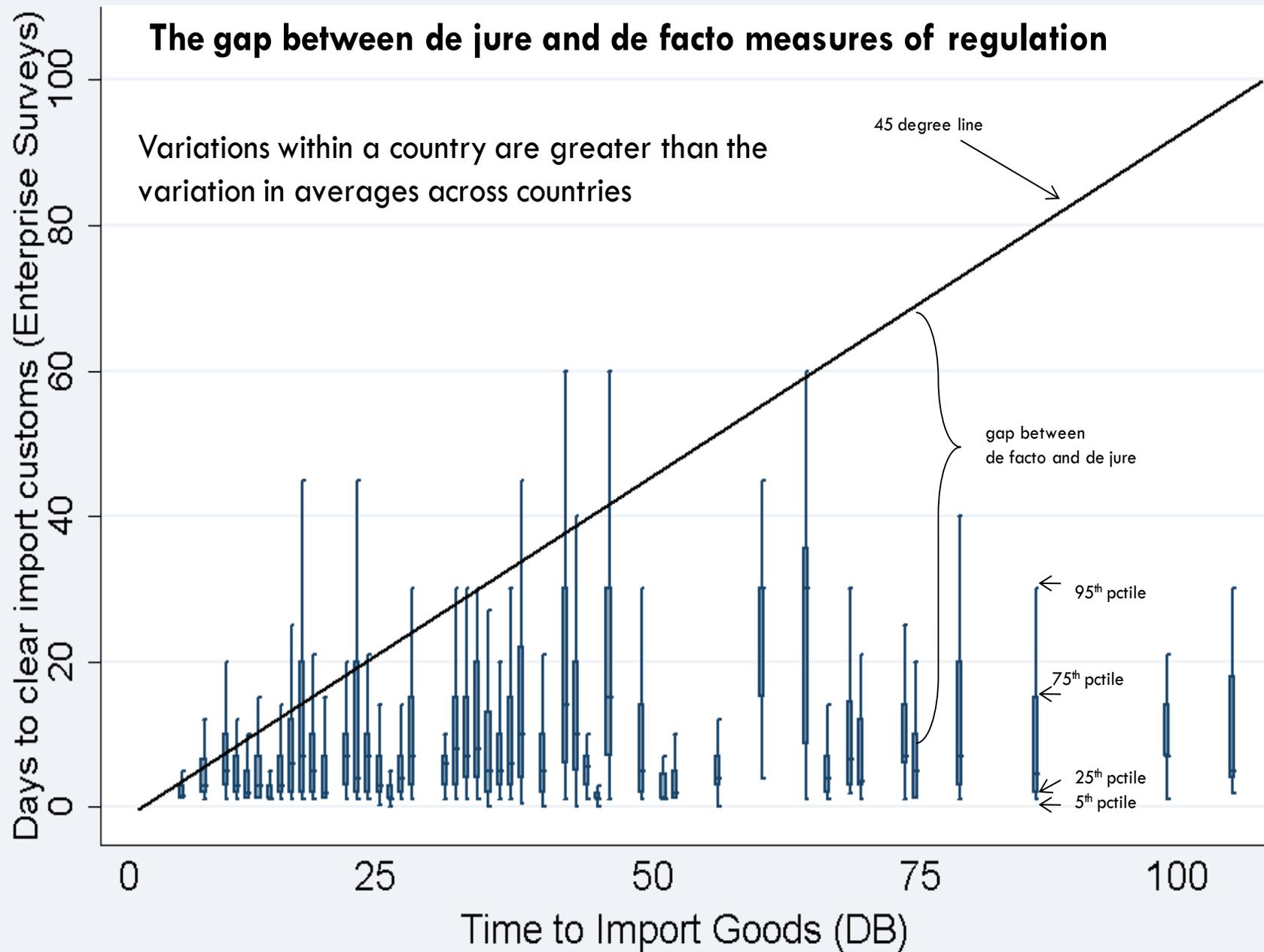


Implementation is key: corruption is common

Was an informal payment or gift expected or requested when applying for....?

■ % of firms reporting being asked for a bribe





Regulatory reforms should not just be about lowering costs. More even enforcement can reduce uncertainty – that lowers hiring and investment. And reforms should not create additional barriers to entry, explicitly or de facto, with special attention to input sectors.

ISSUE OF JOBLESS GROWTH

In some economies, the enterprise sector is small, fragment and lacks dynamism

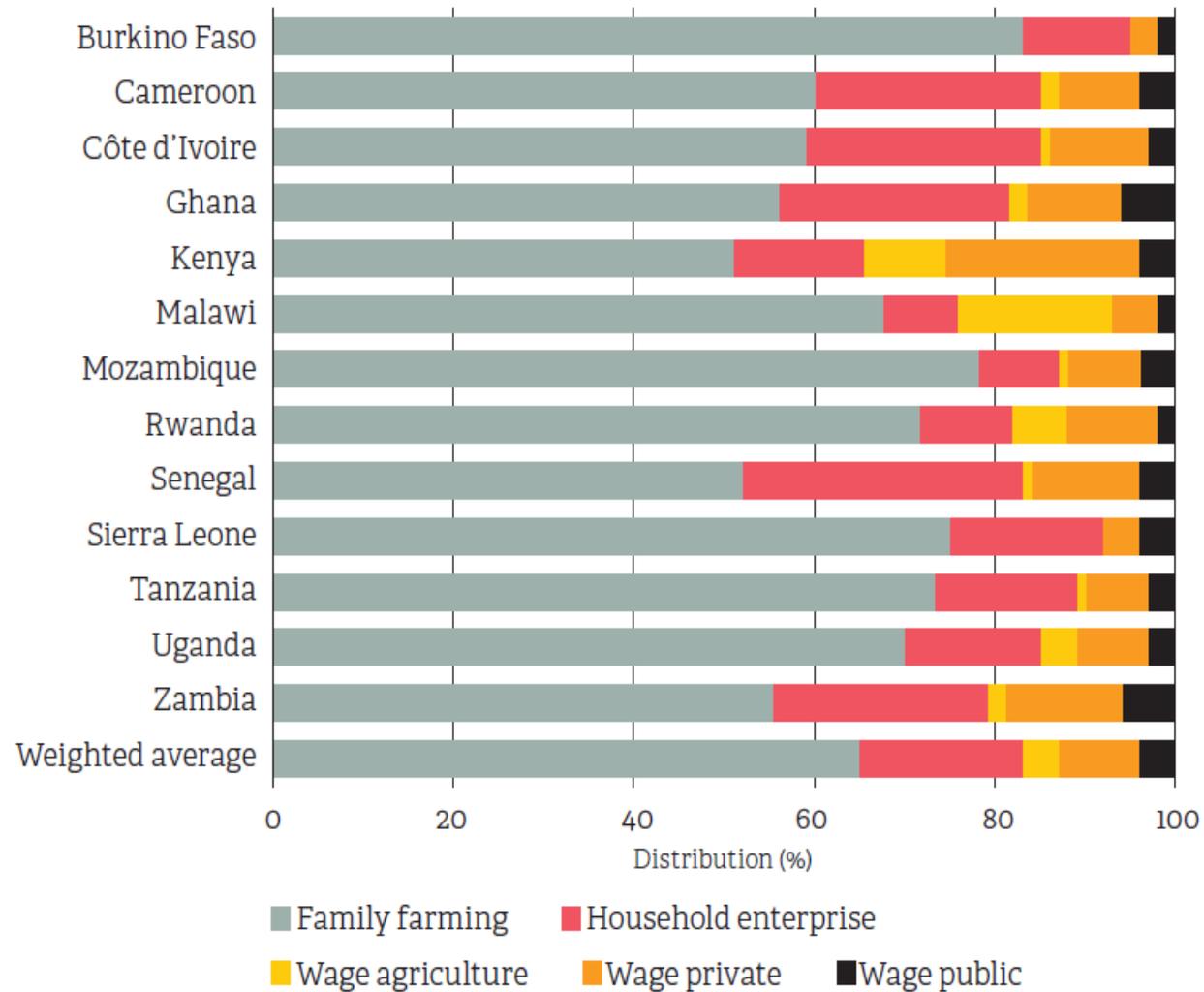


Figure 1: Types of employment in sub-Saharan African countries (Source: Figure taken from: "Creating Decent Jobs Strategies, Policies, And Instruments" AfDB Policy Research Document (2019))

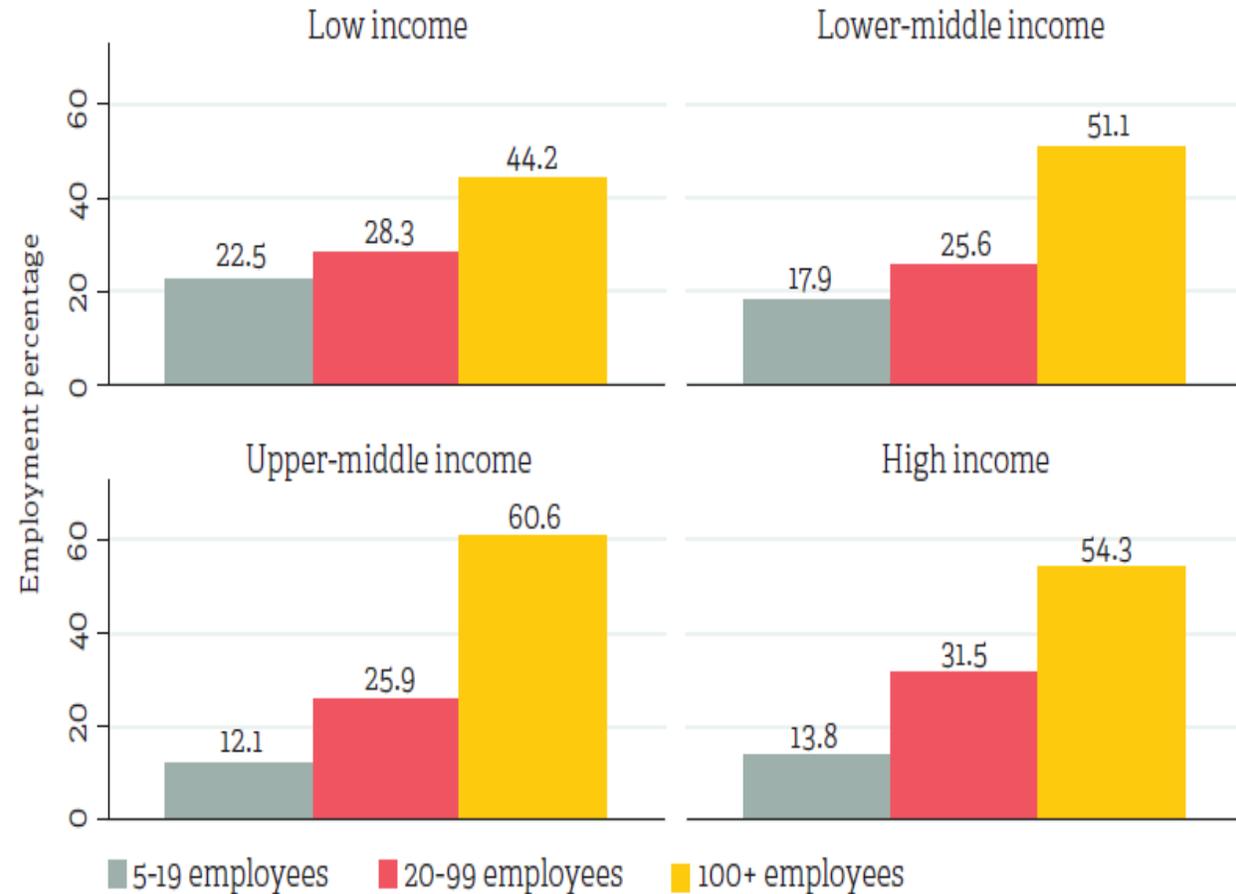
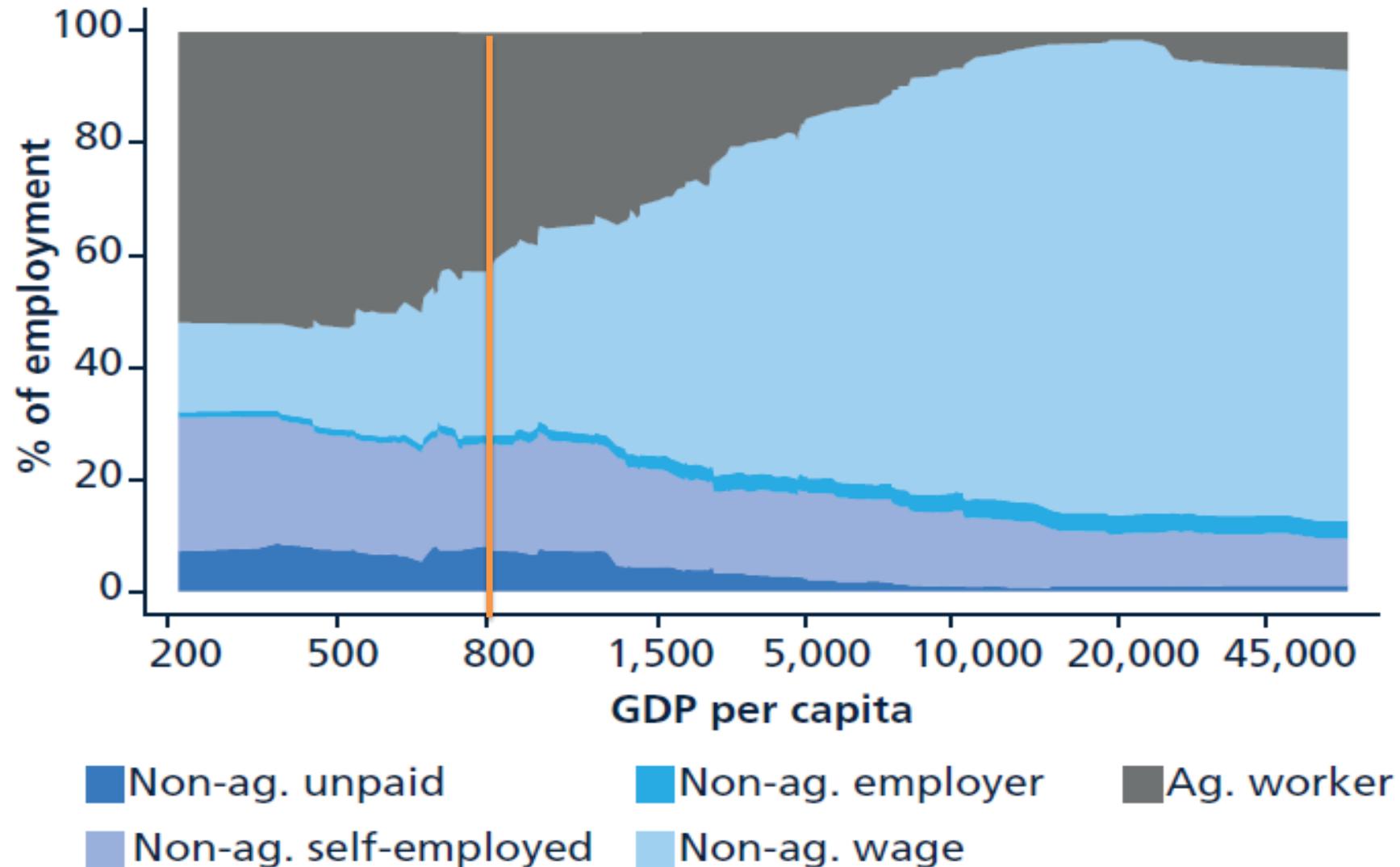


Figure 5a: Employment shares across country income groups (Source: Ayyagari et al. (2011))

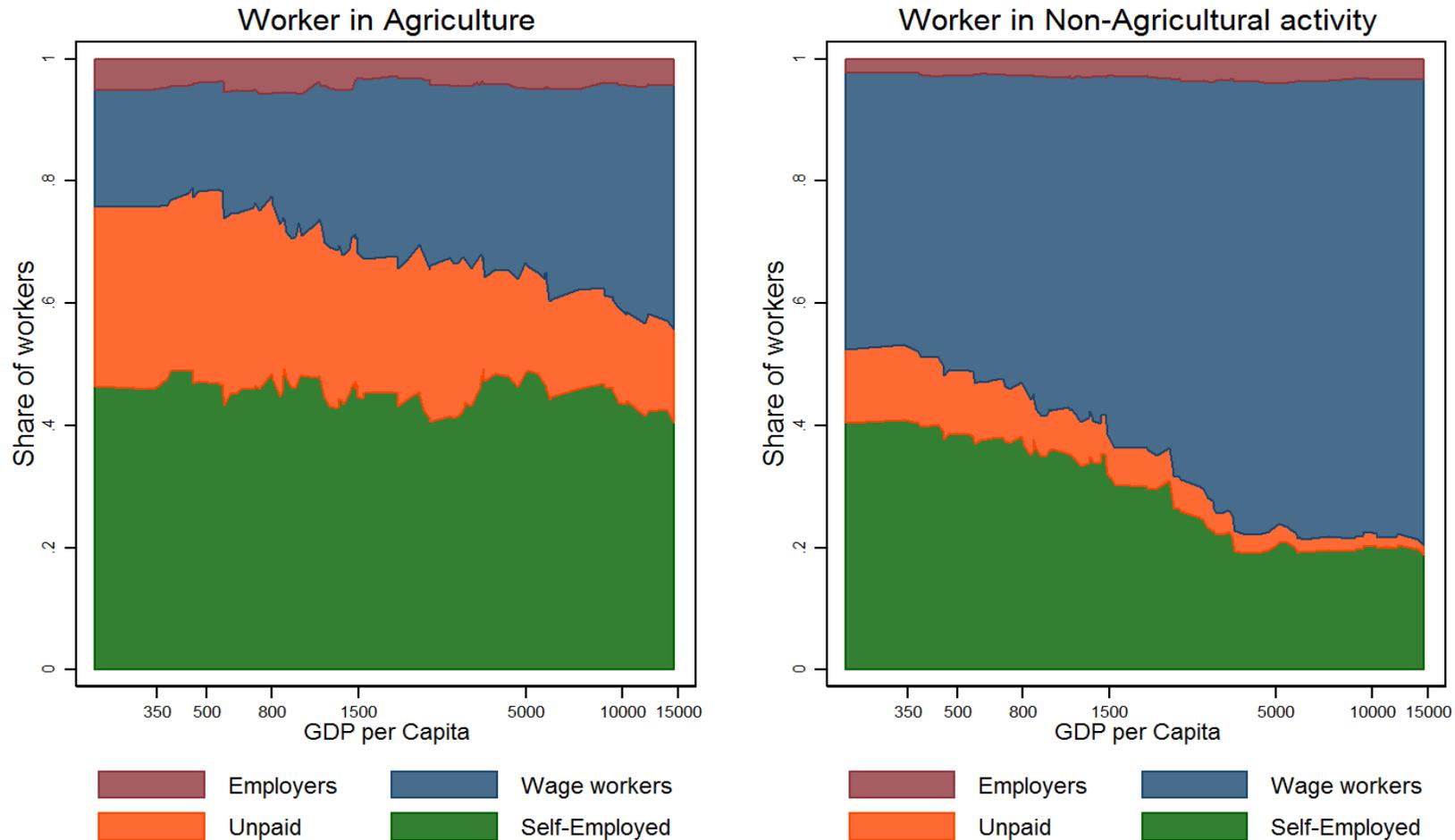
Transformation seems to start at low income levels and it involves *waged work*

Employment types along GDP per capita



The transformation in waged work is within and *esp. outside* agriculture

Employment status by GDP per capita and industry, age 15-64

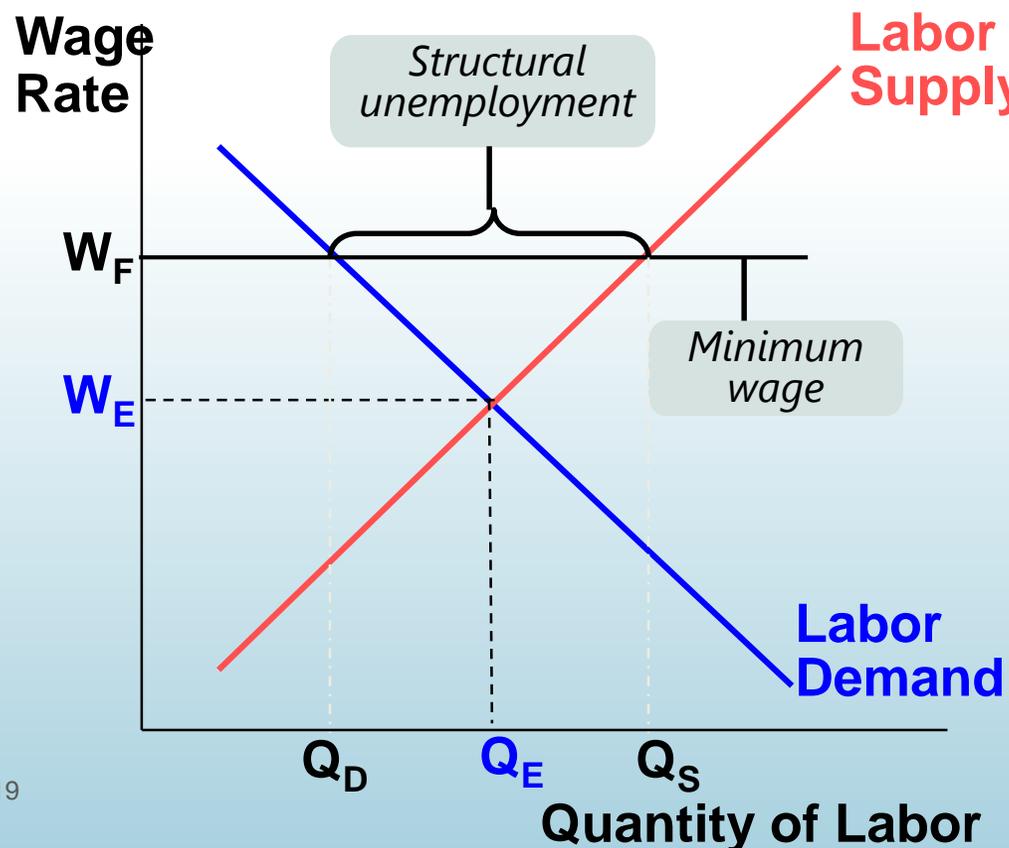


99 countries included covering the years 1999-2015

100 countries included covering the years 1999-2015

Some economies have structural unemployment due to poor policy choices that growth cannot fix

More people seeking jobs in a labor market than there are jobs available at the current wage.



If the wage rate firms pay exceeds the market equilibrium wage rate, W_E , the number of workers, Q_S , who would like to work at that minimum wage is greater than the number of workers, Q_D , demanded at that wage rate.

This surplus of labor is considered **structural unemployment**.

Policies that exacerbate structural unemployment

- **Minimum wages** - a government-mandated floor on the price of labor.
- **Efficiency wages** - wages that employers set above the equilibrium wage rate as an incentive for better performance.
- **High cost of letting go of workers** – firms do not hire if they know it is hard to let go of workers that do not perform well
- **Side effects of government policies** - public policies designed to help workers who lose their jobs;
 - these policies can lead to structural unemployment as an unintended side effect by lowering the cost of being unemployed.

CONCLUSION

Conclusion

- Macro: under aggregate effects can be significant heterogeneity in how policies affect different firms and workers
- Regulatory: Non-labor laws can have significant impact on jobs
 - What is the public interest being served
 - What incentives/distortions are being set up
 - If reform, test:
 - 1) whether the reform is having an impact
 - 2) how the reform is working and thus the most effective way to scale it up
 - Pay attention to implementation and equal enforcement