QUESTION 2 Growth strategies or jobs strategies?

Rapid and sustained growth is generally viewed as the main priority for developing countries, and as a precondition for continued increases in living standards and strengthened social cohesion. Economic growth, living standards, and social cohesion can indeed move together, and they often do—as shown, for example, by the remarkable experience of East Asian economies, including the Republic of Korea and Singapore.[45] Building on the East Asian experience, the conventional wisdom is to focus on growth and assume that increased living standards and greater social cohesion will follow. This is the main tenet behind "growth strategies," "growth diagnostics," and "binding constraints analyses," all of which aim to identify and remove obstacles to economic growth and to sustain it over prolonged periods of time.

But transformations in living standards, productivity, and social cohesion do not necessarily happen at the same pace. Lags and gaps in rising living standards can be illustrated by the different impacts growth has on poverty reduction across countries. A 2 percent annual growth rate can reduce poverty rates by 1 percent in some countries and by 7 percent in others.[46] Ethiopia, Tanzania, and Zambia experienced periods of economic growth with very little change in poverty incidence.[47] On the other hand, important advances in poverty reduction have also happened during periods of slow growth, as occurred in Brazil and Mexico during the 1990s and the first half of the 2000s.[48] And in some cases, growth is not accompanied by increased social cohesion—even though poverty may fall and living standards improve for some, the expectations of others remain unfulfilled. Tunisia is a clear example in this regard: its growth rate is well above the average of the region, but it has nonetheless experienced serious social and political tensions.[49]

The recognition of these lags and gaps has led to more nuanced approaches to economic growth in which the growth being sought is "pro-poor," "shared," or "inclusive."[50] In these versions, it is not just the rate of growth that matters but also the initial distribution of income and the possibility of redistributing resources through the growth process itself and through government transfers.[51]

Behind these sensible qualifiers, it is possible to point to the role of jobs. Growth is "inclusive" when higher earnings are driven by employment opportunities for the majority of the labor force, particularly the poor. Recent studies show that the impact of economic growth on poverty reduction depends critically on the employment intensity of different sectors.[52] Employment opportunities also matter for social cohesion. It is thus jobs that bring together the three transformations.

Realizing the role jobs play implies going beyond the sequential view in which growth issues are addressed first and employment follows from increased demand. Instead, jobs are seen as a medium that can make the development transformations a reality. From a statistical point of view, the relationship between growth and employment (or unemployment) shows substantial variation over time, across countries, and across sectors. In light of this diversity, a given rate of growth does not guarantee a given level of job creation or a given composition of employment (box 2.5).

When a growth strategy may not be sufficient

Focusing on the aggregate relationship between growth and employment downplays some of the most important channels through which jobs connect to development. The very notion of employment as derived labor demand does not reflect the situation of the many working people in developing countries who are farmers and self-employed. The focus on the labor market as the transmission chain between growth and employment also does not capture the interaction of working people with others in households, at the workplace, and in society more broadly. Focusing solely on the relationship between growth and employment may fail to measure how jobs can foster gender equality, support urbanization, or contribute

BOX 2.5 ***The relationship between growth and employment is not mechanical***

The statistical connection between economic growth and employment is sometimes termed Okun's Law. In 1962 Arthur Okun found that in the years immediately following World War II, a 1 percent increase in gross domestic product (GDP) in the United States brought about a 0.3 percent decline in unemployment. Since then, this empirical regularity has found support in a wide variety of countries. Recent research, however, suggests that Okun's Law is not as stable as its name implies.[a]

The debate on the stability of Okun's Law sheds light on the characteristics of economic recessions and expansions. A recent study indicates that, in industrial countries, unemployment has become more responsive to output declines over the past 20 years. This has been attributed to institutional reforms that have made labor markets more flexible. Interestingly, economies that suffer financial crises and large housing price busts (such as the United States and Spain in recent years) have deeper and longer increases in unemployment than Okun's Law would have predicted; whereas economies with large short-time work schemes (like Germany, Italy, Japan, and the Netherlands) show less unemployment than predicted.[b]

While Okun's Law relates to unemployment, other studies focus on the growth elasticity of employment. In its simplest form, this elasticity is the ratio between the percentage change in employment and the percentage change in GDP. These elasticities show great variability over time and space, too, making it difficult to forecast net job creation over the course of development. For instance, in Tanzania growth elasticities of employment declined from 1.04 in the period 1992–96 to 0.27 in the period 2004–08. Similar trends have been reported for Ethiopia, Ghana, and Mozambique.[c] In Latin America, recent estimates show that growth elasticities of employment were much lower during the global financial crisis than in previous crises. In other words, the Great Recession produced comparatively less net employment destruction in that region.[d]

While employment and unemployment are aggregates, growth may also affect the composition of unemployment. Important controversies, such as why manufacturing employment in India has stagnated despite rapid growth in the sector can be interpreted in this light.[e] Other studies show that, given their different labor intensities, economic growth in some sectors like agriculture, construction, or services generates more employment than does economic growth in manufacturing.[f] Investment projects in agribusiness in Ukraine, in construction in India, and in tourism in Rwanda have had large employment impacts, not only because of the direct jobs created but also because of indirect job creation in their large network of distribution channels.[g]

Source: World Development Report 2013 team.
a. Cazes, Verick, and Al Hussami 2011; Moosa 2012.
b. Balakrishnan, Das, and Kannan 2009.
c. Martins 2012 for the World Development Report 2013.
d. World Bank 2010.
e. Bhalotra 1998; Roy 2004.
f. Arias-Vasquez and others 2012 for the World Development Report 2013.
g. IFC, forthcoming.

to peaceful collective decision making. Understanding how to enhance these positive spillovers from jobs might be difficult when only aggregates are considered.

The case of urbanizing economies such as Bangladesh may support the idea that the three major transformations happen simultaneously. Taking advantage of their abundance of relatively low-skilled labor, such economies can engage in world markets through light manufacturing. Wage employment is created in large numbers, providing opportunities for rural migrants, and cushioning social tensions at a time of rapid social change. In Bangladesh, the expansion of the light manufacturing sector has allowed for the integration of young women into the labor market, at a time of falling fertility rates. Employment opportunities for women have in turn led to growing female schooling, better human development outcomes, and faster poverty reduction.

In practice, however, tradeoffs between the three transformations can amount to more than just lags and gaps. Depending on the nature of the jobs challenges facing a country, tensions may emerge between growth that generates jobs for living standards and growth that generates jobs for productivity growth or for social cohesion. Examples abound:

- In agrarian economies, increasing productivity in smallholder farming is fundamental for poverty reduction, given the share of the population living in rural areas. But urban jobs in activities that connect the economy to world markets and global value chains are necessary for growth. With limited resources to support both, a tradeoff between living standards and productivity may arise.
- In resource-rich countries, massive investments in extractive industries support accel-

erated rates of growth and connections with international markets but generate little direct (or even indirect) employment and often little poverty reduction. Moreover, the abundance of foreign exchange undermines the competitiveness of other activities, making it difficult to create productive jobs in other sectors.

- In countries with high youth unemployment, job opportunities are not commensurate with the expectations created by the expansion of education systems. And the active labor market programs needed to defuse social tensions in the short term may not do much for poverty reduction because many of the jobless come from middle-class families, and devoting public resources to finance them may reduce economic dynamism.
- In formalizing economies, there is an effort to support social cohesion by extending the coverage of social protection to as many workers as possible. Broad coverage regardless of the type of job is often seen as part of a social compact. But extending coverage without distorting incentives to work, save, and participate in formal systems is difficult and may have adverse impacts on productivity and long-term growth.

When a jobs strategy may be appropriate

Tradeoffs between improving living standards, accelerating productivity growth, and fostering social cohesion arguably reflect a measurement problem. While the contribution jobs make to output can be quantified, some of the spillovers from jobs cannot. Measured output does not increase when jobs defuse social tensions, even though these outcomes are valued by society and may increase productivity in the future. Conversely, measured output does not decline when jobs in export sectors are replaced by jobs producing for the domestic market, even though the opportunities to acquire technical and managerial knowledge through work tend to be higher in the export sectors.

If the spillovers from jobs could be appropriately quantified, the tradeoffs would be fully understood and an adequate evaluation of the output and employment potential of a given growth strategy would be possible. For example, fully accounting for the negative impact of current pollution on workers' future health would make a more complete evaluation of the output potential of a growth strategy based on a given technology. Opting for defused tensions or greater integration in world trade would lay the ground for accelerating growth in the future in a sustainable way, which a short-term evaluation based on output growth alone would fail to consider. If measures of growth captured the intangible social benefits from jobs, a growth strategy and a jobs strategy would be equivalent. However, when focusing on measured growth only, spillovers from jobs can easily be overlooked, and this is why a jobs strategy may be needed. By focusing on the spillovers from jobs, a jobs strategy highlights the different outcomes of interest in a development process.

Considering a jobs strategy is a way to call attention to the social value of jobs. A jobs strategy assesses the types of jobs that do more for development in a particular country context. It relies on qualitative and quantitative analyses to identify how jobs contribute to living standards, productivity, and social cohesion. And it seeks to identify where the constraints to the creation of the jobs with the highest development payoff lie in practice. In some cases, a jobs strategy will focus on increasing female labor participation, in others on creating employment opportunities for youth, yet in others on creating a supportive environment for the creation of jobs in cities, or jobs connected to global value chains. This may not be too different from preparing a more comprehensive growth strategy, except that jobs would be center stage.

Jobs strategies are not needed under all circumstances. A jobs strategy is warranted only when potentially important spillovers from jobs are not realized, leading to tensions between living standards, productivity, and social cohesion. When improvements in living standards, productivity, and social cohesion happen together, as was the case in several East Asian countries, and may now be the case in urbanizing economies such as Bangladesh, a growth strategy may be more appropriate. Yet even remarkably successful East Asian economies such as Korea and Singapore, which undoubtedly delivered inclusive growth over many decades, also had jobs strategies at specific points in their development histories (box 2.6).

BOX 2.6 ***Korea went from a growth to a jobs strategy, and Singapore the other way around***

The Republic of Korea and Singapore are success stories combining long-term economic growth with rapid poverty reduction and strong social cohesion. But at different points in time, both countries relied on jobs strategies.

Singapore was confronted with a tense social situation at independence, with both high unemployment and inter-ethnic tension. Its first development strategy focused on jobs, housing, and wage moderation. As unemployment subsided, the next strategy was geared toward raising labor costs to encourage higher-value-added activities. This cost drive resulted in a recession, however, and since then Singapore has focused on growth, rather than jobs.

Conversely, Korea abandoned development planning in 1996, but in 2010, it adopted a jobs strategy for the next decade as its highest-level policy document. In October 2010, the Korean government launched the "National Employment Strategy 2020 for the Balance of Growth, Employment and Welfare." In the tradition of long-range plans, this national strategy has a clear target for 2020: an increase in the employment rate of the working-age population (15–64 years) to a minimum of 70 percent—the average among industrial economies. The strategy was rooted in the mismatch between macroeconomic indicators that pointed to a recovering economy and the inability of individuals—especially youth—to find adequate employment.

The strategy identifies four pillars to achieve the 70 percent target. The first recognizes the importance of collaboration between the public and private sectors for employment creation and consists of implementing economic and industrial policies in a job-friendly manner. The second aims at improving flexibility and fairness in the workplace and consists of a series of reforms to increase regulation in certain areas of the labor law, while decreasing regulation in others. Thus the 40-hour workweek became enforceable for all companies, regardless of size,[a] with the obligatory introduction of the *work time savings system*.[b] Simultaneously, regulations on duration of contracts for temporary workers and fixed-term contracts were relaxed to allow for more hiring flexibility. The third pillar focuses on increasing labor force participation and skill development of women, youth, and older workers. This involves developing the option of permanent part-time jobs, thus allowing parents to both work and care for their children, especially in sectors suffering from labor shortages and unable to fill full-time jobs. Older workers would be retained longer in the active labor force by having the option to work shorter hours under the wage peak system.[c] Last but not least, the intention is to facilitate welfare-to-work transitions, by encouraging able-bodied welfare recipients to enroll in employment assistance programs and by reinforcing their obligation to pursue employment.

Sources: World Development Report 2013 team based on Huff 1994, 1995; Republic of Korea 2010.

a. The 40-hour workweek was introduced in 2004 and applied only to companies with over 1,000 employees.

b. This system allows employees to take leave to compensate for overtime, work during holidays, or night work.

c. The wage peak system allows companies to rehire workers after they retire.