MILES to Go?
Towards a Multi-Sectoral Agenda for Job Creation
An Overview

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Regional Report on “Enhancing Job Opportunities” in ECA
Implications of ECA Jobs Report

Generalizable findings:

- Unemployment is not just a labor market problem
- 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 analysis of:
  - firm restructuring
  - firm dynamics
  - firm incentives
- There are almost no ‘one size fits all’ recipes for employment creation
  - the binding constraints, and thus the priorities, vary from country to country
- This requires a multi-sectoral approach, with emphasis on costs and risks to job creation, and to participation in the formal sector
Barriers to job creation are across the economic sectors

Major Obstacles to Firm Activity, 2002
Proportion of Firms That Report the Following as Major or Severe Obstacles in the Region

- Economic & regulatory policy uncertainty
- Macroeconomic instability
- Tax rates
- Tax administration
- Cost of financing
- Corruption
- Access to financing
- Anticompetitive informal practices
- Customs & trade regulations
- Legal system/conflict resolution
- Crime, theft & disorder
- Business licensing & operating permits
- Skills & education of available workers
- Electricity
- Access to land
- Labor regulations
- Telecommunications
- Transportation

% of firms in the Region that report the above as major or severe obstacles

Key obstacles to Firm Growth in EU-8: Labor and Costs

Skills of available workers
Labor regulations
Access to land
Tax rates
Crime, theft & disorder
Anticompetitive/informal practices
Telecommunications
Transport
Legal system/conflict resolution
Customs & trade regulations
Licensing & operating permits
Cost of finance
Access to finance
Tax administration
Economic & regulatory policy uncertainty
Corruption
Electricity
Macroeconomic instability

Source: EBRD–WB BEEPS 2002
Key obstacles in low-income FSU: From Infrastructure to Institutions
Towards a Multisectoral Jobs agenda
Overview of the Approach

The underlying economics breaks no new ground
- Each individual component has been well analyzed and understood in both economic literature and policy analysis

BUT … there are two main new arguments
- We need to diagnose country-specific binding constraints in order to prioritize a jobs strategy – “off the shelf” approaches don’t work
- Necessary conditions for employment growth may not be sufficient by themselves – the multisectoral approach is needed addressing both demand and supply constraints

AND … the mnemonic is useful (and cute!)
A Two-Pronged Multisectoral Agenda

- Increase incentives and environment for formal sector firms to create jobs

- Increase incentives and ability for workers to find good jobs
A Two-Pronged Multisectoral Agenda

Increase incentives and environment for formal sector firms to create jobs

- Predictable/low cost macroeconomic environment
- Predictable/low cost investment climate
- Flexible labor market

Increase incentives and ability for workers to find good jobs
A Two-Pronged Multisectoral Agenda

Increase incentives and environment for formal sector firms to create jobs
- Predictable/low cost macroeconomic environment
- Predictable/low cost investment climate
- Flexible labor market

Increase incentives and ability for workers to find good jobs
- Labor market incentives to participate
- Appropriate education and skills
- A social safety net to cushion transitions
The “MILES” Approach: A Menu of Actions Across Sectors

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Job creation

Labor supply
M : Macro and Policy Stability

A sound macro-economic framework is crucial for the medium-term decision by entrepreneurs to expand their business and to create new jobs

- Conditions are likely to include macroeconomic stability and fiscal space

Policy stability is also a major determinant of investment and employment decisions, especially in an inflexible labor market

There is evidence that economic and political instability hurt mostly small enterprises, often the major drivers of new job creation

The MILES approach can use standard analysis to look at addressing sources of fiscal or financial instability
Investment climate, institutions and infrastructure

Firms will expand and create formal sector jobs when costs of doing business are low and predictable.

Even when market costs appear to be low, the shadow costs for doing business – such as the lack of access to finance or to markets or corruption – can be very high.

The MILES approach can make use of existing tools – Doing Business and Investment Climate Surveys:
  - To diagnose the status of the business environment and how this affect those firms/sectors with the greatest potential to create more jobs.
  - To develop the policy instruments to create a more employment-friendly climate for businesses.
**L: Labor market regulations and institutions**

- Labor regulations need to strike a balance between
  - protecting jobs and enhancing working conditions, with
  - the need for firms to adapt to the evolution of demand
  - Labor market regulations and institutions also play an important role for working conditions and in the wage setting process, by mandating minimum wages and by setting rules for wage negotiations among the social partners
  - Recent and innovative empirical work in developing countries indicates that these regulations and institutions have a significant bearing on job creation and wage growth through their impact on sector choice and firm size

**MILES can use the approach in many labor reports, by assessing the status of labor market regulation and its impact on labor market outcomes, and thus the effects of reforming such regulations on job creation and workers’ protection on the job**

**Labor regulations can also affect labor supply, especially by women (e.g., prevalence of flexible working arrangements)**
**E : Education and skills**

- Decent jobs, i.e., higher productivity jobs, are invariably based on good formal education and require appropriate skills for all age groups.

- Many employers consider skill shortages as a main constraint to the operation of their business and growth potential.

- The MILES approach can review skills shortages (e.g., through periodic employer surveys as in the US or Europe) and returns to education, and the “supply side” of those skills as produced by the educational systems.
  - Policy recommendations can range from emphasizing basic quality to enabling policies for school to work transition and life-long learning.
S: Social protection

Social insurance schemes can stimulate the emergence of more risky, but more productive, jobs and industries

- Uninsured transient shocks which reduce individual consumption below a threshold needed to retain productivity can give rise to “dynamic poverty traps” and lead to chronic poverty.
- Uninsured risk also reduces efficiency through costly production and portfolio choices, such as the use of outdated but less risky production technologies.
- Uninsured risk can adversely affect human capital accumulation, for example, when children are forced to drop out of school in the wake of an income shock.

But badly designed and expensive social risk management programs can be a critical obstacle for formal and informal job creation.

MILES approach can review the options for social risk management programs given the administrative and resource constraints and assess the benefits and costs of different options.
Towards operationalizing MILES

First, a “Jobs Report”
- The first step is to look at the binding constraints to enterprise job creation
  - ICAs are usually the best starting point
- Each binding constraint can then be analyzed, focusing separately on job creation issues and participation/skills questions

Second, multi-sectoral DPLs focused on job creation
- Programmatic (5-pillar) DPLs are best, dealing with issues according to urgency and prioritization
- Example – forthcoming Turkey EGDPL

Third, supporting investment loans
Key features of any MILES approach to employment creation

- Understanding both labor demand and labor supply constraints simultaneously
- Determining the binding constraints at present, as well as emerging constraints
- Putting in process a systemic, multi-year program of reforms, addressing emerging constraints sequentially
  - Some reforms (e.g., basic education) have a longer time to impact
- Focusing on complementary reforms to match increases in labor demand with appropriate labor supply initiatives