

# The Challenge of Employment in the 21<sup>st</sup> Century

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- ‘Development’ is a complex concept
  - Not just increases in standards of living in a sustainable way
  - “Modernization,” changes in mindsets, openness, science
- Historically, this has been strongly correlated, with a single but complex process: structural transformation
  - Different experiences but similar outcomes:
    - Early industrializers (UK, Holland)- long transition
    - Late industrializers (Germany, US)-directed policies
    - Recent: Asian economies (Japan, Korea, Taiwan etc.) “East Asian Model”
    - China
- Key has been finding gainful employment and climbing up value chain.
- Increased prosperity \*and\* job opportunities

- Is the same transformation possible now for late developers? Reason for scepticism:
- Other countries, even ones that have grown quickly have not been as successful
  - India: Most employment generated in last two decades has been informal, despite a booming service sector
  - Latin America: Jobless growth is an endemic phenomenon
  - Sub Saharan Africa. Structural transformation is slow, high levels of unemployment(barring some exceptions).
  - Overall finding of premature deindustrialization

# Understanding These “Failures”— and Why Matters May Be Worse Going Forward



- Technological, Policy and Institutional impediments to transformation
  - Manufacturing export led growth was central in East Asia, but won't be the engine of transformation
  - Demographics (Africa's population will still be growing through the century)
    - Even if all new manufacturing jobs were to shift to Africa, wouldn't “solve” Africa's
      - employment problem
      - Poses enormous challenges in providing education and other investments necessary
      - just to maintain standards of living
  - Ecological limits—big effects of climate change in many places
  - Global policy regimes that limit domestic policy space
    - Preserving colonial (neo-colonial) trade patterns
    - Stronger restrictions than in earlier eras
  - New global divisions—and new concerns about security and resilience
  - Deficiencies in global capital markets—in spite of a global “savings glut,” capital is not flowing to poorest countries

# Employment Policy in an Age of Four Challenges



- Near term:
  - Immediate aftermath of the pandemic and its impact on employment
    - Higher interest rates
    - Debt crises in many countries
  - Geopolitical upheavals and consequences on global supply chains.
- Medium and longer term:
  - Climate crisis
  - AI and Technology

# The End of Export-Led Manufacturing Model?

- Globally, manufacturing is absorbing less labor than it did earlier.
  - The job intensity of manufacturing exports has steadily declined in both developing and developed economies
    - Manufacturing declining share of global GDP and global employment
    - Developing countries comparative/absolute advantage changing as labour's role is diminishing with technological change
    - Problem likely to get worse with the rise of robots and now AI
- China continued to maintain and expand its share of lower value- added manufacturing exports. Bulk of manufacturing exports that have relocated have been very concentrated in a few countries (Vietnam Malaysia and Bangladesh . In each case, these countries had pre-existing capacity built to take advantage of this opportunity.)
- The nature of new technologies, global value chains and compliance makes it more difficult for developing countries to easily use low-skilled workers in the production process.

# What About Services?

- Outside of Asia, manufacturing-led export development strategy therefore faces serious headwinds.
- Services sector has absorbed labor that is shed from agriculture.
  - But services is a catch-all term that includes both high-productivity formal jobs and low-productivity precarious and informal jobs.
  - Kuznets and Lewisian transformations. (agriculture → non agriculture ; casual → salaried, regular work)
- Some suggest that the potential for services-led development is severely underestimated. Given that the global trade in services is rising faster than trade in manufacturing, the benefits of scale, and ease of near costless transport make the sector much more accessible to developing countries.
- Evidence is limited. Considerable evidence that new “jobs” are in personal and retail services and wholesale trade, sectors that are marked by their non-tradable nature and typically fragmented, informal, with low productivity and “learning”—not conducive to structural transformation.
  - Rodrik (2019) and Diao et al. (2017) across countries and in African economies in particular, labor is employed most easily in the low-productivity subsectors within services.
  - Call centers (e.g. representing some 8% of Philippine's GDP) may be replaced by AI

# What About Agriculture?

- For medium term , a large fraction will continue to be in agriculture in developing economies
  - Increasing productivity of labor important to increasing standards of living
- But. as agriculture modernizes, it is highly likely to continue to release labor to the rest of the economy (though some have argued that there is considerable scope for “industrializing” agriculture in Africa) , necessitating the creation of more productive jobs in urban areas—exacerbating challenges of demography
  - And developed countries are likely to continue to subsidize the sector and to have large increases in productivity.



# Ecological Constraints and Climate Change



- Large implications for agriculture—shortages of water and increased variability of rainfall
  - Changes in agricultural practices needed
    - Terrestrial carbon critical
  - Opportunities—but require finance, technology, and change in global policies
    - Compensating countries for global environmental services (carbon sequestration)
    - Developing productive uses of forests (Amazon)
- Decarbonization is critical
  - Typically poses as requiring to be balanced against the needs of development
  - But greening of economy may actually provide growth opportunity
    - Renewable energy less expensive than fossil fuels—more equally distributed
    - Traditional manufacturing will continue to be at least for the medium, term dependent on fossil fuels
    - Need for transfer of technology/development of new technologies
- Climate change requires building in resilience and protective measures that will be costly in the short term.
- Even with best of intentions, advanced countries will be imposing green protective measures

# The Persistence of Colonial Trading Patterns In a Changing World



- Colonial patterns of trade have persisted—with developing countries still producing commodities, higher value-added goods and services produced in advanced countries
  - Partially a result of WTO rules
    - Escalating tariffs
    - Barriers to industrial policies
- But the world is changing
  - US has embraced industrial policies—trying to capture “green jobs”
  - Is WTO dead/dormant—especially with US refusing to allow appointment of appellate judges
  - Or will there be double standard—rules only enforced against developing countries
- Developing countries need to respond—but have neither the financial resources or technological capacities
  - Need for new global structure of assistance
  - May be particularly relevant with new geopolitics—global competition for hearts and minds
- For those countries with resources and political will, new strategy: requiring more value added before export
  - Indonesia with nickel—seems to be working (importance and potential for Africa discussed later)

# Policy Constraints: Greater Uncertainty Today About the Boundaries of Acceptable Policies



- East Asia: fewer constraints on its experimenting in policy than may be possible today.
  - imposition of capital controls, trade barriers
  - circumscribed intellectual property rights to support learning in domestic industry,
  - subsidize specific firms either by direct subsidies or by allowing preferential credit.
- But Washington consensus (neoliberal model) is or should be in process of ending
  - US embracing industrial policies
  - IMF embracing capital controls
  - Compulsory licenses for health and climate
  - Europe and US moving away from investment agreements

# New Geo-Politics: A Challenge And An Opportunity



- Competition for the hearts and minds may lead to better rules and more support
- But each may demand “exclusivity”—US putting pressure not to use Chinese technology—forcing countries to make hard choices
  - Not only involving short term considerations of financial and technological assistance
  - But long run concerns of politics and society

# The Challenge Is Also an Opportunity!

- In principle, given the huge needs (including for investments) posed by development and the green transition, there *should* be a huge demand for labor, enough to productively absorb all.
  - In particular, many areas in which there is a need for national and global public goods
- No real shortage of finance
  - Seemingly we simultaneously have surplus labor and capital, but a deficiency of resources needed to meet basic social needs. In some fundamental ways, the market system is not working.
- This suggests the need for policy, both broad and targeted, at country and global level

- Knowledge: Technological transfer, building up R & D capacities
  - Local knowledge necessary for structural transformation and green transition
  - New Intellectual Property Regime—TRIPs inadequacies revealed by Covid-19
  - TRIPs and lack of capacities both contributed to vaccine apartheid
  - What separates developing and developed countries is not just disparity in resources but disparities in knowledge
  - Likely to grow larger with massive industrial policies in US and Europe
    - West opposed discussions of new tax regime at UN

## **Finance for development**

- Debt forgiveness/restructuring and incentivizing employment and renewable intensive production
  - But with new geopolitics, even debt restructuring is more difficult
- Limiting global tax evasion
- Broader support for green structural transition
  - Recapitalization of MDB's

## **Rewriting the rules**

- Investment, trade, tax agreements to facilitate green structural transformation

## Domestic Policies Include:

- Universal appropriate and high-quality education to all (as per the report of the education commission headed by Gordon Brown) . This is especially critical to ensuring a smoother movement from schooling to the labor force.
- Appropriately designed tax and transfer systems to manage uneven absorption into services
- Direct intervention, such as job guarantees
- LIT policies (Learning, industrial, and technology policies), with 3 objectives
  - Moving up the value chain
  - Green structural transformation
  - Supporting a multi-pronged strategy—the 21<sup>st</sup> century equivalent of manufacturing export-led growth



## 5 Conditions for Successful LIT Policy



- The practice of industrial policy has five key inter-connected elements: embeddedness, coordination, monitoring, conditionality, and institutional development. (Rodrik and Stiglitz, 2024)
- Embeddedness: dialog with firms to elucidate information on obstacles and opportunities for productive investments, distance from state
- Policy coordination. Not simply Pigouvian taxes/subsidies that can be specified ex ante. More widespread alterations in particular government regulations to the provision of specific training or technologies to financial incentives (characteristic of Japan's earlier industrial policies)
- Monitoring: An explicit effort to monitor and evaluate the outcomes of industrial policy decisions Mistakes are inevitable: it is not the ability to “pick winners,” (or even identify projects with large externalities) but the ability to “let the losers go”
- Conditionality: successful industrial policies provide strong incentives for compliance and exerting “effort”. In East Asia, the financial support was contingent and depended on set targets.
- Institutions: industrial policies require new institutions (development banks in the past). We need both local and global institutions to aid such policy (the World Bank once financed development banks but stopped some 4 decades ago)

## 3 Meta Conditions for Success With LIT Policies



- Macroeconomic stability in a *real* sense (not just price stability)
- Reasonably effective governance with a developmental vision
- Social and political stability (especially absence of open conflict)

- Africa distinguished by a demographic explosion with its labor force during 2010-2100 expected to rise by 2.1 billion while the global total increase is to be 2 billion (UN medium case)
- Also distinguished by being the latest of the late industrializers; thus the challenges noted above are likely to be more acute
- By the same token the opportunities that accompany these challenges are more promising e.g. leapfrogging to new green technologies is easier if one is not encumbered with a legacy of large dirty technologies
- Africa also needs to act to accelerate its demographic transition (for which female education and family planning programs that provide information as well affordable access are vital)

# More on Africa

Contrary to what was a widely-held view, there are some highly impressive successes with LIT policies, whose lessons need wider dissemination

- Kenya's success with tea in the 1960s and 1970s is probably the earliest
- More recent and broad –based, economy wide LIT policies were highly successful in Ethiopia and Rwanda in this century as documented in the volume based on the JICA-IPD task force on industrial policy in Africa
  - Ethiopia was a star performer with annual GDP growth of around 10% during 2000-15 making it along with China the fastest growing non-oil economy in the world with significant formal employment generation
  - The last 5 or so years of civil conflict in the country not only put an end to that but risks losing the lessons of Ethiopia for other African countries
- There is significant scope for the “industrialization” of agriculture and “benefaction” of natural resources as to some extent with diamonds in Botswana (the UN ECA has identified the following as promising areas for benefaction in Southern Africa: diamonds, platinum, gold, iron, copper, cotton, fruits, oil, natural gas, marine products and coal)

- The limits of the export-led growth strategy are stark.
  - Almost all countries that have made it to industrialized status have relied on it as the traditional escalator to development.
  - This path looks increasingly difficult or inaccessible.
  - In the case of Sub-Saharan Africa in particular, technological change may continue to further erode any competitive advantage arising from cheap unskilled labor and an abundance of natural resources.
- Thus, the imperative for Africa to develop and employ new multi-pronged strategies (entailing LIT policies) is all the greater for green structural transformation—for learning, for job creation, and for earning necessary foreign exchange

# Important Global Implications



Support from the international community is needed

- Need to not only relax the constraints that the global order imposes (Japan's voice will be important)
- But go beyond that to actively assist in supporting green structural transformation (JICA could play an important role not only in financial support but in transfer of knowledge)
- Even more important as advanced countries undertake massive industrial policies of their own

Climate change and the new geo-politics represent both threats and opportunities—all marked by great uncertainty

- Global cooperation from all countries will be essential
- Obtaining support from developing countries may require reciprocal support for them