

HS5.201 Growth and Development

Class Notes: Lecture 7

Employment as the key focus of development

Readings:

Required:

- Exploring the Employment Nexus: The Analytics of Pro-Poor Growth—*S.R. Osmani*.
- *The Nexus of Economic Growth, Employment, and Poverty Reduction: An Empirical Analysis*—*R. Islam*
- *Both chapters from Islam (ed.) Fighting Poverty: The Development-Employment Link*

Suggested Reading

- *Employment Intensity of Growth: Trends and Macroeconomic Determinants: Steven Kapsos*
- *ILO Working Paper*

The Nature of the Growth-Poverty Nexus (Osmani, 2006)

- Most people with low incomes are working and, in that sense, not unemployed.
- However, the ‘working poor’ are poor because they are either underemployed or have low returns on their labour.
- They have either inadequate *quantity* or *quality* of employment.
- Employment, therefore, becomes central in mediating the growth-poverty nexus.

Inadequate quantity of employment:

- Open underemployment: not having enough hours of work.
- Disguised underemployment: engaged full-time in low-intensity work (sharing work and employment at a sub-optimal level)
- Example of self-employed peasant households.
- Example: A family running a small food kiosk leads to disguised underemployment.

Inadequate returns to labour:

- Low wages due to excess supply of labour (especially for hired labour)
- Low productivity due to a lack of complementary inputs or poor skills, or poor technology
- Low return due to adverse terms of trade (especially for the self-employed)

The three critical factors for poverty reduction:

- **The Growth Factor:** More value must be created for long-term poverty reduction.
- Poverty is affected through trickle-down or redistribution.
- **The Elasticity factor:** The capacity of growth to enhance the employment potential (improving both quality and quantity of employment). Essentially a demand-side issue. The employment elasticity of growth.

- **The Integrability Factor:** The extent to which the poor population can participate in an employment-enhancing growth process.

Understanding the Role of Employment

- Employment Elasticity: measures the responsiveness of employment to growth
- Employment elasticity of more or less than unity
- The paradox of high elasticity and low productivity
- But both the quantity of labour input and productivity can contribute to output growth
- Consider the following accounting identity
 - $\Delta Y = \Delta L + \Delta(Y/L)$
- Raising employment elasticity is not the goal for individual activities but for the economy as a whole.
- What are the implications?

Table 2.1. Interpreting employment elasticities⁴

	GDP growth	
Employment elasticity	Positive GDP growth	Negative GDP growth
$\varepsilon < 0$	(-) employment growth (+) productivity growth	(+) employment growth (-) productivity growth
$0 \leq \varepsilon \leq 1$	(+) employment growth (+) productivity growth	(-) employment growth (-) productivity growth
$\varepsilon > 1$	(+) employment growth (-) productivity growth	(-) employment growth (+) productivity growth

⁴ This table corresponds to interpretations that can be made when output exactly corresponds with employment (e.g. total output and total employment, or agriculture value added and employment in agriculture). The relationships between productivity, employment and output may not hold in cases in which employment corresponds to a population subgroup (such as youth or women) and where total output is used instead of output for the population subgroup.

Determinants of Elasticity of Employment

- The sectoral composition of output: The extent to which growth is concentrated in more labour-intensive sectors
- Choice of technique: The extent to which more labour-intensive techniques are used in production
- Terms of trade: The extent to which internal and external terms of trade improve for the labour-intensive sectors.

Limitation of the Elasticity Measure

- It presumes quality data for output and employment
- The informal sector is mainly outside the scope
- Elasticity, in its operational sense, is limited to the quantity of employment.
- Inference on quality of employment (employment returns) has to be supplemented by productivity and accurate wage data for specific sectors.

Some considerations for the growth-employment question

- Can employment generation be the goal of development policy independent of growth?
- The trade-off between employment generation and growth
- Employment-intensive growth with increasing labour productivity