



# **Employment Generation and Inclusive Growth in the BRICS – An ILO perspective**

First Meeting of the BRICS Employment Working Group  
27-28 July, Hyderabad, India

**Aurelio Parisotto, Head  
Country Policy Development and Coordination Unit  
Employment Policy Department  
ILO Geneva**

# Outline

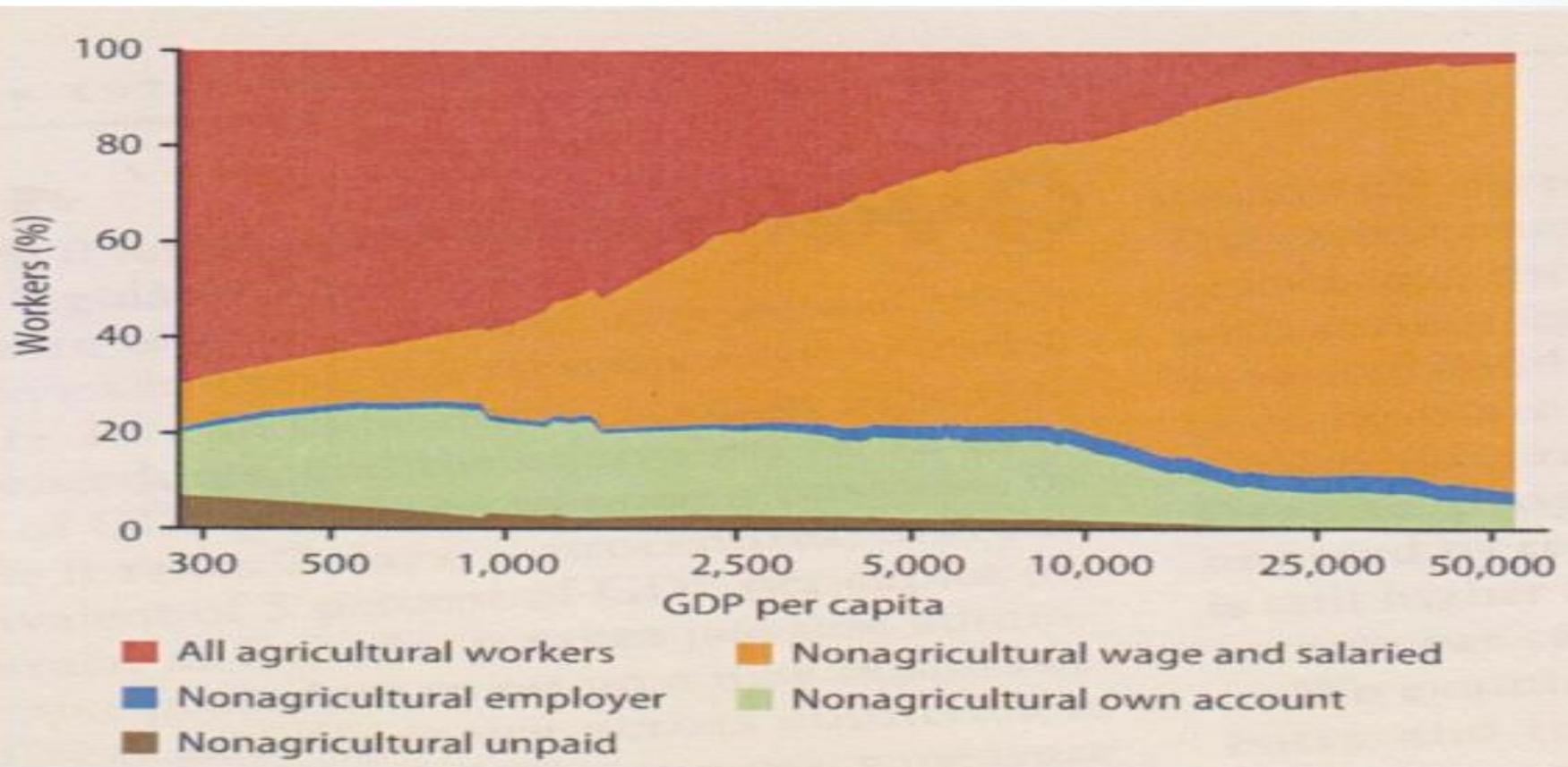
## A. The ILO approach

## B. Key trends and policy issues for the BRICS

1. Growth rates
2. Sectoral composition of growth
3. Inclusive labour markets
4. Quality of jobs
5. A smart policy process

# A. The ILO approach: Employment creation as a development process

## Employment shares by sector, status and GDP per capita



Source: Gindling and Newhouse 2012.

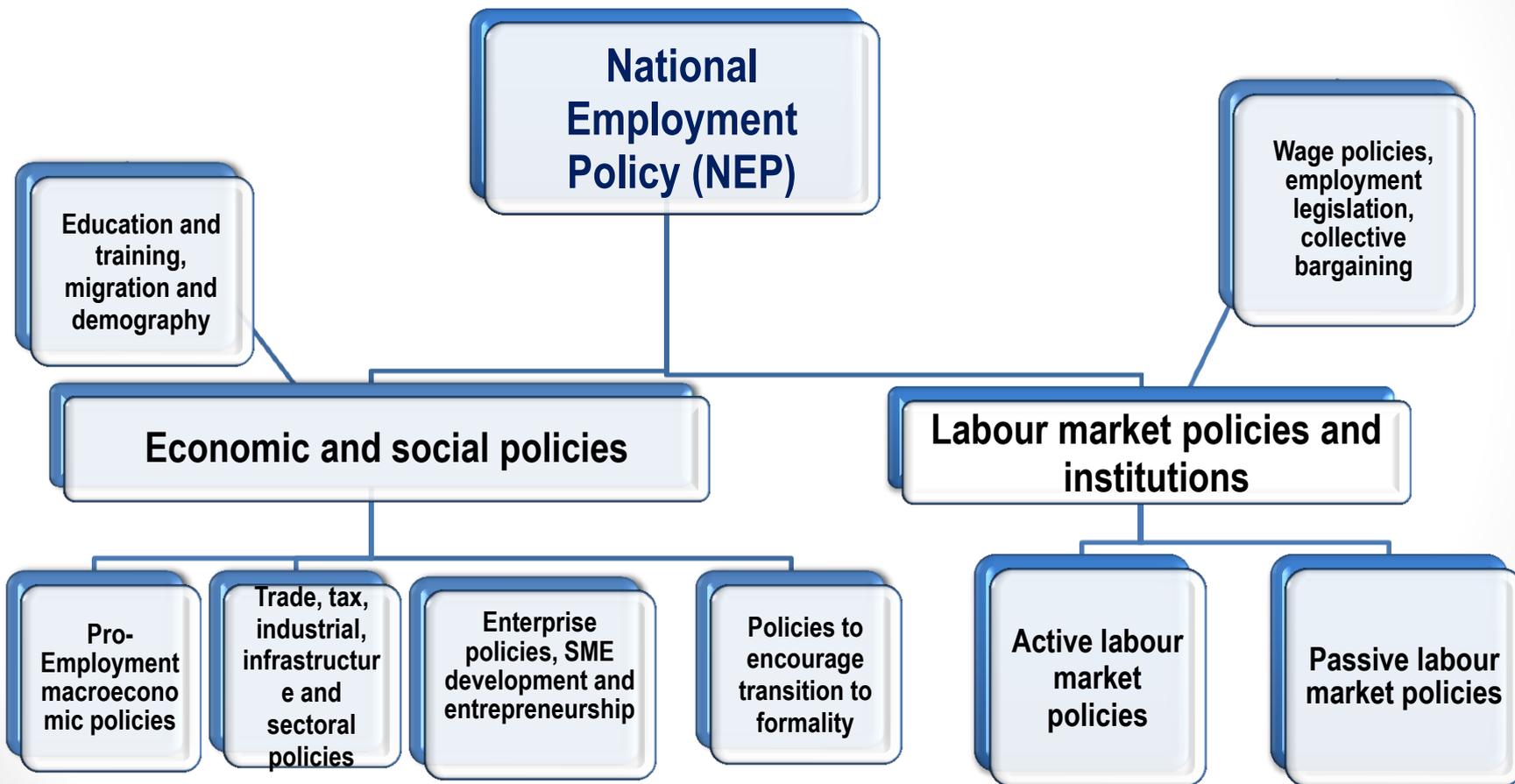
Note: Employment shares are calculated based on data from household surveys. GDP = gross domestic product.

# Economic transformation, institutional upgrading and quality employment -

- The promotion of quality jobs builds on economic transformation, ie moving away from primary products exploited by unskilled labour toward an economy built on technological capabilities and skilled labour.
- Related to economic transformation is the potential for a dynamic process of successive improvements in wages, working conditions, labour institutions and standards of employment and social protection.
- Policies and institutions are needed to sustain those improvements and make growth more inclusive. Those policies and institutions also play a role in driving the economics of transformation forward by means of boosting consumer demand, enhancing productivity and fostering social cohesion.
- Such process is not linear. A **judicious mix of measures** – not a one-off policy change or reform - and a **smart policy process** are needed to unlock virtuous circles of more and better jobs and sustained inclusive growth.

# The «comprehensive approach» to employment policy

- A diversified array of complementary policy measures



## B. Key trends and policy issues for the BRICS

### 1. The macroeconomic situation: growth slowdown

GDP GROWTH RATES (%)		1998-2007	2008-2014	2015	2016	2017
BRICS	Brazil	3	0.1	-3.8	-3.3	0.5
	Russia	5.8	0.7	-3.7	-1.2	1.0
	India	7.1	7.2	7.6	7.4	7.4
	China	9.9	7.3	6.6	6.6	6.2
	South Africa	3.7	1.6	0.1	0.1	1.0
Advanced Economies	US			2.4	2.2	2.5
	Euro Area			1.7	1.6	1.4
	Japan			0.3	0.3	0.1
World Output				3.1	3.1	3.4

All estimates are derived from IMF (2016) *World Economic Outlook Update*, July. 2016 and 2017 are projections.

# Policy issue: Fiscal policy to support the real economy and promote long-term sustainable growth

«Our monetary authorities will continue to ensure price stability **and** support economic activity, consistent with their mandates” \*

- Reasonable price stability vs inflation targeting

“We reiterate our commitment to implement fiscal policies **flexibly** to take into account near-term economic conditions, so as to support growth and job creation” \*

- Active fiscal policy vs. fiscal rules

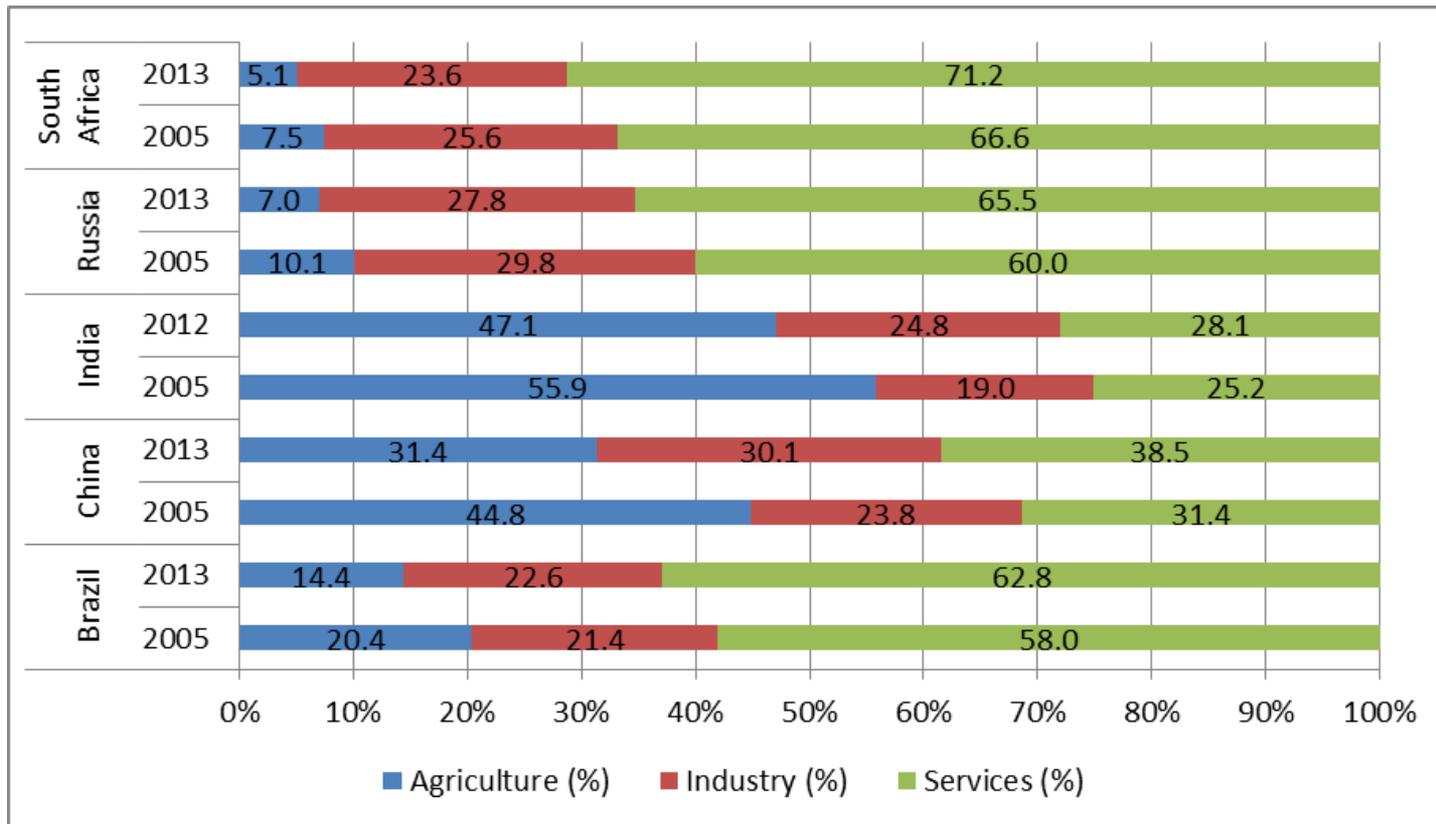
“We will also consider the **composition** of our budget expenditures and revenues to support productivity, inclusiveness and growth“ \*

- Budget composition vs budget as a mere financial aggregate

\* Quote from the G20 Leaders Statement in Antalya, November 2016; emphasis by the author

## 2. Sectoral composition: “Premature” deindustrialization?

### Employment distribution by sector



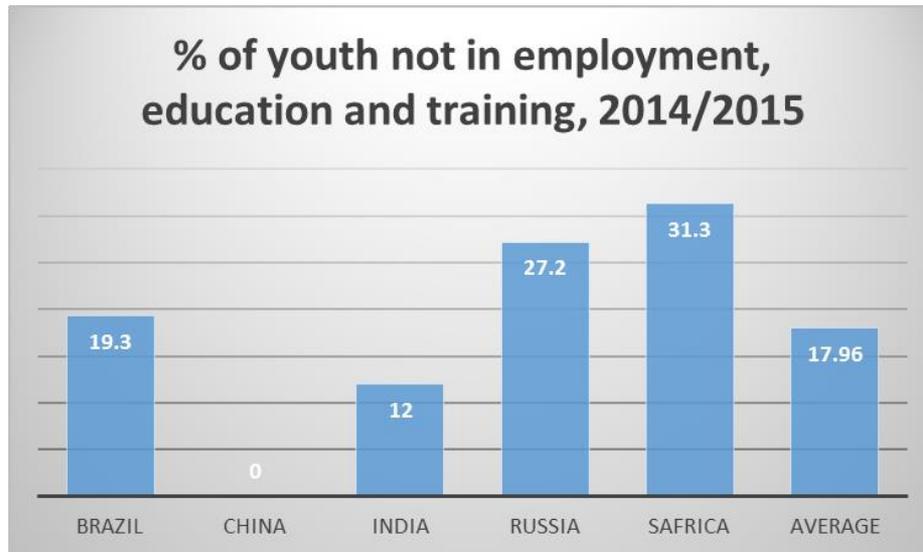
# Policy issue: Strategies to promote productive transformation and facilitate the transition to formalization

From “horizontal” policies for private sector development (eg business environment, R&D, infrastructure, basic skills, credit) to

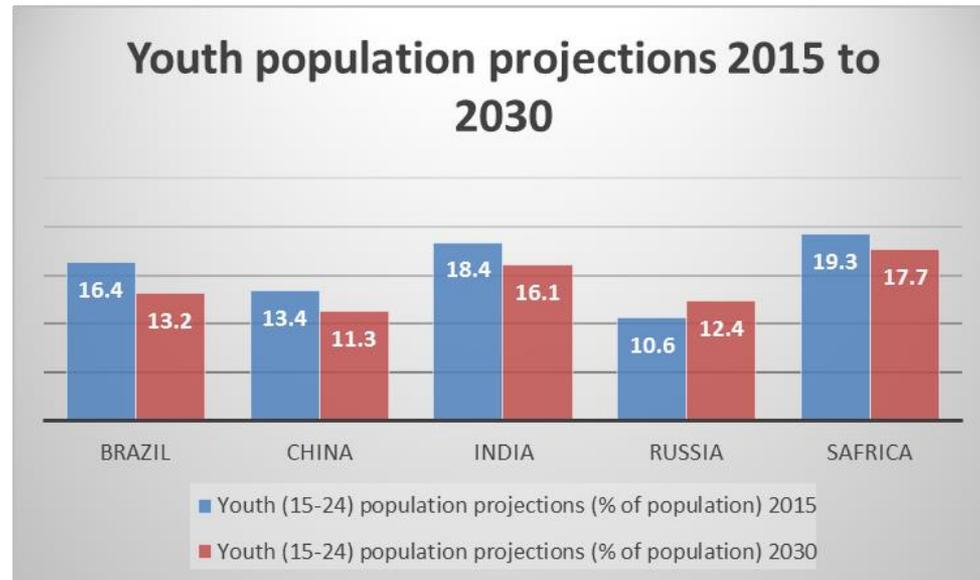
industry/value chain-specific “vertical” targeted interventions where public and private sector work together (eg software industry in India)

Transition to formalization no longer an automatic outcome of rapid economic growth – multi-pronged integrated frameworks (eg Brazil)

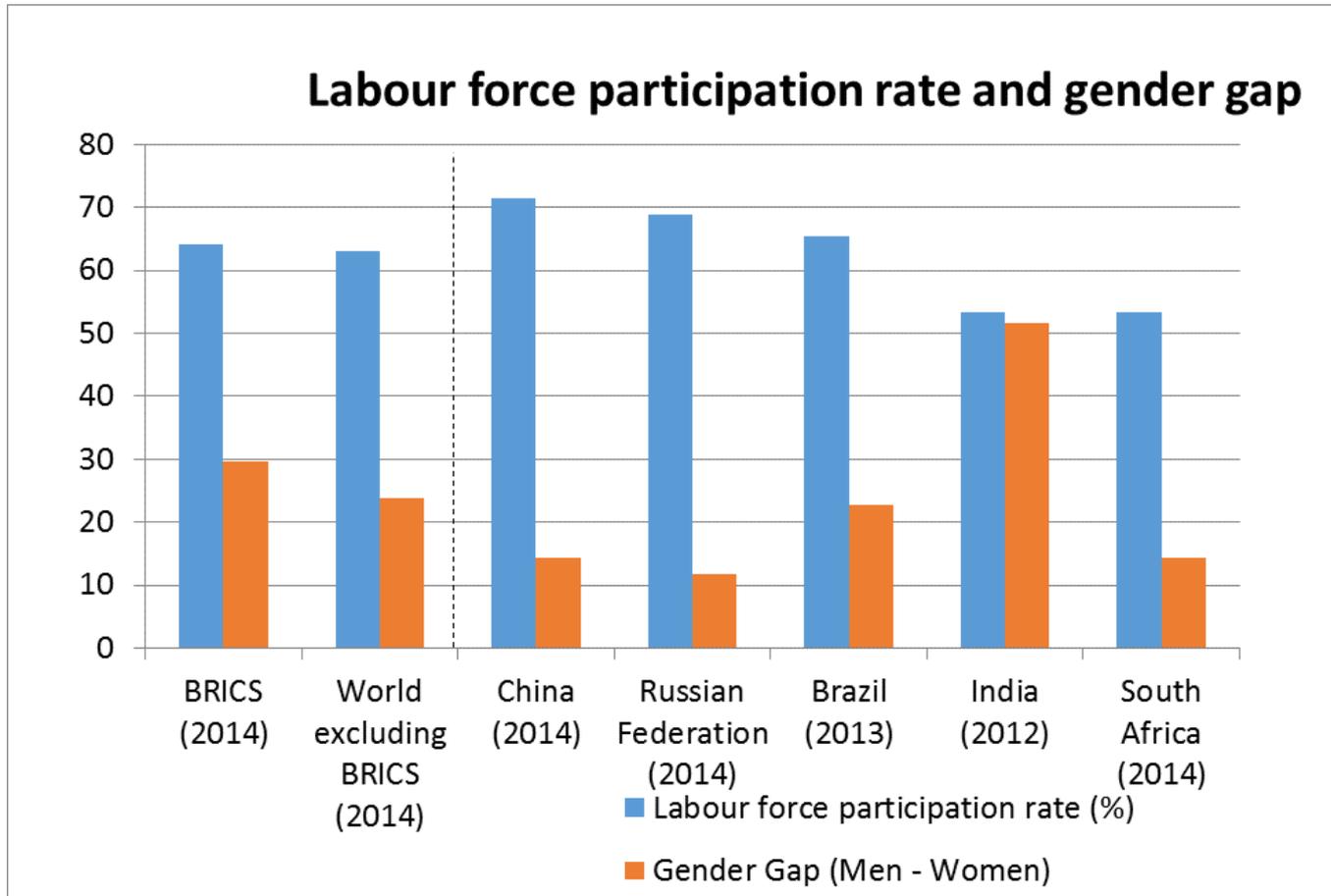
### 3. Inclusive labour markets



Youth



# Women



# Policy issue: Customizing active labour market policies

- Growing number of empirical studies show that well-designed targeted interventions enable disadvantaged groups to gain some foothold in the labour market;
- New “randomized” evaluation methodologies allows to measure the impact of employment programmes with some degree of rigorousness
- But we have limited knowledge about the overall aggregate impact and the spillovers for the local economy
- What we know is that not all ALMPs work well

Meta evaluations suggest that ....

- Employment services and skills training have positive effect on employment outcomes and earnings
- Public employment programmes have mixed results in the medium term but are helpful during recession or for poverty alleviation
- Wage and employment subsidies have mixed results, being effective in some cases, but not necessarily in others
- Limited evidence on effectiveness of self-employment/small business assistance – it works better in bundles eg. combining financial assistance with training
- In general, vulnerable groups benefit relatively more, eg women

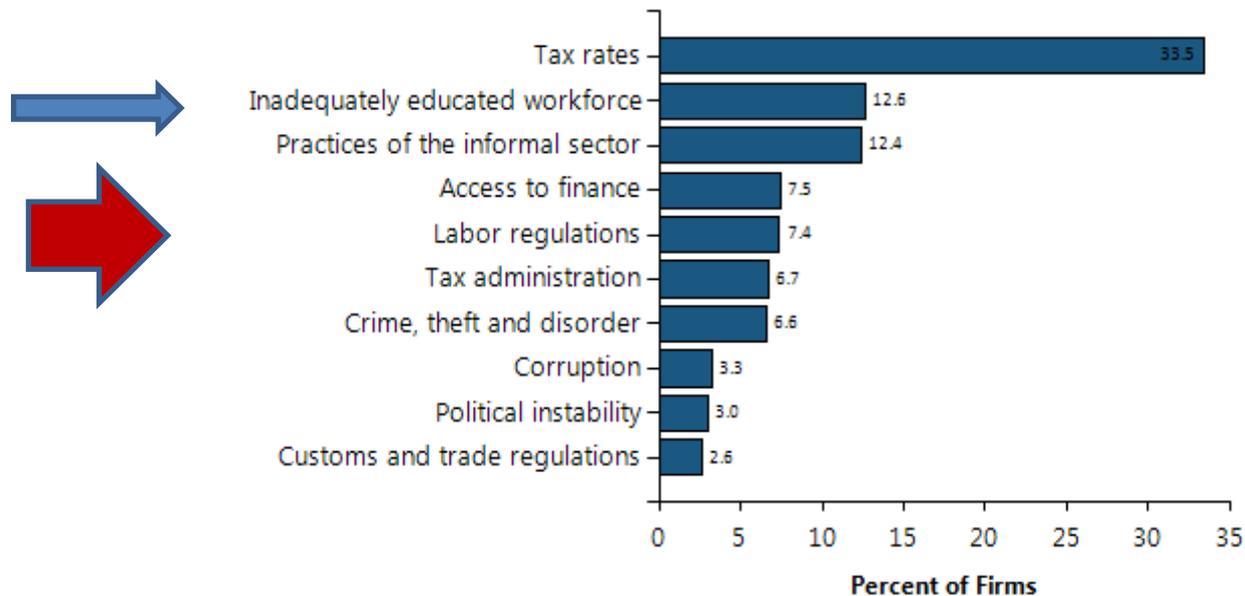
## 4. Quality of jobs are highly transformative

MACRO - Policies to align wages with productivity and to improve social protection help boost consumer demand and stabilize the economy.

MICRO - minimum wage systems can have a positive impact in enhancing productivity of workers (eg in China) while social protection floors improve livelihoods of poor households in urban and rural areas (eg in India and Brazil)

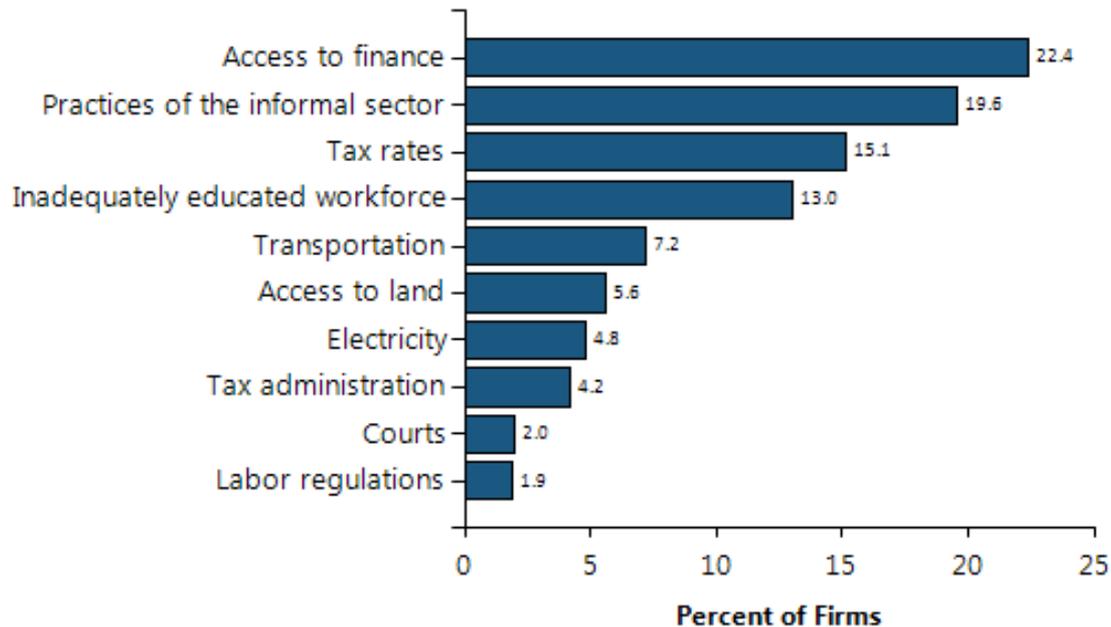
MESO - There are limits to what can be achieved via structural reforms. In particular, weak evidence that deregulating the labour market has a positive impact on productivity and employment opportunities (IMF WEO, April 2015 and April 2016; global surveys of enterprises, academic literature, WDR 2013 on Jobs: “Plateau effect”)

# Ranking of the Top Business Environment Obstacle for Firms – Brazil 2009



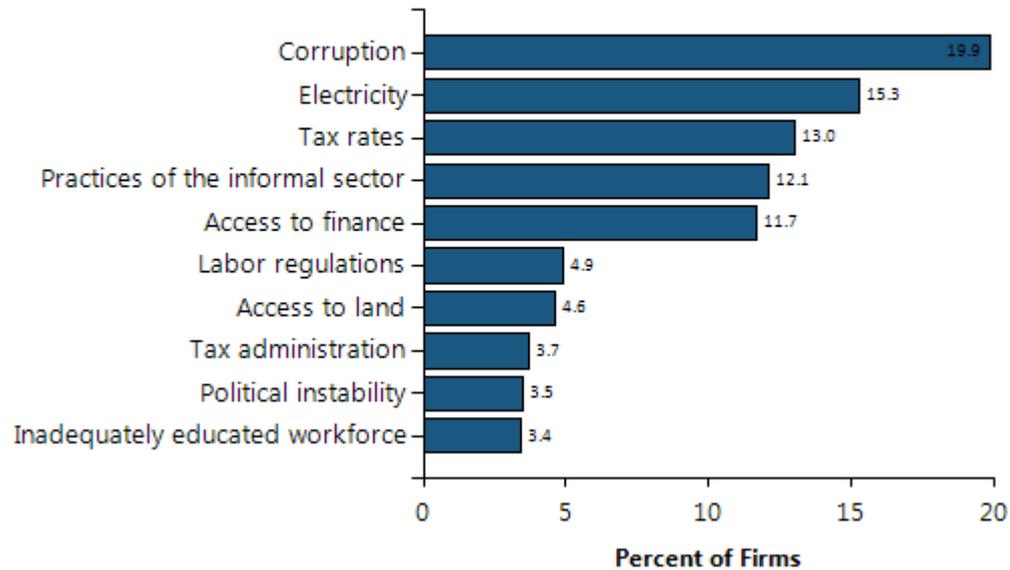
Source: World Bank Enterprise survey

# Ranking of the Top Business Environment Obstacle for Firms – China 2012



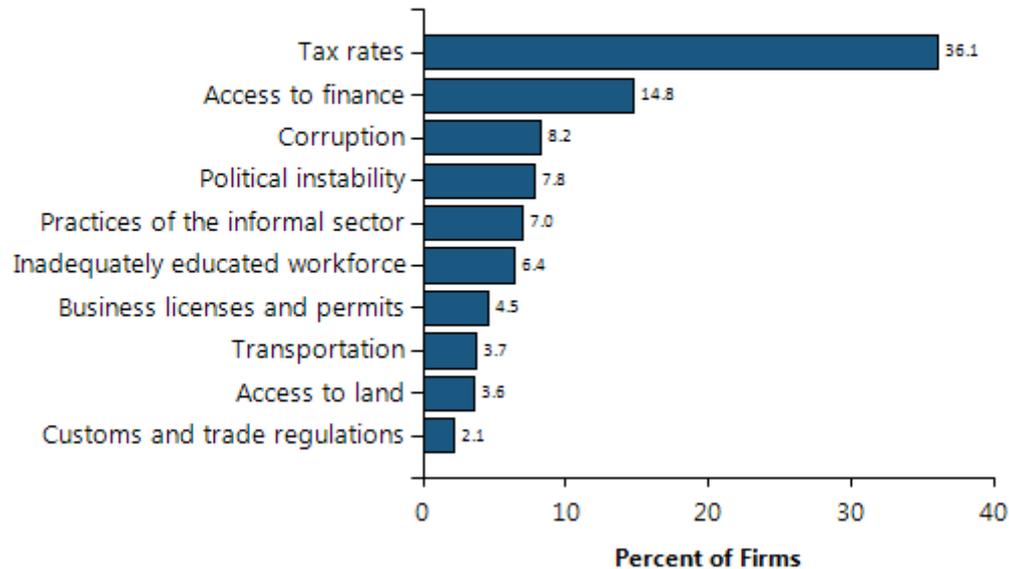
Source: World Bank Enterprise survey

# Ranking of the Top Business Environment Obstacle for Firms – India 2014



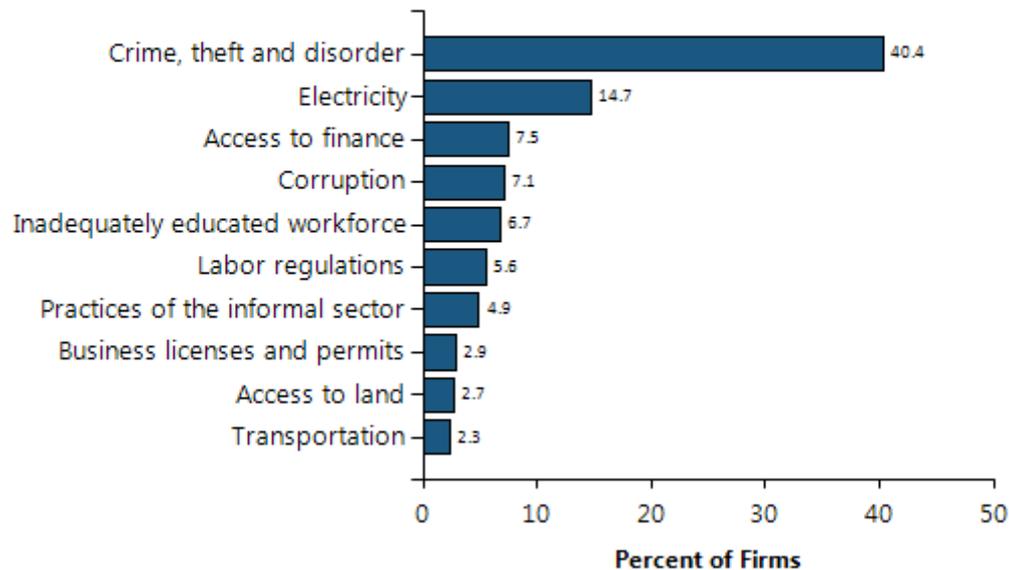
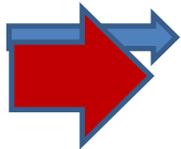
Source: World Bank Enterprise survey

# Ranking of the Top Business Environment Obstacle for Firms – Russia 2012



Source: World Bank Enterprise survey

# Ranking of the Top Business Environment Obstacle for Firms – South Africa 2007



Source: World Bank Enterprise survey

## 5. The employment policy process: It takes times ...

Policy habits are hard to change

Benchmarks to assess effectiveness in the implementation of employment policies include:

- ▶ **Solid diagnostics** - Labour market information, research and analysis to identify drivers of change and entry points for the employment policy
- ▶ **Budget allocations** – Policy announcements linked to quantifiable budget targets – *“credible political commitment”*
- ▶ **Inter-ministerial coordination and policy coherence** - Making employment a cross-sectoral goal and responsibility – *“needs leadership from the top”*
- ▶ **Effective support system** – capable and competent bureaucracies – *“nurture pockets of efficiency”*
- ▶ **Monitoring-** Realistic monitoring is important for accountability and policy fine tuning – *“introduce feedback loops”*
- ▶ Last but not least ... **social dialogue**

## To conclude:

Conventional policies emphasizing the virtuous combination of “*macroeconomic stability-market confidence-structural reforms*” need to be reviewed.

A new approach should be based on evidence of policy success and “good fit” to national development needs and circumstances – not on “one-size-fits-all” practice.

Much can be learnt from the recent experience in the BRICS. Key items requiring further research and debate include:

- pro-employment macroeconomic frameworks encompassing an active fiscal stance, in line with each country’s development needs and labour market structures;
- strategies to support private sector productive investment and to facilitate transition to formality;
- well-designed and targeted bundles of active labour market policies emphasizing employment services, skills development, entrepreneurship and access to finance;
- minimum wage systems and broadening of social protection to combat inequality and exclusion.

Besides design, the process of implementation is key. Success largely rests on solid employment policy support systems.

