

► Towards a transformative macroeconomic policy framework for employment generation in Africa

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Starting premise

Creating employment opportunities in developing economies is commonly (mis)conceived as only being:

- 1. increasing economic growth and fixed capital investment; and/or**
- 2. a responsibility of labour market policy / Ministries of Labour alone.**

“The employment problem in Africa can only be comprehensively addressed by reassessing how we think about macroeconomic policy and combining macroeconomic, labour market and sectoral policies within an integrated employment policy framework.”

Macroeconomic policy is often relegated to the role of providing a ‘market-friendly’ ‘stable’ macroeconomic environment.

- ▶ This includes through low debt and deficit, low and stable inflation, liberalised financial and capital markets, and sustainable balance of payments.

These objectives are pursued irrespective of the impact on employment and other social outcomes.

Economic context

Africa's relatively strong economic growth since 2002 saw a modest improvement in employment dynamics, limited by massive growth in the labour force and a lack of structural transformation.

- ▶ Growth began to slump even before COVID-19.
- ▶ Growth was weaker in resource-dependent countries.

- ▶ Investment rates were reasonable but not high enough.
- ▶ High degree of cyclical in debt, exports etc. tied to commodity cycles.
- ▶ The cyclical nature of GDP growth and current account balances, driven by external conditions, starkly highlighted by COVID-19 crisis.

▶ **> 50%**

In 2018, over half of African workers were poor, the highest of any region. Africa makes up more than half of the world's working poor.

The COVID-19 pandemic has accentuated a number of these underlying trends.

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- ▶ Real GDP estimated to have contracted by 2.1% in 2020, tourism-dependent and resource-intensive economies hardest hit
- ▶ External positions of countries have deteriorated during the crisis.
- ▶ Public and deficits
- ▶ Three channels during the crisis: price channel, supply chain channel and financial channel.

▶ **86%**

Informal work makes up 86% of work across the continent.

Women are more exposed

▶ A pro-employment approach

The considerable employment challenge necessitates that macroeconomic policy widens its focus from merely a stabilising role to a “transformative” role which actively targets decent and productive employment which is inclusive and sustainable. This needs to be married with labour and sectoral policy instruments.

For macroeconomic policy this requires a three-pronged – and interrelated – approach that sees macroeconomic policy

- ▶ 1. directly spur employment where policy space allows,
- ▶ 2. resolve macroeconomic imbalances that retard employment generation,
- ▶ 3. advance structural transformation while supporting complementary sectoral and labour market policies.

A transformative macroeconomic policy framework must aim to achieve:

- ▶ ‘internal balance’ – ‘full employment’; and
- ▶ ‘external balance’ – a sustainable balance of payments.

Policies to raise employment through increasing demand should avoid making the balance of payments chronically worse. So increasing demand in the economy should go hand in hand with attempts to stimulate more domestic production – that is, increasingly supply capacity – rather than sucking in more imports.

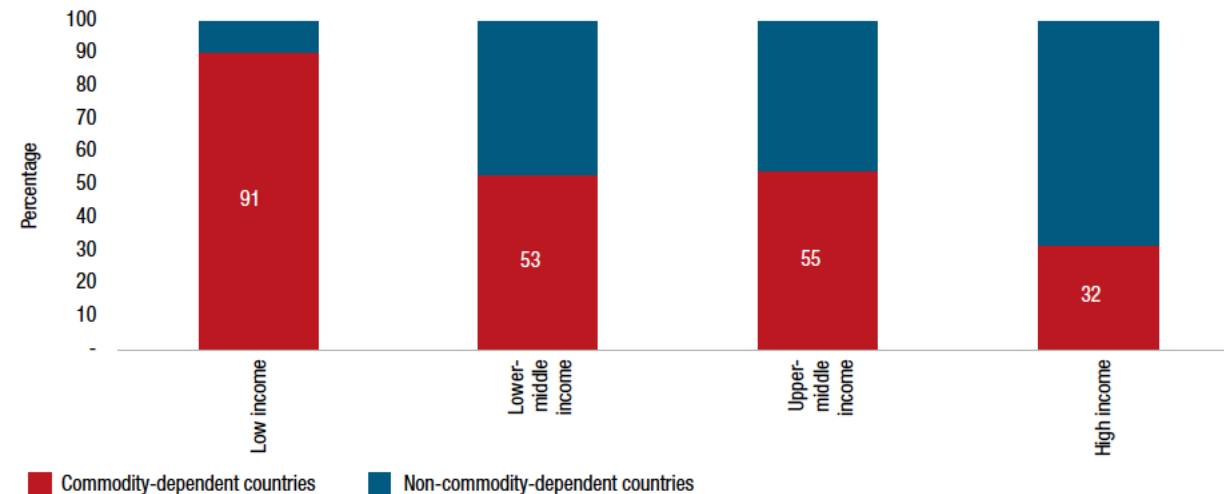
Put simply: use macroeconomic policy to 1) increase demand in the economy, 2) without unduly increasing imports, and 3) expand domestic supply in the economy.

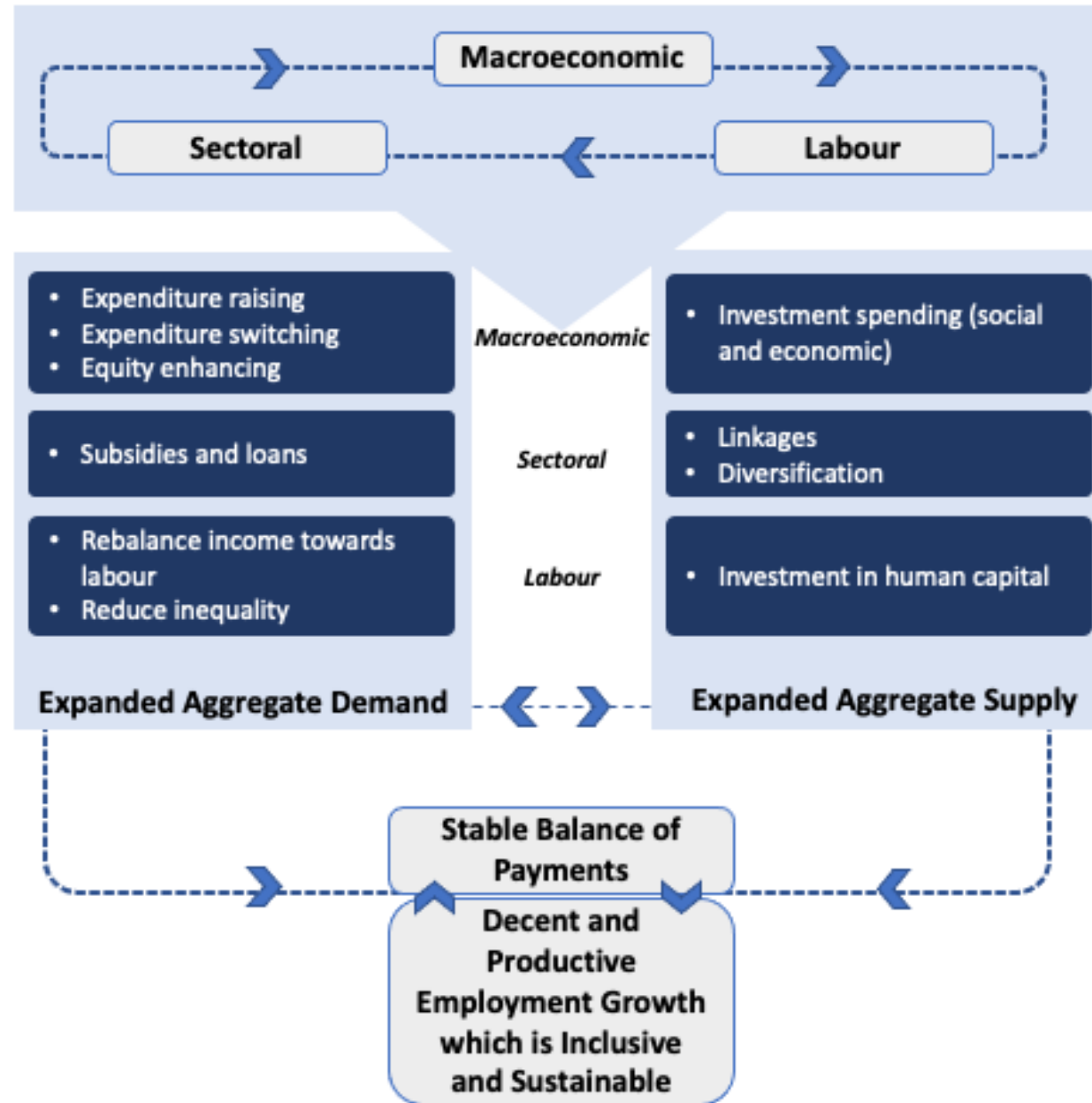
These should be mutually reinforcing and maximise the positive relationship between economic growth and employment (‘Okun’s Law’).

A pro-employment approach

We consider the role of this employment policy framework in achieving structural transformation as particularly important. We define structural transformation broadly to mean production shifting towards higher value-added and higher productivity activities, often in combination with an increased share of higher skilled work.

- ▶ What a country produces expands or limits the possibilities for decent and productive employment opportunities. The higher the *domestic* value added in production is, the greater the potential to upgrade domestic employment conditions (including wages, training, hours and so on) as domestic productivity rises.
- ▶ Poorer African countries tend to be more commodity dependent and there is a strong correlation between levels of commodity dependence and levels of development.





▶ Macroeconomic policies

Aggregate demand increases the level of employment through changing the level and composition of expenditures.

Supporting aggregate demand to increase employment sustains the expansion of markets for consumption and investment goods, thereby allowing firms to grow through achieving (static and dynamic) economies of scale. This leads to sustained productivity growth within firms and the economy (the most proximate determinant of long-term economic growth).

There is a larger toolkit than usually portrayed.

- ▶ Expenditure raising policies, e.g. levels, composition and sources of government spending.
- ▶ Expenditure-switching policies, e.g. exchange rate management.

Aggregate supply measures target employment growth through increasing the availability and quality of production and the factors used to engage in production

- ▶ For example, by spending on health or education human capabilities can be raised, similarly, spending on physical infrastructure can increase productivity. This increases employment through economic expansion Levels of government spending;

If done correctly, these demand and supply side policies positively reinforce each other. Macroeconomic policies here target:

- ▶ Primary direct policy targets: level of aggregate demand, level of aggregate supply, composition of aggregate supply and composition of aggregate demand.
- ▶ Employment outcome variables: The level of employment, the volatility of employment, the productivity of employment, rural–urban employment, labour participation rates and the type of employment.

Complimentary sectoral and labour policies can also increase aggregate demand and aggregate supply in the economy.

► **Policy example: Fiscal stimulus: increase demand and expand supply**

When speaking about expenditure-raising policies, it is important that we view these in an integrated manner.

We should:

- appreciate the complementarities between public consumption and investment expenditure, the former generally understood as referring to spending on government goods and services, via either salary costs (teachers, nurses, civil servants and so on) or the purchase of goods (medicine supplies, textbooks etc.);
- acknowledge the integration between raising demand in the short term and transforming supply capacity in the long term (achieving structural transformation); and
- appreciate that public sector spending most often “crowds in” private sector spending.

1. Benefits of investment spending:

- Demand for domestic inputs;
- Absorb and enhance labour’s productive capabilities;
- Target expansion of supply capacity; and
- Target sectoral diversification.

2. Governments should target a certain level of private and public investment expenditure, relative to GDP and government revenue. This is commonly done in development planning in Asia and Latin America. A baseline target tends to be devoting around 10-15 per cent of GDP to productive public investment spending which works to achieve sectoral, macroeconomic and labour targets. Currently the Africa-wide average is estimated at 7 per cent by the IMF and 11 per cent by the AfDB.

3. Particular attention is needed to raise African countries’ capital stock and improve the efficiency of public investment spending.

► **Policy example: Fiscal stimulus: increase demand and expand supply**

4. Target investments in the care economy sectors.

The care economy sectors – education, health and social work – are particularly important social sectors. These serve to advance human capital development which has long-term benefits on both the supply and demand sides of the economy.

5. Investments will maximize employment and economic gains through sectoral prioritisation.

- Prioritising employment-intensive sectors that enhance productivity gains is important, and can have high employment multipliers and long-term economic gains.
- Prioritising sectors with a high share of domestic inputs or which earn export revenue will be beneficial to lift balance of payments constraints.

6. Although it should not eclipse long-term investment spending, consumption expenditure also has an important role to play in ensuring balanced and inclusive employment growth.

- Public sector employment stimulates aggregate demand, is more secure employment and often includes a high number of women workers.
- Social security transfers have the potential to stimulate and stabilize aggregate demand and support human capital development.

7. Automatic stabilizers can maintain macroeconomic balances in order to support employment growth, as highlighted during the COVID-19 pandemic

8. Expenditure choices should also consider their distributional impact. Increasingly it is recognized that issues of growth and distribution (inequality) should not be separated when approaching the macroeconomy.

Conclusion and current relevance

- ▶ The achievement of decent and productive employment growth which is inclusive and sustainable will be impossible within the African context if macroeconomic policy remains narrowly focused on price stability and specific debt-to-GDP ratios while being divorced from its relationship with sectoral and labour market policies.
- ▶ Rather, the role of macroeconomic policy in transforming the structure of the economy must be appreciated. This will allow the growth of formal, higher-productivity and better-paying employment opportunities.
- ▶ If this was true before the COVID-19 crisis, it is even more so now as countries grapple with how to “Build Back Better”.
- ▶ However, current macroeconomic environment does entail risks to macroeconomic balances that must be comprehensively tackled, including through debt relief.

Structural transformation through demand management and diversifying the supply side of the economy is essential – this requires appropriate macroeconomic and sectoral policies. This will generate greater fiscal space (through increased tax revenue and higher GDP) and accommodate increased aggregate demand without worsening the balance of payments or leading to undue inflation. At the same time, sectoral and labour market policies can boost demand in the economy. Labour market policies can also help to boost aggregate demand through distributing income towards workers, who have a higher propensity to spend, and expand aggregate supply through ensuring human capabilities are upgraded.

In all these ways, a coherent transformative framework that combines employment-centred macroeconomic, sectoral and labour market policies is the principal way to ensure decent and productive employment growth which is inclusive and sustainable on the African continent. ▶ ilo.org