Employment and Development
What Do We Know and What Can We Do?

International Conference convened by
Institute for the Study of Labor (IZA) and KfW Entwicklungsbank

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Background: Employment is crucial for development

Sustainable and decent employment is increasingly recognised as an important end as well as means of development. Recent events in North Africa show that lack of employment is a serious socio-economic and political challenge. Successful employment, on the other hand, involves not only income and poverty reduction, but also contributes to social security and cohesion and can provide a basis for economic development.

To achieve more and better employment, partner countries and donor agencies need to better understand how employment, growth, poverty and other factors interact, how unemployment is caused and what can be done about it.

At the same time, drawing on practical experience, research can identify knowledge gaps that to date pose limits to successful employment creation policy.

Setup of the conference: A forum for high-level dialogue of research and practice

The purpose of the conference was twofold. First, researchers and practitioners took stock of what they know (and what they do not yet know) about employment, growth and development, and the relevant connections. Second, participants explored next steps towards gaining better knowledge and improving practices in both fields, separately as well as in cooperation. The participants came from a wide range of research and practice organisations, including international organisations (World Bank, ILO, OECD, UN), policy-makers from partner countries, German development cooperation, political foundations and non-governmental organisations.

The conference included a public symposium with Professor Dani Rodrik (Harvard University) as distinguished keynote speaker and a high-level panel discussion, in which the challenges of employment were debated. The symposium attracted nearly 200 participants. The second day was a results-oriented expert conference for 95 invited participants. Leading academics, practitioners and decision makers presented the state of the art in research, development cooperation and policy. Participants discussed in parallel workshops how current knowledge can inform innovative and more effective policies and measures, and the need to complement this through further research and research-practice cooperation.
Summary of public lectures and discussions

After Stephan Opitz (Director General, Cooperation with Developing Countries, Environment and Climate, Latin America, KfW) and Christiane Bögemann-Hagedorn (Deputy Director General, Civil Society - Private Sector, Federal Ministry for Economic Cooperation and Development) opened the conference, Professor Dani Rodrik gave his keynote lecture on “Employment, Structural Change, and Economic Development”.

Rodrik referred to the active economic policies of China and India. Both countries have developed much more dynamically than other countries which have given more priority to the free interplay of market forces. China and India succeeded in creating many new jobs through moderate market reforms and state interventions in different industries. The policy of the ‘Washington Consensus’ pursued by the World Bank and the International Monetary Fund (IMF), which focuses mainly on strengthening market forces and liberalising markets in order to achieve growth, was in principle not wrong. However, economic development that is sustainable and reduces poverty is not guaranteed without additional measures.

Rodrik thus called for a pragmatic industrial policy that focuses on creating productive jobs in new industries. The most sensible measures for each case depend on the conditions in the respective country: the undervaluation of the currency could be helpful under certain circumstances as well. Therefore Rodrik encouraged economic policies that are open to experimentation or are even unconventional and which enable structural transformation that leads to competitive and differentiated industries.

The keynote lecture was followed by a high-level panel discussion chaired by Professor Klaus F. Zimmermann (IZA). Opinions were divided on the main question “Growth, jobs, or poverty reduction: What should decision makers address first?”: Namrata Bali (Director of the Self-Employed Women’s Association - SEWA, India) stressed the importance of measures helping the poor, such as social security and capacity-development programmes. These measures should not, in her opinion, follow a growth strategy but rather be implemented simultaneously. Ghada Waly (Managing Director of the Egyptian Social Fund for Development) agreed with Bali’s holistic approach pointing out that Egypt used to focus too much on economic issues while neglecting social ones. As a consequence, growth in Egypt benefitted only few people, widening the gap between the rich and poor. Unfulfilled expectations contributed to the social tensions culminating in the Arab Spring. According to Waly, there was no time to tackle the challenges of promoting growth, jobs, and poverty reduction sequentially.

Rodrik and Zimmermann contrasted her view by arguing that in practice these challenges can hardly be addressed simultaneously. Rodrik recommended shortcuts: even when governance problems exist and labour market institutions are not (yet) in place, making a country or a sector very profitable for investors could trigger a process of growth that subsequently provides a good basis for improving institutions and education.

The promotion of jobs is key to improving inequality, argued Stefano Scarpetta (OECD). He found a compromise saying that there is not necessarily a trade-off between increasing productivity and more and better jobs. Nonetheless, in his opinion labour market institutions are important to help compensate the losers of structural change and help them avoid being trapped in low-productivity jobs. In principle, Raymond Torres (Director of the International Institute for Labour Studies at the ILO) agreed with this view, while advocating a change of the conventional development model that in his view neglects social protection and regulation.

The **second conference day** started with two presentations on the state of knowledge concerning employment from the viewpoint of academics on the one hand and international donors on the other. Representing the academic side, renowned labour economist Professor Gary Fields (Cornell University) focused his speech on people who are employed but earn so little that they can hardly make a living. He shifted the focus from general issues such as growth, structural change and employment promotion to the people affected by focusing on people and individual stories of the “working poor”. Fields argued that, rather than combating unemployment per se, the goal of policymakers should be to a) generate more paid employment and b) raise the earnings of the self-employed. After outlining some research gaps, such as the effects of supply-side interventions on beneficiaries and the control group, Fields closed by underlining that, since valid conclusions can only be drawn at the country level, better specific models of how different countries’ labour markets work are needed.

Holger Seebens, economist at KfW Entwicklungsbank, summarised the experiences that development institutions have had in promoting employment, and analysed which types of projects and programs would be suitable for this purpose. Overall, he concluded that development cooperation helps create the conditions in partner countries that enable effective support of the pragmatic industrial policies demanded by Rodrik. In this regard, many projects pursued by donors deal directly or indirectly with employment. Support to build economic or social infrastructure, for instance, is eventually also intended to promote the creation of jobs. In addition, programmes that aim at immediately creating jobs are regarded by donors as a short-term response to crises such as conflicts or natural disasters. In these cases, projects are purposefully implemented using employment intensive technologies. However, in some areas there are indeed possibilities to sharpen donor approaches and to embed them in a broader strategy to create sustainable employment.

Martin Rama, Lead Economist at the World Bank’s Development Research Group, provided insights on the World Bank’s current thoughts on the topic. He argued that jobs are central to transformations in living standards, productivity and social cohesion; however these three objectives can often not be met jointly, as different jobs make various contributions to them. Female employment, for instance, tends to contribute more to rising living standards while employment for young men may improve social cohesion. At the same time, some types of jobs are more conducive to development than others due to externalities such as knowledge spillovers. Discussing “good” jobs, Rama stressed the difference between the individual and the social value of jobs. He concluded with a policy recommendation: if tensions between the three transformation areas mentioned above exist, a job strategy can be helpful. Based on the country’s specific problems, such a strategy should prioritise the three objectives and focus on those jobs that have been identified as most conducive to the respective objective.

**Summary of workshop results**

In six parallel workshops participants discussed how current knowledge could inform innovative and more effective policies and measures, and in what areas further research and research-practice cooperation were needed. The workshops addressed the following topics:

1. Global shift of production factors, globalised value chains, and the role of industrial policy
2. Informal sector and graduation
Beyond discussing available knowledge, participants also identified sector-specific problems and best practices and developed initial innovative ideas for their solution:

- Tailor-made and differentiated solutions for the informal sector based on the individual potential of micro-entrepreneurs (basic education and social protection for survivalists, business development skills for high-potentials)
- Graduation of informal sector enterprises via vouchers for education funded partly by financial cooperation
- Catalytic finance to attract private investment and mitigate consequences from economic crises
- Employment programs as means of social protection in rural areas; e.g. a guaranteed minimum number of paid working days spent in infrastructure projects or agriculture
- Greater voice for the poor: A central agency could be set up to collect feedback from the target group of donor-initiated projects in fragile states. This would help to develop a rating for projects; successful projects could then be replicated/elongated

The detailed documentation of the workshops is available separately on the conference webpage.

Conclusion
At the end of the conference Professor Klaus F. Zimmermann (IZA) and Joachim Heidebrecht (Director, Development Research, KfW) emphasised that internationally available knowledge from development research and development practice had been brought together successfully. In addition, a range of innovative ideas for solutions and concrete recommendations for development cooperation had been developed. Participants praised in particular the high quality of the presentations by internationally distinguished speakers and the possibilities for rich discussions and networking among a very diverse audience of academics and practitioners. Results will be covered in several publications at IZA and KfW as well as in lectures in the KfW “Development Research” series.

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