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More and Better Jobs: A Multi-sector Strategy

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The economic and social transformations over the last decade have put the economies of many developing countries on higher, and more sustainable, growth paths. In too many cases, however, these transformations have not led to major improvements in labor market outcomes, resulting in high or even increased unemployment, particularly among youth, and in more inequality and exclusion.

The unfavorable employment outcome observed is the result of a number of interacting factors. Sustained growth and job creation were required to absorb the increase in labor supply implied by the larger youth cohorts that entered the labor market over the past decade in much of the developing world. Greater integration in the global economy has increased opportunities for developing countries to access new markets and technologies, but has also exposed them to stronger competition from other countries. In particular, the full integration of China and India in the world economy has put pressure on wage rates world-wide. Globalization has also lead to a strong integration in the markets for goods, services, and factors of production allowing firms in the developing world to choose their production technologies. This choice would not be pro-labor if policies, rules and incentives dictated otherwise. Yet, economic growth which does not lead to employment generation will not deliver on its own poverty reduction and development objectives.

Creating more and better jobs requires strong and sustainable economic growth, as well as an increase in the employment content of growth. The empirical evidence suggests that certain firms – often small and medium sized ones – are more labor intensive than others, that some sectors are more conducive to job creation than others, and that enterprises in a given sector react to incentives and relative prices in their choice of production technology and hence labor content. The policy conclusion that follows this assessment, however, is not for governments to actively try to influence the enterprise's choice of sector, firm size or production technology. The experience of such polices has, in general, not been encouraging. What is of utmost importance is to create a *level playing field* for enterprises. Very often small and medium sized enterprises are disproportionately affected by a poor investment climate, and many of them prefer to stay informal and small. Moreover, potentially innovative firms that can contribute to the creation of good jobs are often hampered by regulations and lack access to markets and capital in many developing countries. And lack of competition and preference treatment for large, well established businesses often creates incentives for enterprises to adopt more capital intensive production modes.

Creating at once the conditions for sustained economic growth, a climate of investment and enterprise formation, as well as more and better jobs requires a multi-sector approach. Five sectors are considered critical and their review is worth the *extra MILES to go*: **M** as in sound macroeconomic policy, including a supportive fiscal space; **I** as in good investment climate to promote job creation by private firms as well as sound institutions able to foster good governance; **L** as in appropriate labor market institutions which support the necessary flexibility while providing protection to workers; **E** as in good formal and informal education, market-relevant skills and life-long learning; and **S** as in social safety nets and other income support measures that protect the vulnerable, allow individuals to take risk, and help create more equity in a globalizing world.

The **MILES** approach suggests as a first step a review of policy and institutional frameworks in various countries in order to identify the key binding constraints in policy areas to be reformed. A critical element at this stage is a policy dialogue and close interaction between the key policy makers and ministries. The effectiveness of government actions on job creation, poverty and growth should be closely monitored and evaluated. The system should allow for policy adjustments but should also entail a learning process across countries. This approach underlies the focus of a recent World Bank study in Eastern Europe and the former Soviet Union as well as ongoing work in Turkey. Current plans include country pilots in other World Bank regions which are undertaken in close coordination with internal and external partners, and are closely monitored.