

Jobs & Growth: Evolution in IMF Thought

Presentation at ETUI/ETUC Panel on Employment

- Thank you for the invitation to participate again this year. As the chief of our Europe office Jeff Franks noted yesterday, we recognize the importance of dialogue with trade unions, even when it sometimes entails difficult conversations.
- Until last year, I co-chaired an internal group on “jobs and growth” set up by IMF management. As the organizers kindly suggested, I will use most of my initial time to describe the evolution in IMF thought on jobs and growth. I will then briefly relate what this evolution could mean for the themes of this conference.
- I will make three points, which in many cases elaborate on what Jeff Franks said yesterday.
 - ▶ First, more so than in the past, the IMF is paying attention to the distributional consequences of economic developments and policies.
 - ▶ Second, our framework for thinking about labor market policies is evolving. Increasingly, it is one in which we recognize that many policies need to strike a balance between promoting efficiency and protecting the basic needs of workers. (Jeff was very clear on this yesterday.)
 - ▶ Third, we have tried to elevate the importance of unemployment in policy discussions. And our approach to tackling high unemployment has been ‘two-handed’, one that recognizes the importance of both aggregate demand and aggregate supply and advocates policies to boost both.
- Let me elaborate a bit on each and then conclude with some thoughts relating my discussion to the main theme of this conference and panel.

Evolution in IMF thought

- Let’s begin with the IMF research on distribution, on inequality. Some degree of inequality is unavoidable, and indeed desirable, in a market economy.
 - ▶ However, my colleague Jonathan Ostry, working with various co-authors, has shown that increases in inequality can lower the durability of growth. He also finds that redistribution, unless extreme, does not lower growth.
 - ▶ IMF research has also looked into the impacts of developments and policies on inequality. One study found that declines in unionization are associated with increases in inequality. In my own work I have studied the impact of two economic policies on

distribution. My co-authors and I find that these two policies—capital account liberalization and fiscal consolidation—are both associated with increases in inequality. This does not mean that these policies may not be desirable or necessary in some instances. But policymakers have to be aware of the efficiency-equity tradeoffs they entail.

- The second evolution in IMF thought I want to describe is on the role of labor market policies. Here I will draw on a paper that my colleague Florence Jaumotte and I did with our former chief economist Olivier Blanchard. We suggest that a purely market fundamentalist approach will not provide enough protection to workers. We argue that the role of labor market institutions is thus to promote efficiency but not at the cost of jeopardizing adequate protection to workers.
 - ▶ Micro flexibility—the reallocation of workers to jobs as comparative advantage shifts—should be ensured through generous unemployment benefits combined with employment protection that is not excessive. The latter helps avoid the setting up of dual labor markets -- a point that Jeff Franks also made yesterday.
 - ▶ Economies also need macro flexibility—this is the ability of the economy to make adjustments in response to large national-level shocks. Here collective bargaining institutions play a key role. Initially in our paper we were somewhat prescriptive on what form these collective bargaining institutions ought to take. But conversations with our trade union friends have led us to back away from being too dogmatic on this point. In any event, it appears that trust among social partners is just as important, if not more important, in ensuring macro flexibility as the precise design of collective bargaining institutions.
- The third evolution in the IMF’s thinking on ‘jobs & growth’ is to elevate the importance of unemployment in policy discussions.
 - ▶ In 2011, we organized a landmark conference with the ILO, in Oslo, to show that our two institutions had a common appreciation of the importance of jobs to the economic and social fabric of countries. Yes, low inflation and fiscal & financial stability – the goals that the IMF is traditionally associated with – remain critically important, but the promotion of full employment should deserve just as much attention.
 - ▶ We have also argued that the promotion of full employment requires a ‘two-handed approach’, one that stresses the importance of aggregate demand as much as aggregate supply. This view has led us to policy positions in recent years that have surprised many:
 - We have been very supportive of the actions taken by the major central banks during the Great Recession to stimulate aggregate demand.

- We supported the coordinated global fiscal stimulus given at the onset of the Great Recession and advocated a phased withdrawal of it and one that was in line with the extent of economy recovery in the various countries.
- We have called for an increase in public investment, which can both add to aggregate demand in the short run and improve the economy's aggregate supply response over the longer run.

Dealing with the digital economy

- Let me now discuss why this evolution in IMF thought is important to the theme of this conference and panel.
- The theme tackled in this conference is the potential threat to jobs from the digital economy. But as has been noted several times by now, this is not a new worry. That 'others' will take away 'our' jobs is a perennial fear.
- Trade and technology are both resisted due to that fear. But both forces contribute to national and global long-run efficiency and – more arguably – to long-run equity as well, at least at a global level.
- Both forces lead to adverse consequences for a number of people in the short- to medium-run. I think many of us in mainstream economics have been guilty of either ignoring these costs or paying lip-service to the need to redress them.
- If the evolution in IMF thought that I have described is to have any lasting influence, this has to change. Whether the source of loss of jobs for some people is trade or technology -- or indeed some other 'mega trend' -- what is needed is for the policy advice given by institutions to reflect some of the findings of the research that I have described. Concretely, this means:
 - ▶ We should treat the unemployment that results from displacement due to trade and technology as a serious development that poses grave costs for the individual, his or her family, and for society;
 - ▶ We should support adequate unemployment benefits or other forms of assistance to replace some of the lost income of those displaced. Yes, the long-run solution lies not in such benefits but in active labor market policies – including re-training. But the effects of these policies do not kick in immediately and it should be considered cruel to abandon the unemployed and their families to their fate in the interim.
 - ▶ We should also recognize that even if supply-side remedies -- such as provision of re-training and skills development -- are the desired solution, these will not work well

in an environment of weak aggregate demand. The best skills program will be a waste if the person is just sitting in an unemployment queue for a long time.

► We should look not just at the aggregate or efficiency effects of the remedies we prescribe but at their distributional or equity effects. We should not be fearful of redistribution as one of the remedies to consider in order to compensate those who lose out.

- It is important of course to do research into the precise impacts that trade and technology are having. For the case of the effects of the digital economy, that research is being undertaken, as Guy Ryder and Mark Keese described yesterday. But the point I have tried to make here is that institutions like the one I work for also need to take seriously the job loss that occurs due to displacement, whether from trade or technology, and in the remedies we prescribe.
- As we have heard at this conference that we are moving to a ‘sharing economy’. But we also need a ‘caring economy’ – and I hope that the work of the ‘jobs and growth’ group has contributed in a humble way to trying to nudge my institution in that direction.