

JOBS AND GROWTH: OUTLOOK AND POLICY RESPONSE

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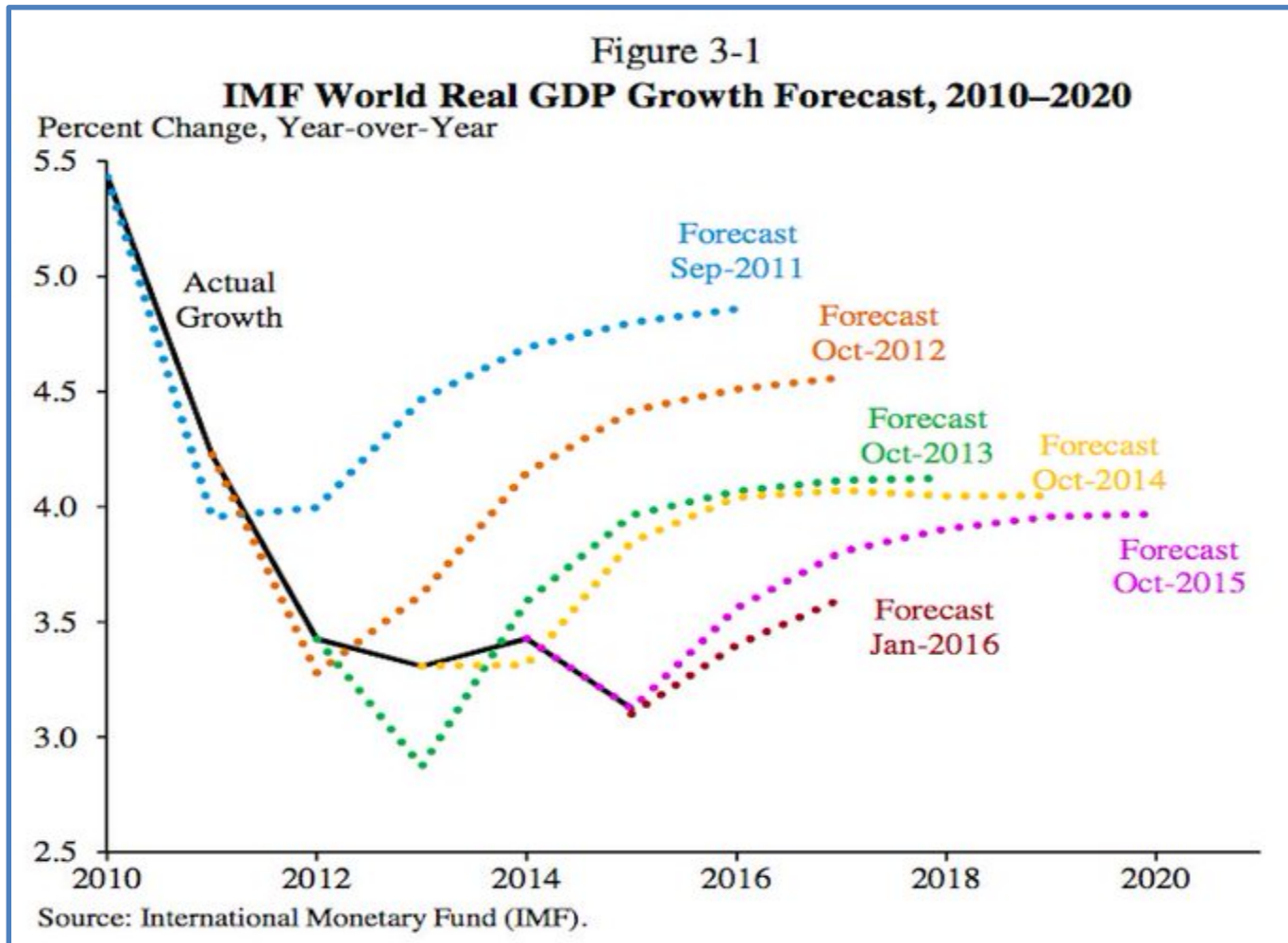
PRESENTATION AT GLOBAL PARLIAMENTARY CONFERENCE, OCTOBER 4, 2016.
I AM GRATEFUL TO ZIDONG AN FOR ASSISTANCE WITH PUTTING TOGETHER THIS PRESENTATION.
VIEWS EXPRESSED ARE THOSE OF THE PRESENTER AND SHOULD NOT BE ASCRIBED TO THE IMF .

Story line

- Outlook for Unemployment
- Three-pronged policy response to boost growth
 - Fiscal policy should be enlisted
 - » Infrastructure
 - Monetary policies should remain accommodative
 - Structural reforms
 - But need to make sure that reforms do not weaken demand
- Jobs & Growth
 - In many countries, boosting growth will also bring back jobs; in some, may need additional 'jobs strategies'

OUTLOOK FOR UNEMPLOYMENT

The Not-So-Great Recovery



International Jobs Report



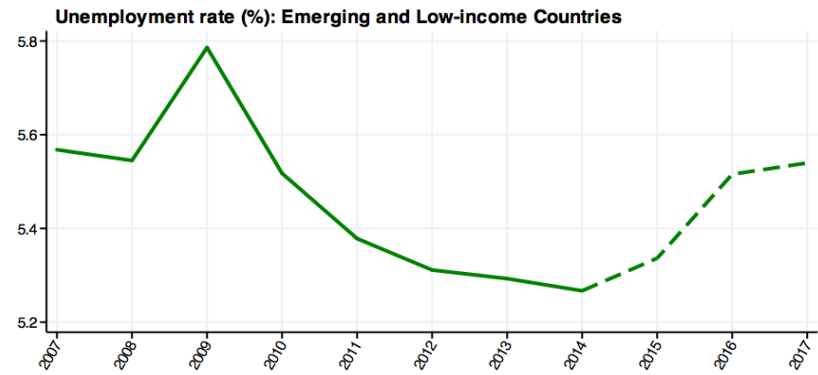
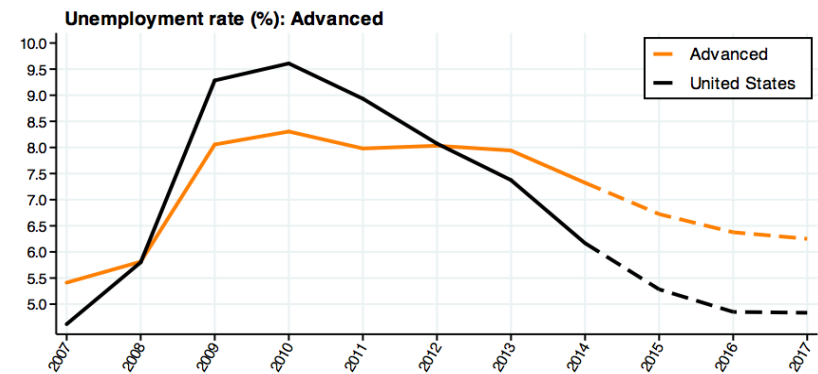
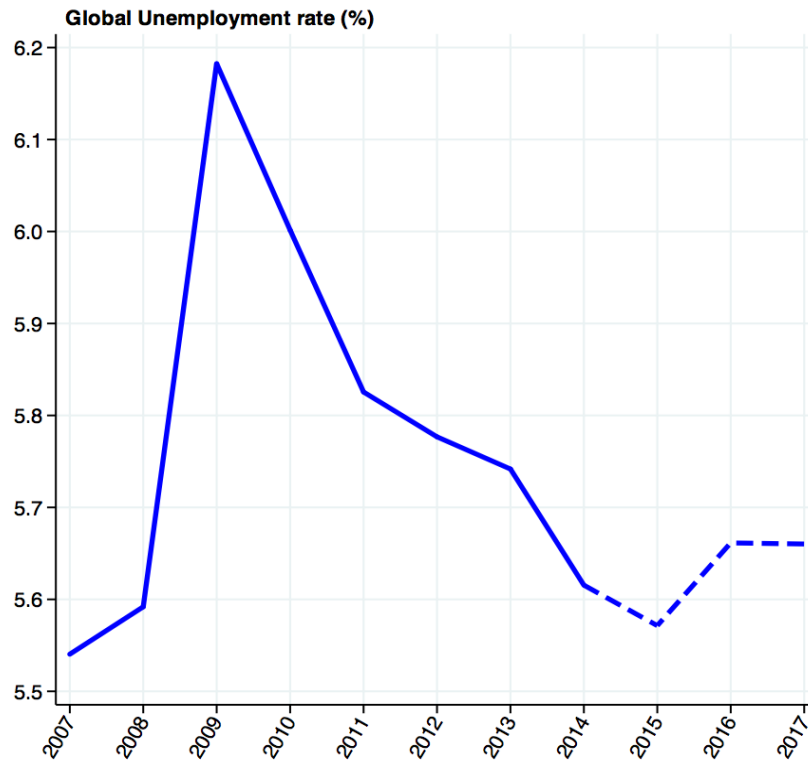
INTERNATIONAL JOBS REPORT

IJR

May 2016

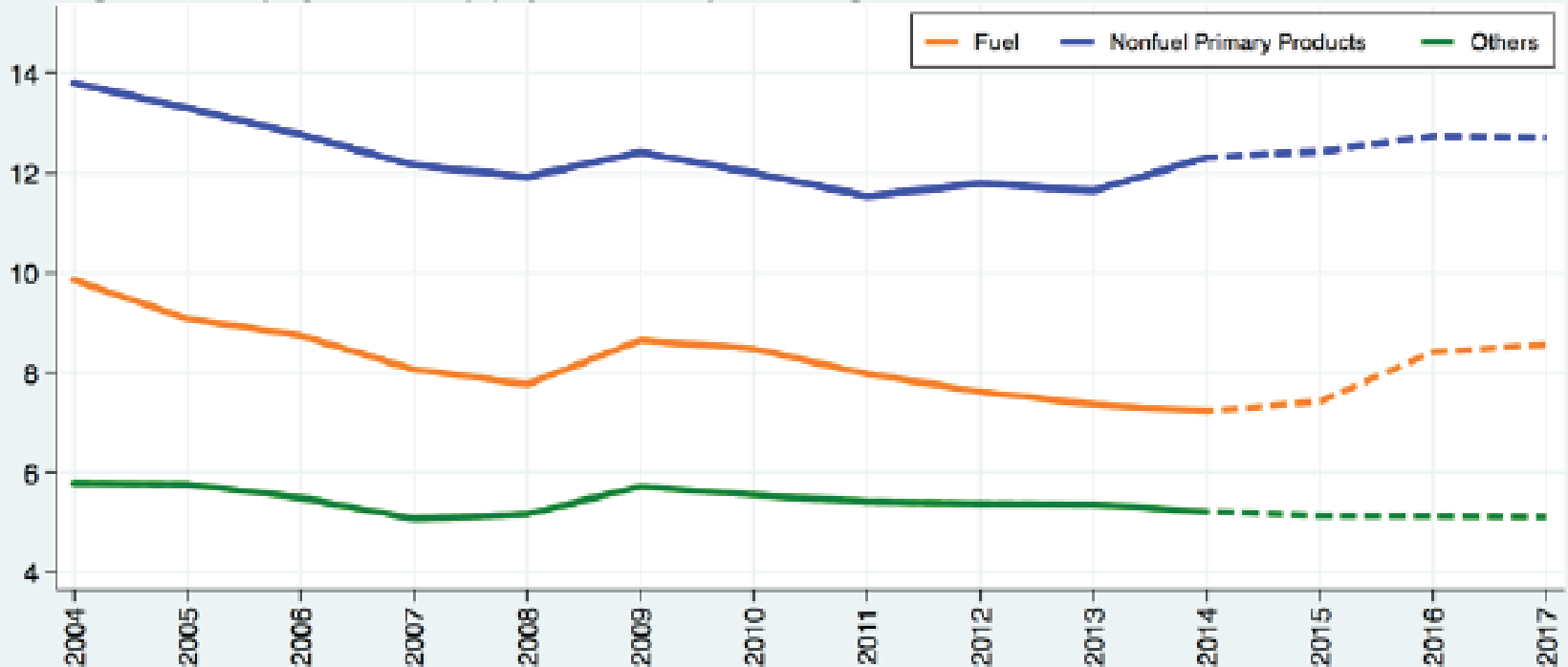
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The Global Unemployment Rate



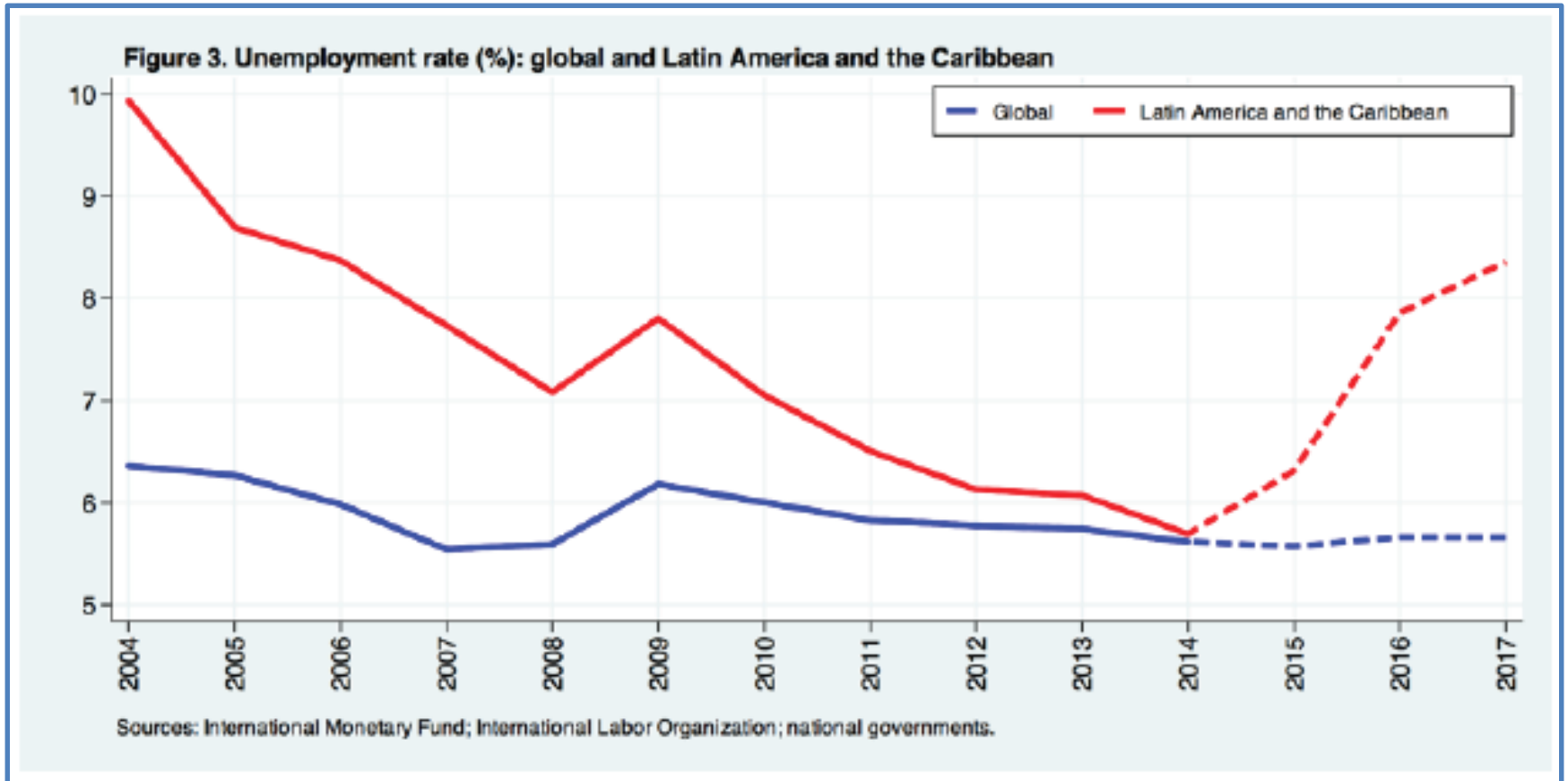
Unemployment Outlook in Fuel-Exporting Countries

Figure 2. Unemployment rates (%) by source of export earnings

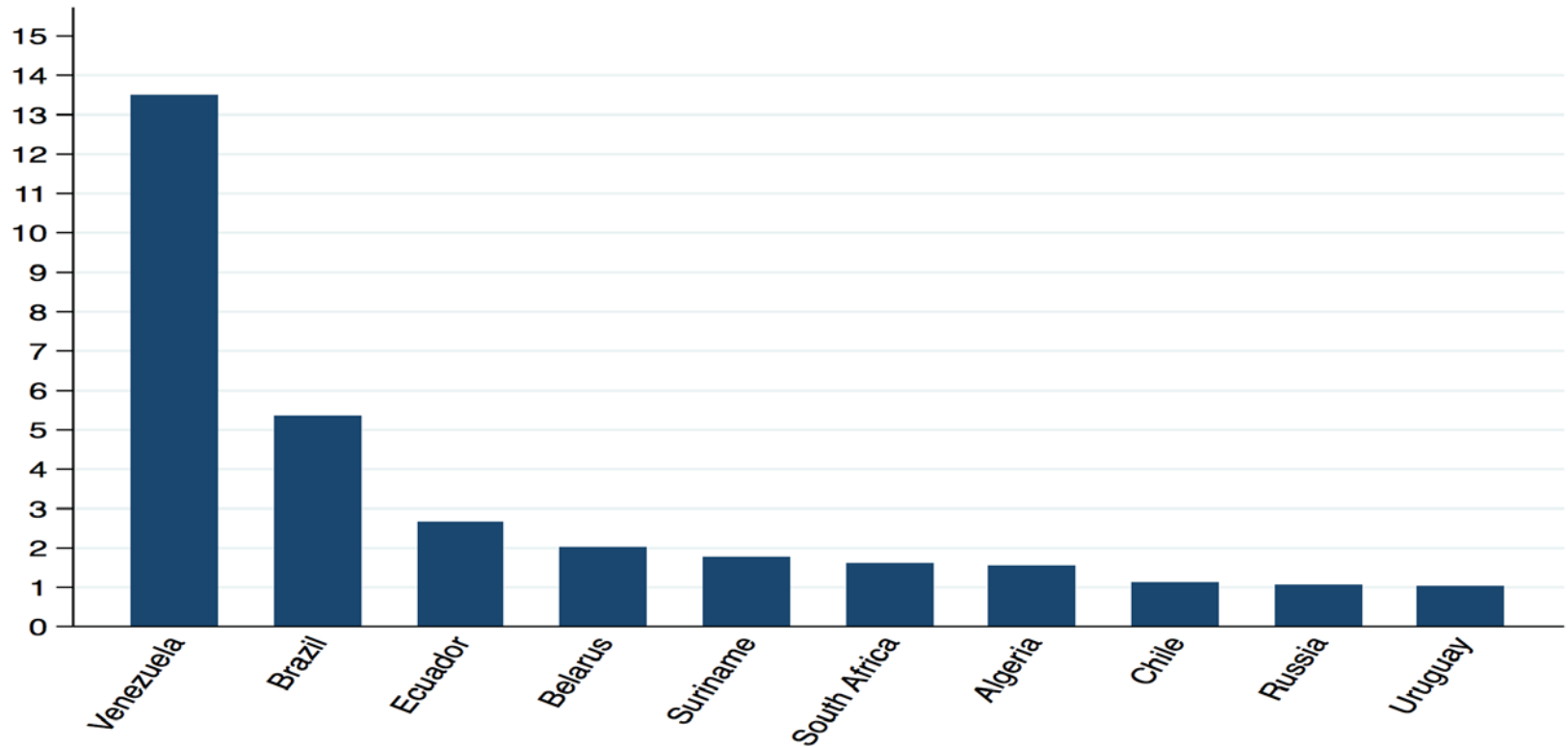


Sources: International Monetary Fund; International Labor Organization; national governments.

Unemployment Outlook in Latin America



Forecasted Change in Unemployment, 2014 to 2017, Selected Countries



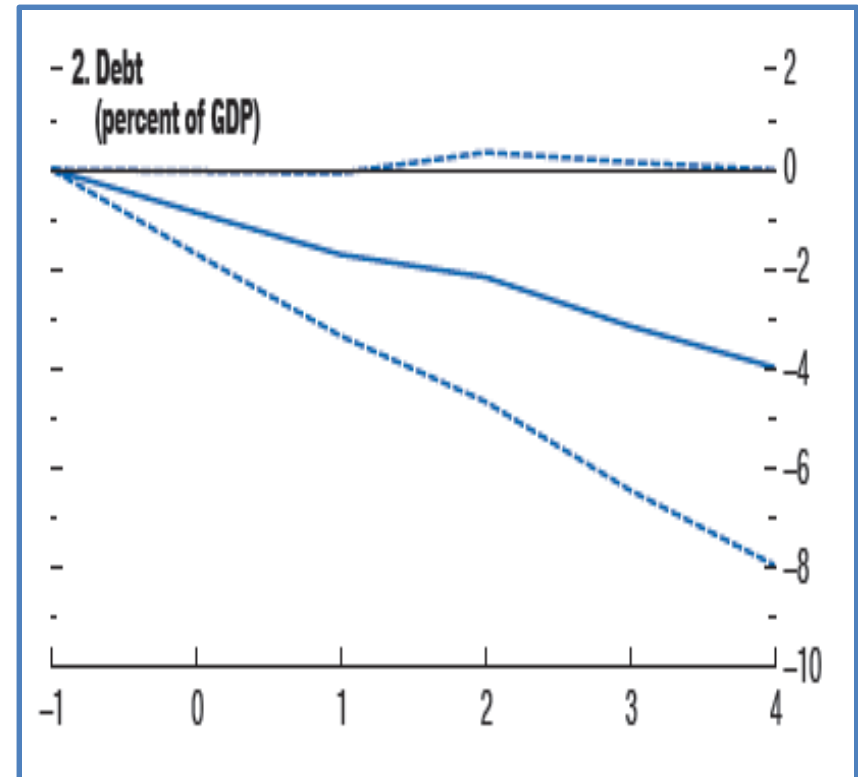
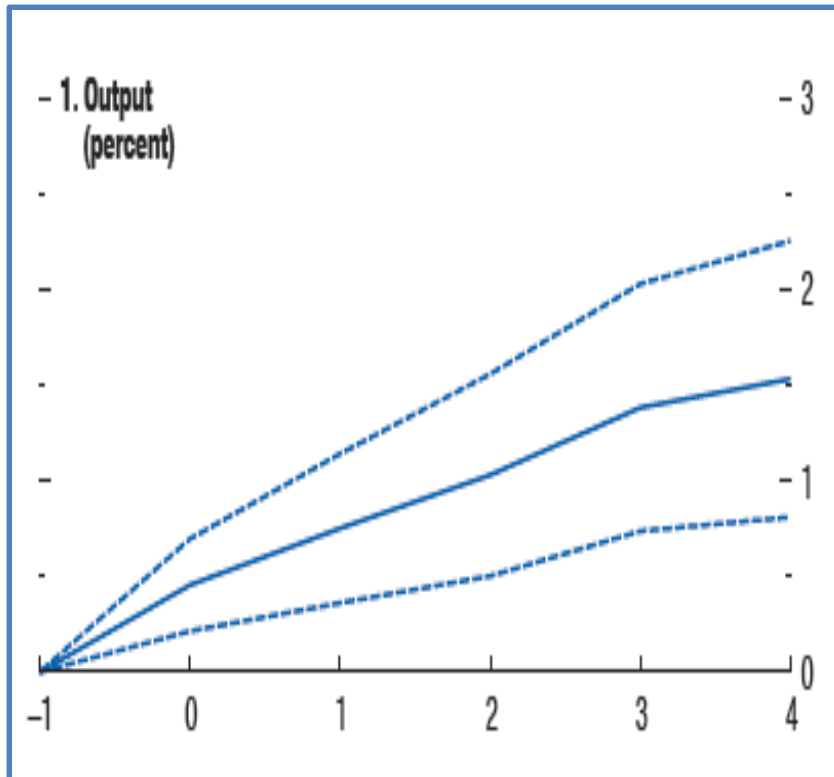
THREE-PRONGED POLICY RESPONSE TO BOOST GROWTH

Let's Get Fiscal:

Lagarde Speech, September 28, 2016

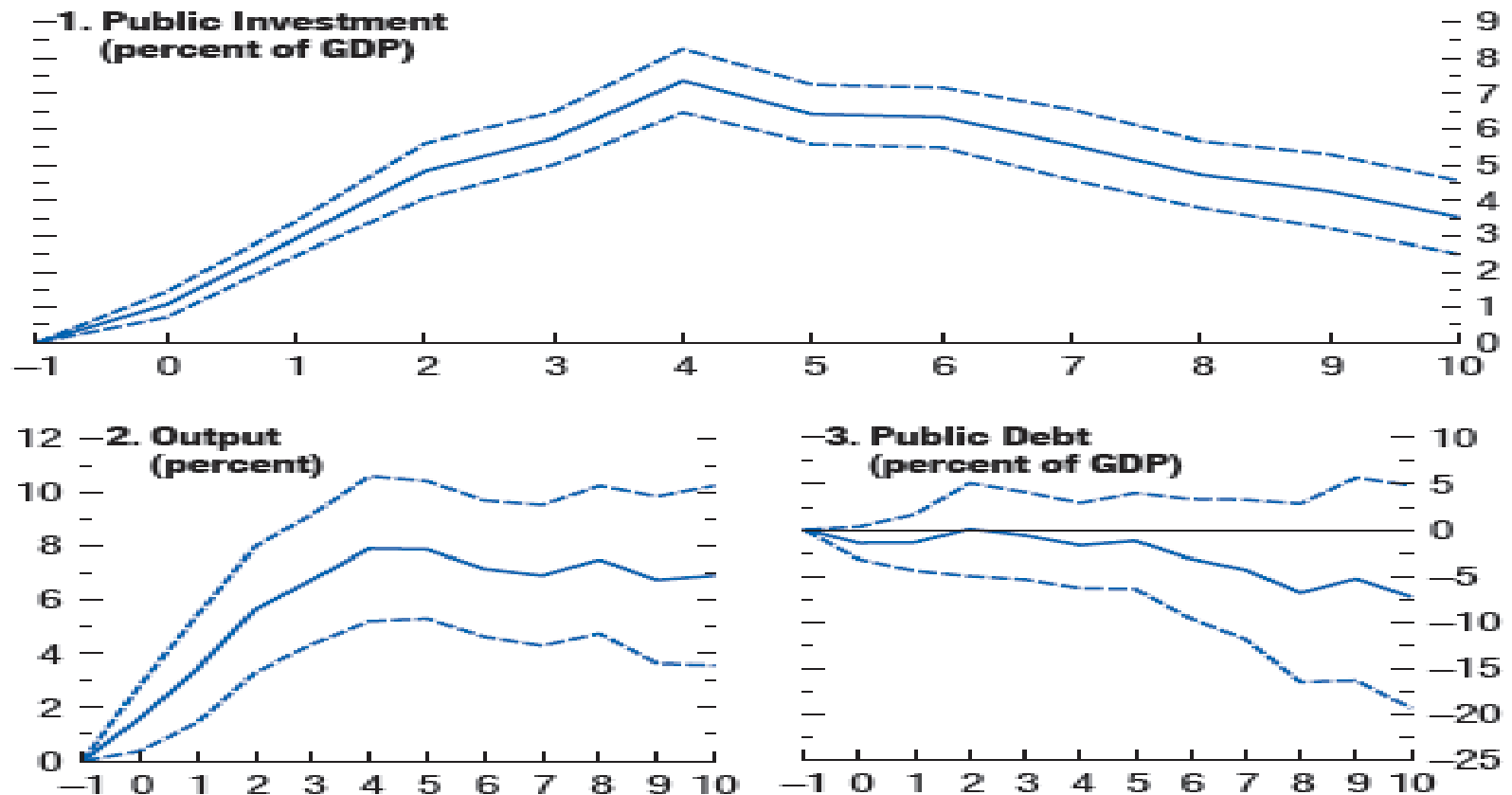
- “few would dispute that better roads and airports, more power grids, and high-speed internet are essential components of modern **public infrastructure**. The current low-interest environment provides an historic opportunity to make these necessary investments—and to boost growth.”
- “Unlike in 2008, we are not calling for broad-based fiscal stimulus today. The basic principle is that **countries with fiscal space should use it**—Canada, Germany, Korea, for example.”

Impact of Infrastructure Spending on Output and Debt-to-GDP in Advanced Economies



Impact of public investment in emerging and developing economies

Public investment booms in emerging market and developing economies are associated with higher output.



Expansive Monetary Policy: Lagarde Speech, September 28, 2016

- “***monetary policy in advanced economies needs to remain expansive at this stage.*** While supporting demand in general, our research also shows that monetary policy could add a further boost to GDP when infrastructure investment is debt-financed. In fact, the impact on GDP would be *almost twice as large* and the debt ratio would fall, compared to the case without monetary support.”
- “Pessimists believe that our traditional tools of monetary and fiscal policy are exhausted, but I beg to differ. In my view, ***there is more policy space – more room to act – than is commonly believed.*** It requires pushing harder on all policy levers and taking more advantage of the synergies between them.”

The Third Prong—Structural Reforms: Lagarde Speech, September 28, 2016

- ***“we need to identify for each country a set of structural reforms that provide the biggest effect on growth and productivity*** relative to the political capital that needs to be spent. For example, breaking down monopolies in the retail sector and professional services has had positive effects on growth, especially during downturns, and we have called for such measures in several advanced economies.”

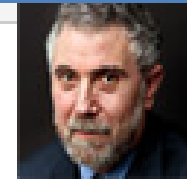
JOBS AND GROWTH

Getting macro policies (monetary and fiscal) right
will also help labor markets

- *“There is sometimes **the naïve belief that unemployment must be due to a defect in the labor market**, as if the hole in a flat tire must always be at the bottom, because that is where the tire is flat” (Solow, 2000).*
- *“It takes a heap of Harberger triangles to fill an Okun's gap.” (Tobin, 1977)*

Getting macro policies right will help labor markets

The Conscience of a Liberal



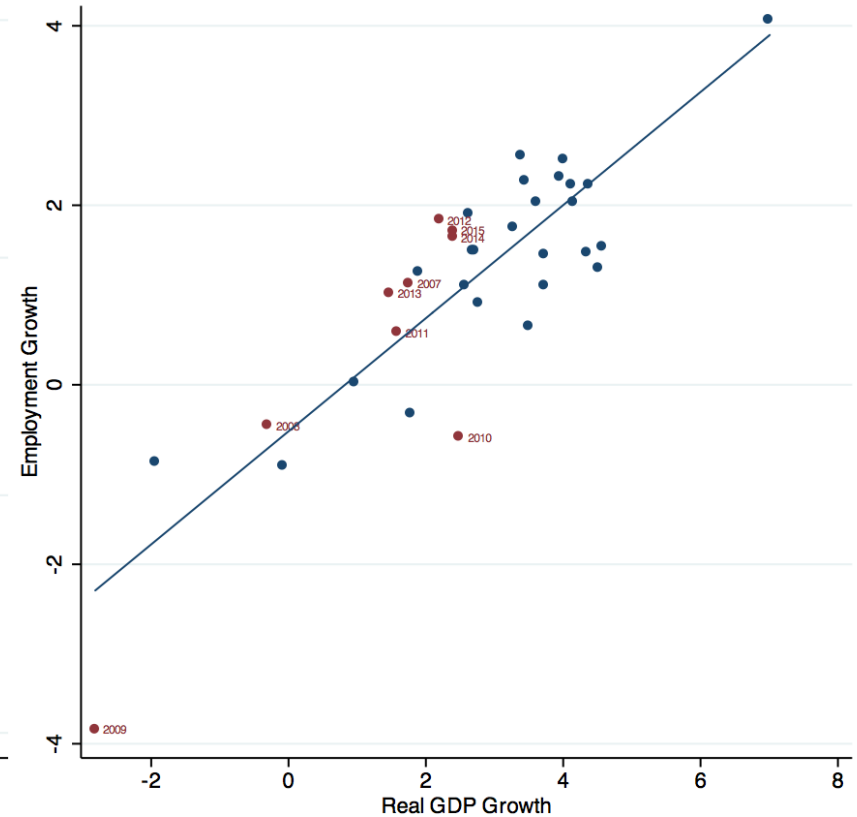
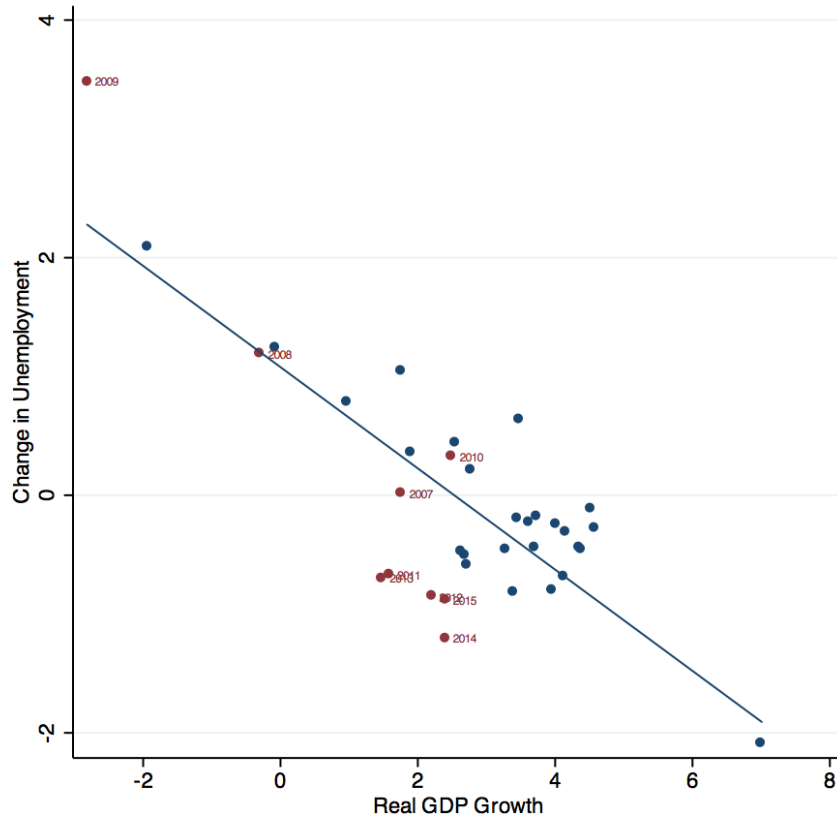
PAUL KRUGMAN

September 14, 2010, 11:08 AM

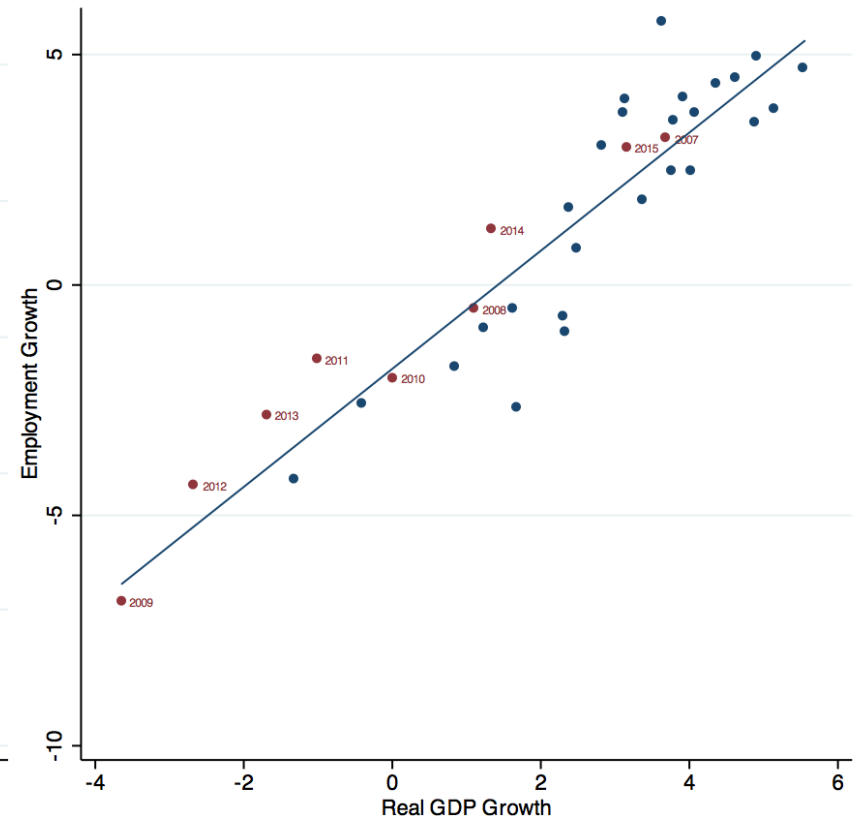
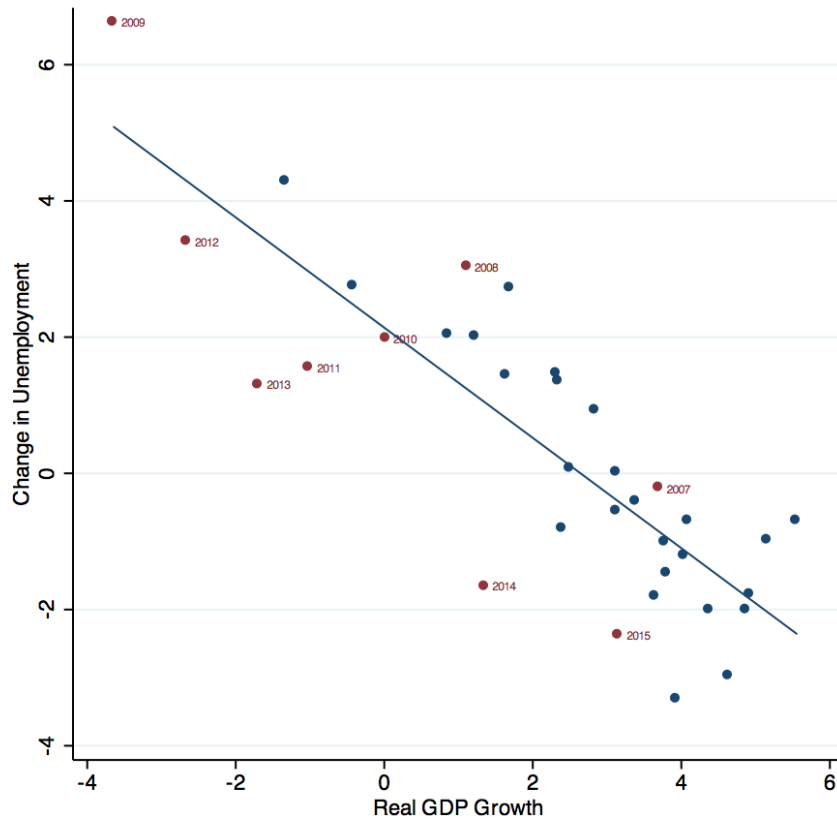
The International Monetary Fund Is Not Insane

That shouldn't be startling; but these days it is. Given the way [conventional madness](#) has overtaken so many international institutions, the IMF's reasonable, if much too cautious, [new paper on employment](#) (pdf) is actually a welcome surprise. "A recovery in aggregate demand is the single best cure for unemployment" — what a relief to see the Fund actually saying that.

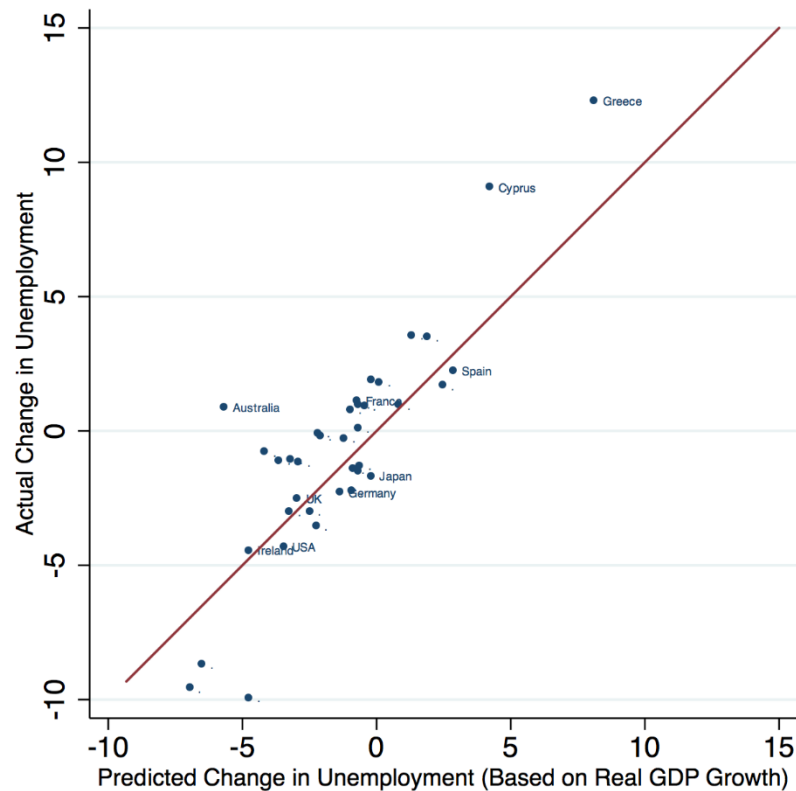
U.S. unemployment & employment growth can be explained by fall in output



Spain's unemployment & employment growth can be explained by fall in output



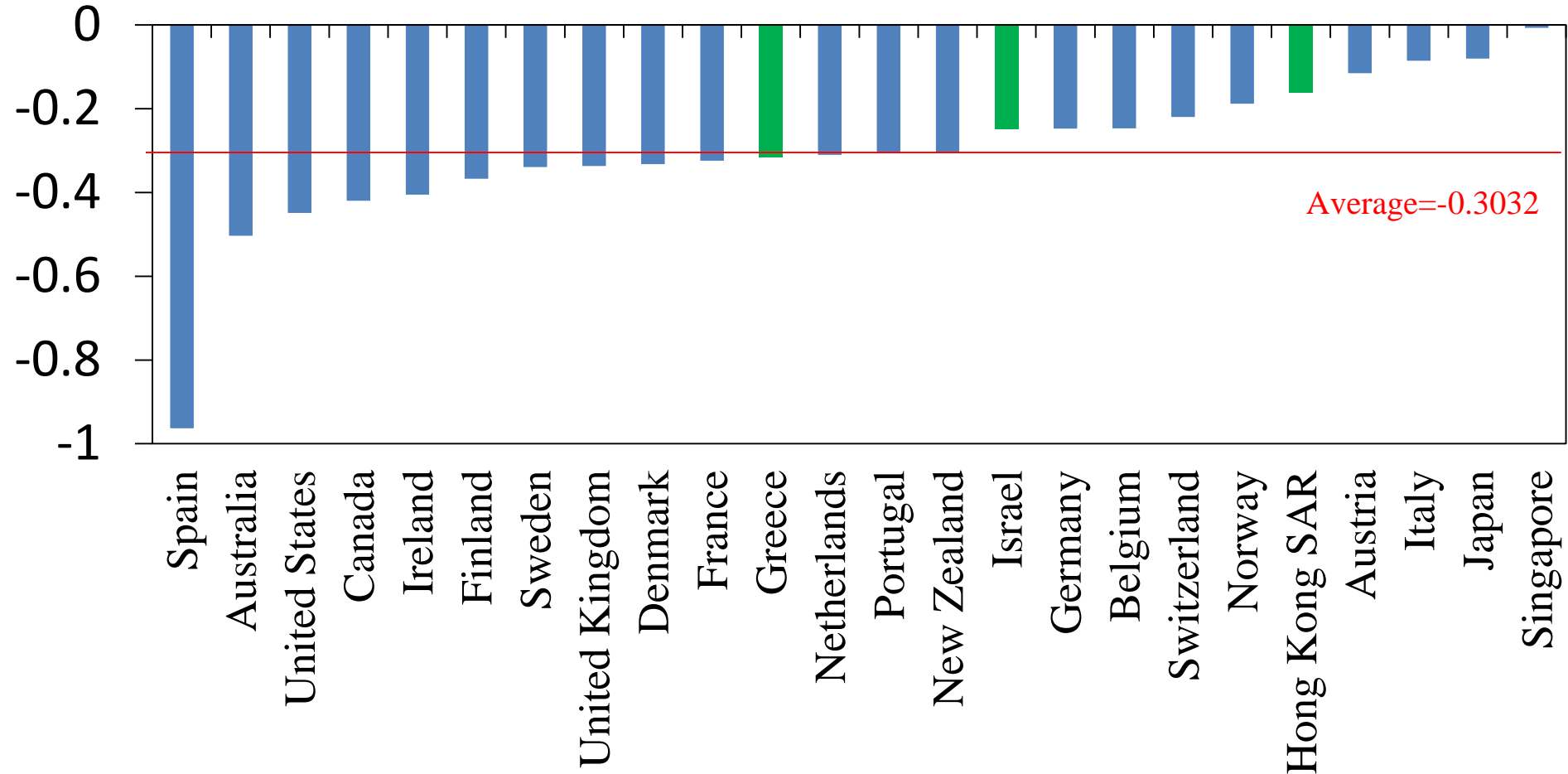
Change in Unemployment vs. Predicted Change Based on Growth



- Chart shows on the vertical axis the actual change in unemployment between 2010 and 2015 in various countries.
- The horizontal axis shows the predicted change in unemployment based on the country's real GDP growth and the country's historical relationship between unemployment and real GDP growth.

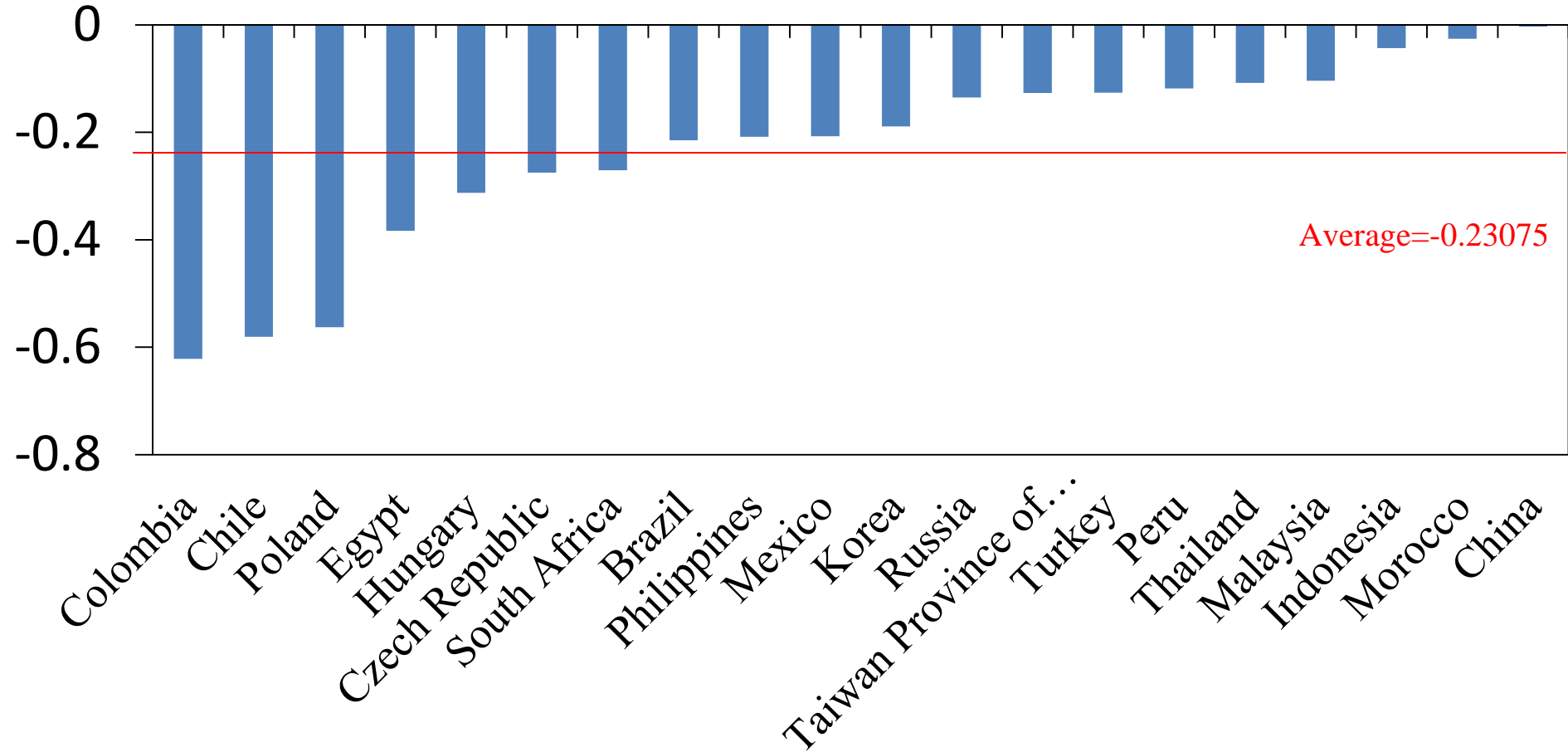
Impact of Growth on Unemployment

Advanced Economies

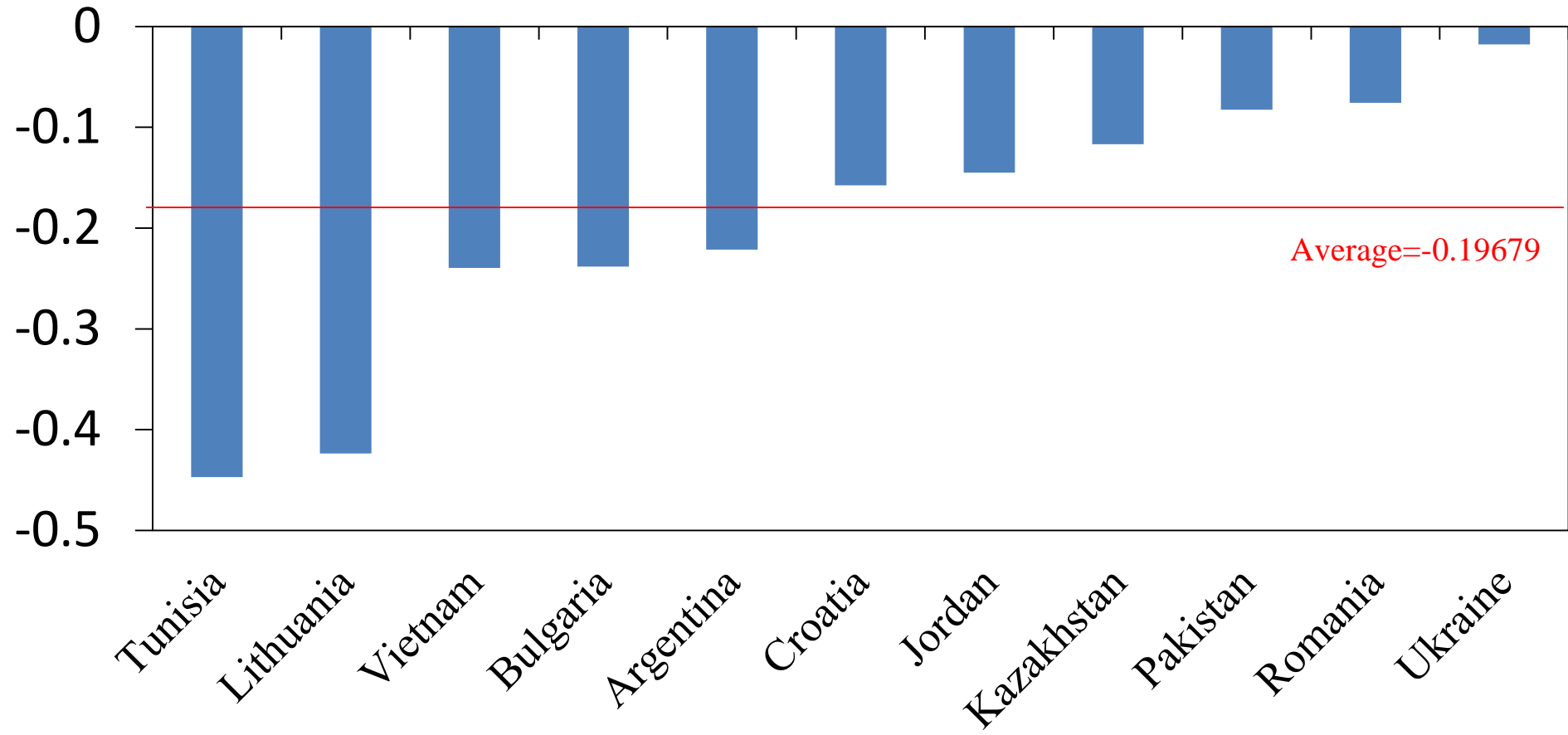


Notes: Ball and others (2013) do not cover Greece, Israel, Hong Kong SAR, and Singapore. These countries are marked with green.

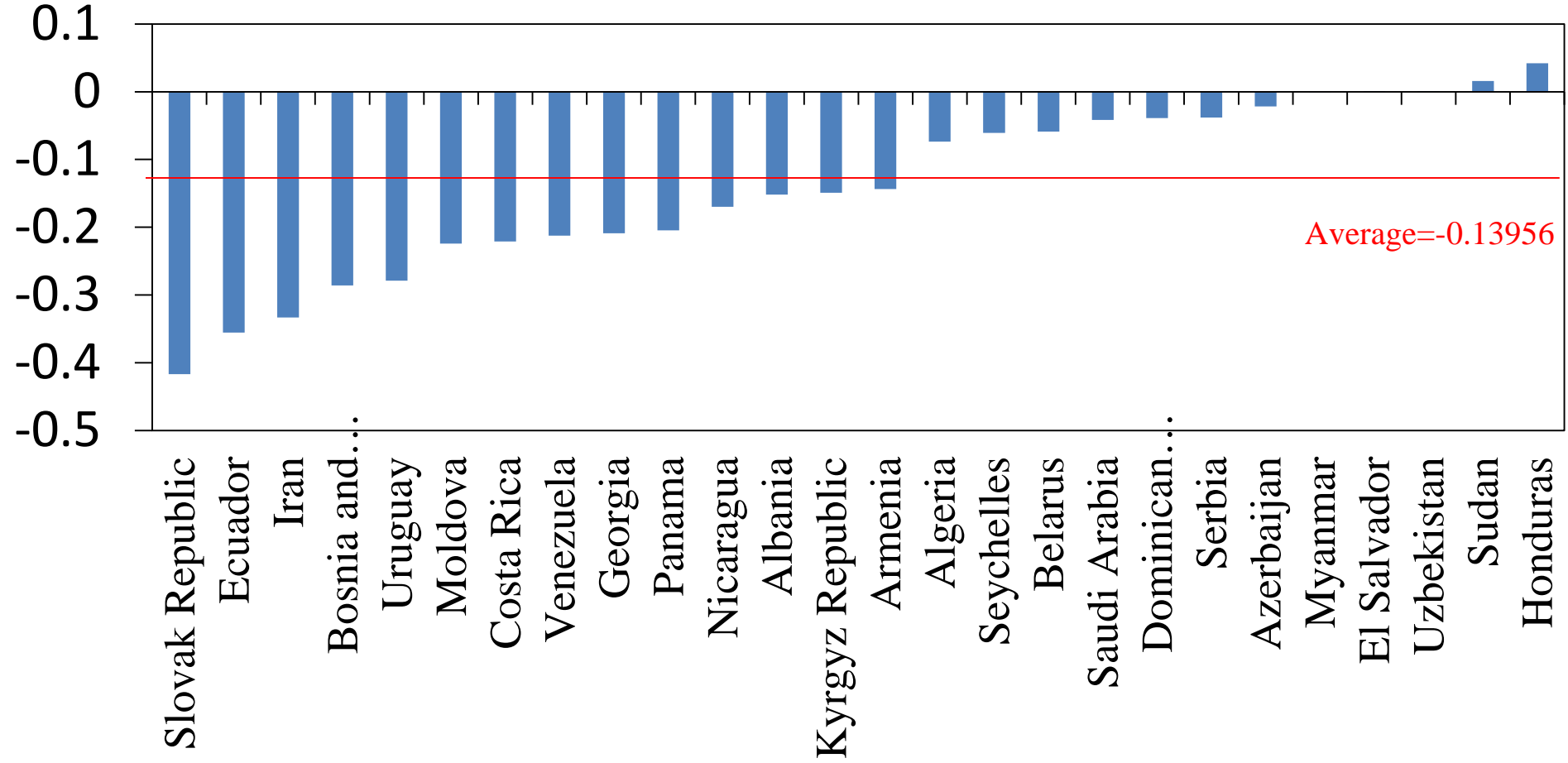
Impact of Growth on Unemployment: Emerging Market Economies



Impact of Growth on Unemployment : Frontier Market Economies



Impact of Growth on Unemployment : Other Developing Economies



Summary

Three-pronged policy approach:

- Fiscal policy
 - Enlist fiscal policy to get growth going
 - This will also be good for equity
 - It will also lower unemployment
- Monetary Policy
 - Still room left
- Structural Policies