The good jobs challenge

By Dani Rodrik

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Every economy in the world today is divided between an advanced segment, typically globally integrated, employing a minority of the labor force, and a low-productivity segment that absorbs the bulk of the workforce, often at low wages and under poor conditions. How should policymakers address this dualism?

Around the world today, the central challenge for achieving inclusive economic prosperity is the creation of sufficient numbers of "good jobs." Without productive and dependable employment for the vast majority of a country's workforce, economic growth either remains elusive, or its benefits end up concentrated among a tiny minority. The scarcity of good jobs also undermines trust in political elites, adding fuel to the authoritarian, nativist backlash affecting many countries today.

The definition of a good job obviously depends on a country's level of economic development. It is typically a stable formal-sector position that comes with core labor protections such as safe working conditions, collective bargaining rights, and regulations against arbitrary dismissal. It enables at least a middle-class lifestyle, by that country's standards, with enough income for housing, food, transportation, education, and other family expenses, as well as some saving.

There is much that individual enterprises all over the world can do to improve employment conditions. Large firms that treat their employees better – by providing them with higher pay, more autonomy, and greater responsibility – often reap benefits in the form of lower turnover, better worker morale, and higher productivity. As MIT's Zeynep Ton has long argued, "good jobs" strategies can be as profitable to firms as they are to workers.

But the deeper problem is a structural one that goes beyond what firms can do on their own. Developed and developing countries alike are suffering today from a growing mismatch between the structure of production and the structure of the labor force. Production is becoming increasingly skill-intensive while the bulk of the labor force remains low-skilled. This generates a gap between the types of jobs that are created and the types of workers the country has.

Technology and globalization have conspired to widen that gap, with manufacturing and services becoming increasingly automated and digitized. While new technologies could have benefited low-skilled workers in principle, in practice technological progress has been largely labor-replacing. In addition, global trade and investment flows, and global value chains in particular, have homogenized production techniques around the world, making it very difficult for poorer countries to compete in world markets without adopting skill- and capital-intensive techniques similar to those of the advanced economies.

The result is the intensification of economic dualism. Every economy in the world today is divided between an advanced segment, typically globally integrated, employing a minority of the labor force, and a low-productivity segment that absorbs the bulk of the workforce, often at low wages and under poor conditions. The shares of the two segments may differ: developed countries obviously have a greater preponderance of highly productive firms. But, qualitatively, the picture looks quite similar in rich and poor countries – and produces the same patterns of inequality, exclusion, and political polarization.

Logically, there are only three ways to reduce the mismatch between the structure of productive sectors and that of the workforce. The first strategy, and the one that receives the bulk of policy attention, is investment in skills and training. If most workers acquire the skills and capabilities required by advanced technologies, dualism would eventually dissipate as high-productivity sectors expand at the expense of the rest.

Such human capital policies are of course important, but even when they are successful, their effects will be felt in the future. They do little to address labor-market realities at present. It is simply not possible to transform the labor force overnight. Besides, there is always the real risk that technology will advance faster than society's ability to educate its labor-force entrants.

A second strategy is to convince successful firms to employ more unskilled workers. In countries where the skill gaps are not enormous, governments can (and should) nudge their successful firms to increase employment – either directly or through their local suppliers. Governments in developed countries also have a role to play in affecting the nature of technological innovation. Too often, they subsidize labor-replacing, capital-intensive technologies, rather than pushing innovation in socially more beneficial directions, to augment rather than replace less skilled workers.

Such policies are unlikely to make much difference to developing countries. For them, the main obstacle will remain that existing technologies allow insufficient room for factor substitution: using less-skilled labor instead of skilled professionals or physical capital. The demanding quality standards needed to supply global value chains cannot be easily met by replacing machines with manual labor. This is why globally integrated production in even the most labor-abundant countries, such as India or Ethiopia, relies on relatively capital-intensive methods.

This leaves a broad range of developing economies – from middle-income countries such as Mexico and South Africa to low-income countries such as Ethiopia – in a conundrum. The standard remedy of improving educational institutions does not yield near-term benefits, while the economy's most advanced sectors are unable to absorb the excess supply of low-skilled workers.

Solving this problem may require a third strategy, which is perhaps the one that gets the least attention: boosting an intermediate range of labor-intensive, low-skilled economic activities. Tourism and non-traditional agriculture are the prime examples of such labor-absorbing sectors. Public employment (in construction and service delivery), long scorned by development experts, is another area that may require attention. But government efforts can go much further.

Such intermediate activities, chiefly non-tradable services carried out by small and medium-size enterprises, will not be among the most productive, which is why they are rarely the focus of industrial or innovation policies. But they may still provide significantly better jobs than the alternatives in the informal sector.

Government policy in developed and developing countries alike is too often preoccupied with boosting the most advanced technologies and promoting the most productive firms. But failure to generate good, middle-class jobs has very high social and political costs. Reducing those costs requires a different focus, geared specifically toward the kind of jobs that are aligned with an economy's prevailing skill composition.

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