

Clarifying the jobs challenge

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This *Policy Note* clarifies the jobs challenge and its implications for policy based on Paqueo et al. (2014). Defining clearly the jobs challenge illuminates the issue much more clearly and highlights the weakness of viewing it as simply a problem of lack of job opportunities. The *Note* argues that the jobs challenge extends beyond those who are currently unemployed. It should include those who are currently employed but are earning below subsistence. These workers require much more than just having and keeping their jobs. Finally, there are those who are earning beyond subsistence but for whatever reason still want to work more hours.

What is the jobs challenge?

The jobs challenge is not simply the lack of job opportunities. A more nuanced view is the inability of the common person to earn a decent living through productive employment or self-employment. Viewing the issue as such

reveals the other dimensions of the lack of job opportunities issue. The most commonly acknowledged part of the jobs issue is the currently unemployed. It can be argued that there are two other less acknowledged components, namely, those who are underemployed and those who are fully employed but earning below subsistence.¹

The unemployed is not homogenous. Contrary to common perception, the unemployed is not composed only of the poor; a large proportion are nonpoor workers. For the nonpoor, unemployment is a conscious choice to invest time and money to find the right job. The right kind of jobs depends on ambitions, skills, and temperament. Viewed this way, what matters for the unemployed nonpoor is

¹ We define subsistence as the food poverty threshold.

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providing information and appropriate skills to facilitate matching them to the right kind of jobs.

For the poor, however, jobs are about survival. They usually have no other sources of income besides their labor. Unlike the nonpoor, the poor cannot afford to be unemployed for long periods. Given their low levels of education, it should not be surprising that if they are employed, they are employed in low-paying jobs. This highlights the other dimension of the jobs challenge—employment in low-productivity jobs. To the poor, what matters is not only having a job but also earning more from the time spent on work. This argument has led economists, e.g., De Dios and Dinglasan (2014), to question the claim that solving the unemployment problem would resolve the issue of poverty. Giving them low-productivity employment will provide jobs but will not lift them out of poverty. Increasing their productivity constitutes a key component of providing sufficient income for the poor. Besides low level of education, there are many reasons why the poor are underproductive. Banerjee and Duflo (2007) even emphasized that for the poor, in most

cases, it is more difficult to find a job than to start a “business”.

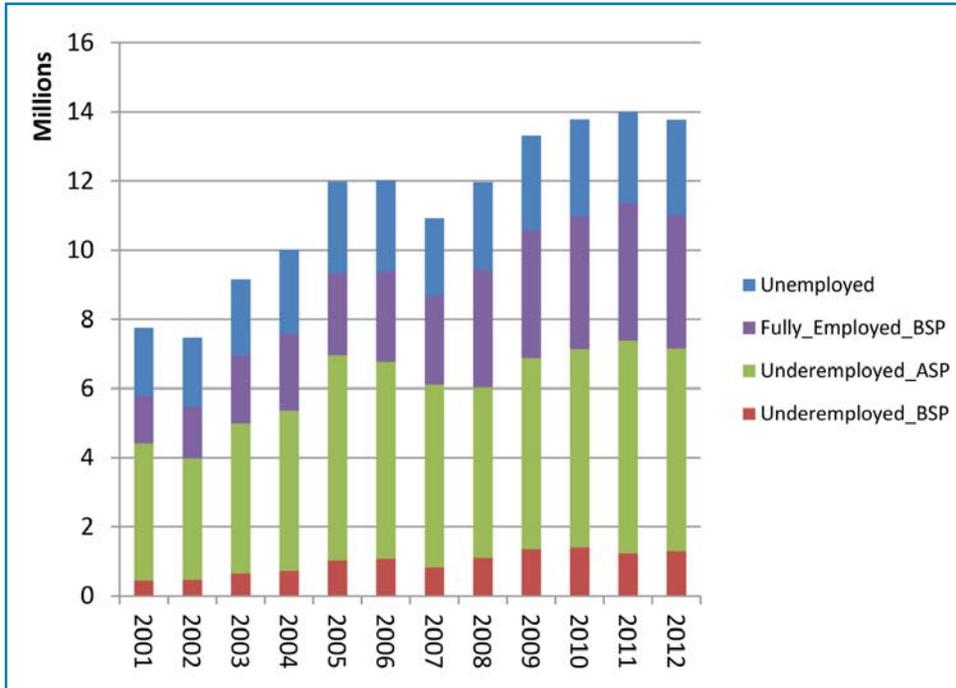
The jobs challenge then does not only pertain to the unemployed but also to the underemployed and the fully employed who are earning below subsistence. The workers under these conditions are labelled “underproductive” workers. This view of the jobs challenge explains why the 12-point jobs expansion and development initiative (JEDI) described in Paqueo et al. (2014) has two main objectives, namely: (a) to expand gainful jobs through the acceleration of labor-intensive production, particularly manufacturing of tradeable commodities, and (b) to improve investments in education and other human capital development.

How large is the jobs challenge?

Given the foregoing definition of the jobs challenge, the next logical question to ask is how large is the jobs challenge? Figures 1, 2, and 3 show the jobs challenge in different ways. Figure 1 shows it in terms of number of persons affected. This provides a measure of how many jobs we need to create and/or improve to eradicate underproductive workers.

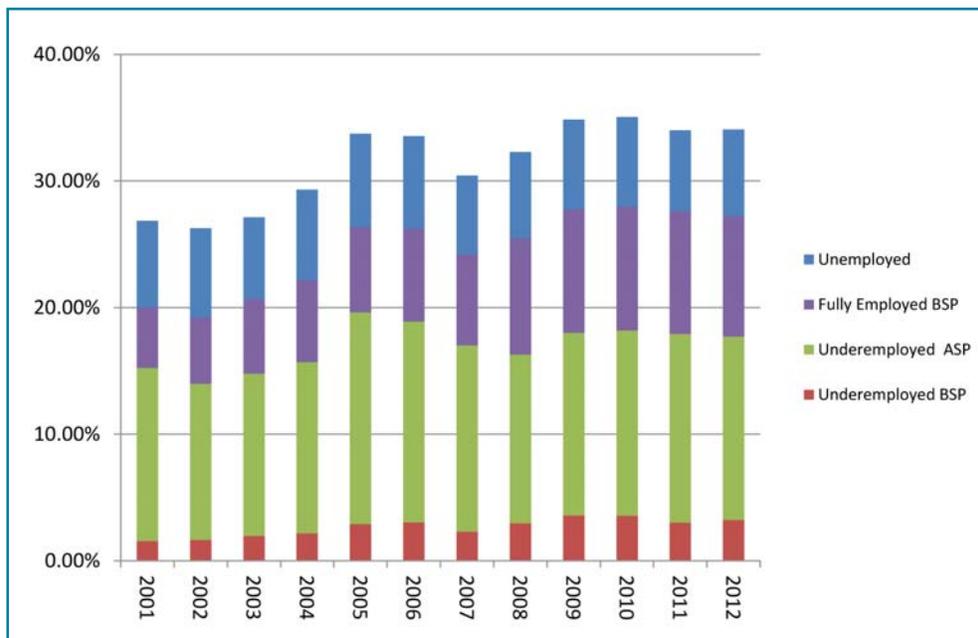
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Figure 1. Number of underproductive workers



BSP - below subsistence productivity; ASP - above subsistence productivity
 Source: Authors' estimates using Labor Force Survey (LFS) data, October series

Figure 2. Underproductive workers as a percent of the labor force

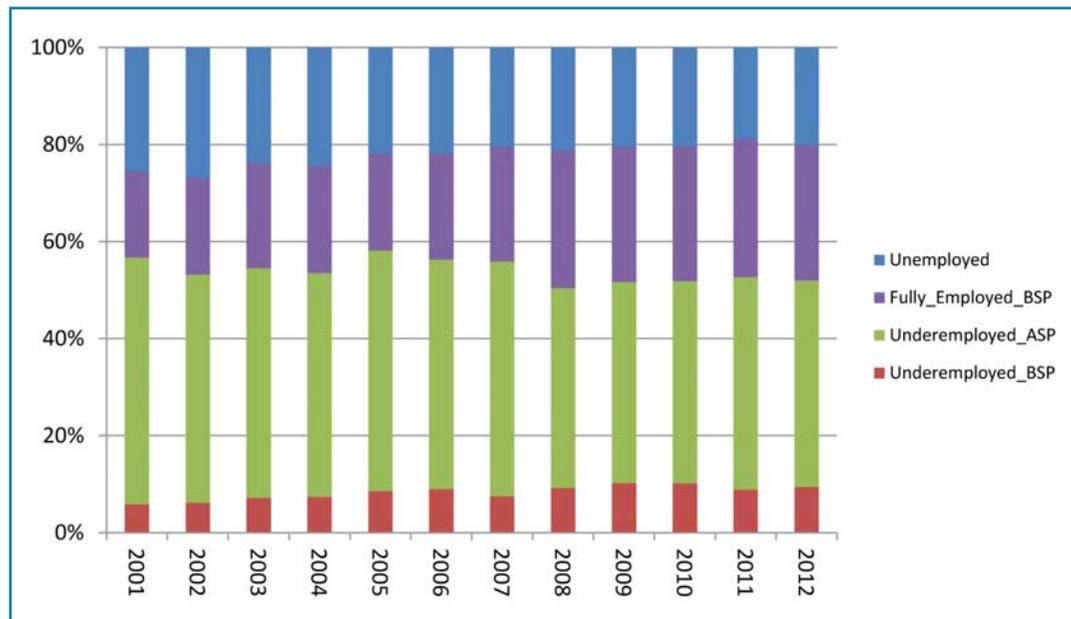


BSP - below subsistence productivity; ASP - above subsistence productivity
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This number of underproductive workers increased to 13.8 million in 2012 from 7.8 in 2001 (Table 1). The figure also shows that the number of underproductive workers has been steadily rising since 2001. Figure 2 shows the jobs challenge as a proportion of the labor

force. This will give us the size of the underproductive workers relative to the size of the labor force. The figure shows it had exceeded one-third of the labor force in recent years from about a quarter in 2001—an indication that the problem is not abating.

Figure 3. Distribution of underproductive workers



BSP - below subsistence productivity; ASP - above subsistence productivity
Source: Authors' estimates using LFS data, October series

Table1. Summary of values, percentage distribution of underproductive labor

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Unemployed	1,978,346 25%	2,013,236 27%	2,183,486 24%	2,443,069 24%	2,618,769 22%	2,619,773 22%	2,245,542 21%	2,525,296 21%	2,719,449 20%	2,798,639 20%	2,643,447 19%	2,763,347 20%
Underemployed BSP	450,269 6%	462,415 6%	658,109 7%	735,796 7%	1,024,902 9%	1,079,471 9%	818,252 7%	1,099,280 9%	1,362,121 10%	1,398,097 10%	1,236,151 9%	1,302,085 9%
Underemployed ASP	3,952,089 51%	3,515,316 47%	4,331,363 47%	4,627,904 46%	5,937,492 50%	5,682,513 47%	5,290,971 48%	4,929,344 41%	5,513,440 41%	5,743,202 42%	6,144,796 44%	5,858,258 43%
Fully employed BSP	1,379,869 18%	1,479,999 20%	1,976,130 22%	2,215,251 22%	2,390,729 20%	2,631,869 22%	2,570,719 24%	3,409,936 29%	3,716,232 28%	3,834,197 28%	3,979,706 28%	3,848,980 28%
Total	7,760,573	7,470,966	9,149,088	10,022,020	11,971,892	12,013,626	10,925,484	11,963,856	13,311,242	13,774,135	14,004,099	13,772,669

Source: Author's estimates using LFS data, October series

Finally, Figure 3 presents the distribution of the underproductive workers in percentage terms. This gives us the relative magnitude of the different types of underproductive workers. The graph clearly shows that the openly unemployed is only a small proportion—around 20 percent—of the underproductive workers. The biggest groups include the underemployed earning above subsistence and the fully employed earning below subsistence. The smallest group consists of the underemployed earning below subsistence.

It is important to highlight that there is a large proportion that need not only jobs but also an increase in productivity: those who are (a) underemployed and earning below subsistence, and (b) fully employed and earning below subsistence. In 2010, they constitute more than 38 percent of the underproductive workers.

What are the implications?

From this characterization of the jobs challenge, several implications can be drawn.

1. Those who are openly unemployed are only a small part of the challenge.
2. Those employed but earning below subsistence is a considerable proportion of the jobs challenge.
3. There are still those who are already employed and earning above subsistence but still want to work more hours.

For group one, the appropriate solution would be to provide jobs. Labor policies that deter

Labor policies that deter creation of more jobs need to be re-examined. Paqueo et al. (2014), for instance, have shown the preponderance of evidence that minimum wage has deleterious impact on employment particularly of the disadvantaged groups (young, less educated, and women workers) and also on household income and poverty. The unintended impact of other labor regulations needs to be re-examined as well.

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The government has always been financing training to improve the chances of workers to land into remunerative employment and facilitate shifting to better jobs. A combination of firm, worker, and government financing will be needed to push this type of training.

What group two needs are human capital investments to increase productivity. Since they have jobs, on-the-job training is clearly a good alternative. On-the-job training is known to be the most effective way of training. The real problem with on-the-job training is how it will be financed. Firms are not willing to fully finance the training themselves because trained workers will clearly be subject to poaching by their competitors. Workers earning below subsistence will clearly not have resources to pay for it. There are sound economic reasons for jointly financing this type of training. The firm will clearly benefit from more productive workers. The workers will benefit from better earnings prospects. The government has always been financing training to improve the

chances of workers to land into remunerative employment and facilitate shifting to better jobs. A combination of firm, worker, and government financing will be needed to push this type of training.

Group three may sound not too much of a concern because they are earning above subsistence. Nonetheless, attention should be paid because they are still underproductive and want to work more for whatever reason. They represent still a portion of the workers that can contribute to the total output of the economy. 📄

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