Jobs and Skills in the new Global Economy: Asian Development Bank Annual Conference

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The one constant is change

- Predicting technology is extraordinarily hard so we (& gov) must be modest (cf. 2008 crisis)
- “How do you make God laugh?”
  - Tell [him/her/them ] your plans”
- Implication for policy of this certain uncertainty. Need the new “3R’s”
  - Resilience
  - Responsiveness
  - Righteous
The Three R’s for Policy makers

1. Resilience
2. Responsive
3. Righteous
1. Resilience

- Best form of resilience is to equip people with general human capital (not too specific)
  - Basics of literacy & numeracy
  - As emerge, increasingly tertiary
- Strong evidence for SBTC
- Managerial skills matter (account for 1/3 of TFP differences across countries)
- Asia a success story
Amazing progress of human capital in Asia.

<table>
<thead>
<tr>
<th>% of those finishing secondary (5 yr window) in tertiary</th>
<th>1971</th>
<th>1991</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>0.05</td>
<td>2.9</td>
<td>26.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2.7</td>
<td>8.2 (1990)</td>
<td>23.1</td>
</tr>
<tr>
<td>India</td>
<td>4.9</td>
<td>6.0</td>
<td>17.9</td>
</tr>
<tr>
<td>Japan</td>
<td>17.6</td>
<td>30.0</td>
<td>59.7</td>
</tr>
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Amazing growth of tertiary education in Asia

China

Indonesia

India
2. Responsive

- Three causes of growth:
  - New Ideas [high level ed]
  - Adaption [lower level ed]
  - Creative destruction/reallocation
    - Not well appreciated
    - India could have 50% higher income if reallocation was as swift as in US
    - Encourage entry, growth of small, don’t over-protect incumbents from competition
    - Reduce entry barriers (e.g. licensing), trade, competition, FDI, heavy labour regulations
3. Righteous: Growth with equity

• Growth of Asia has reduced global inequality as millions lifted out of poverty, but within most countries inequality has grown
• Best by increasing human capital (esp poor)
• Also need social insurance in health, pensions, joblessness
• Designed to help facilitate change (ALMP)
• Careful with over-protection of incumbents (e.g. firing costs, v. high min wages, etc.)
Conclusions

• Main feature of dynamic economy is change & unpredictability: much of this driven by tech
  – Don’t over-estimate information/capacity of gov

• Need to have policies & skills to enable people to thrive in such an environment – resilience, responsiveness & righteous

• General human capital is key to all of these

• Policies need a balance
Back up & further reading

• Management work
  [http://worldmanagementsurvey.org/](http://worldmanagementsurvey.org/)

• Inequality & technology

• [http://cep.lse.ac.uk/pubs/download/occasional/op028.pdf](http://cep.lse.ac.uk/pubs/download/occasional/op028.pdf)
Appendix I: Inequality & inexorable rise in skill demand

• Demand for skills has been rising throughout the world

• Supply of educated increased but relative wages/inequality has not systematically fallen & world
  – In most countries inequality has risen
Why has skill demand risen?

- Wage inequality could be due to institutions
  - Trade unions, minimum wages & regulations so matter (e.g. UK union decline)
  - But increase in proportion of wages bill to skills across whole world with very different institutions

- Trade matters, but less than you think
  - Correlation of openness to trade is weak
  - Basic theory suggests inequality rises in OECD but falls in emerging economies. Latter unclear

- Skill biased technical change the main reason
  - Educated better at coping with uncertainty
Nuance: Task biased technical change

• In last ~15-30 years better description of OECE labour markets is polarization. Middle squeezed by bottom 1/3 as well as top 1/3
• Also related to changing nature of technology replacing routinized non-manual tasks
Appendix II: The Importance of managerial skill

• Recently much better data collected on managerial skill across countries
• Closely related to productivity (e.g. can account for half of the US-India TFP difference)
• All countries have a “long tail” of badly managed firms, but in some countries (e.g. India, China) much longer than others (US, Japan)
• Competition important for reducing long tail
Productivity across nations: managerial skill

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Factors to improve management skill

• Product market competition (esp free trade)
• Human capital
• Family-run firms
• Flexible labour markets
• Foreign Direct Investment
China CHN School enrollment, tertiary (% gross) SE.TER.ENRR
Indonesia IDN School enrollment, tertiary (% gross) SE.TER.ENRR
India IND School enrollment, tertiary (% gross) SE.TER.ENRR