

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

John Van Reenen  
Director, Centre for Economic Performance  
Professor of Economics, LSE

Delhi, May 2<sup>nd</sup> 2013

# 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

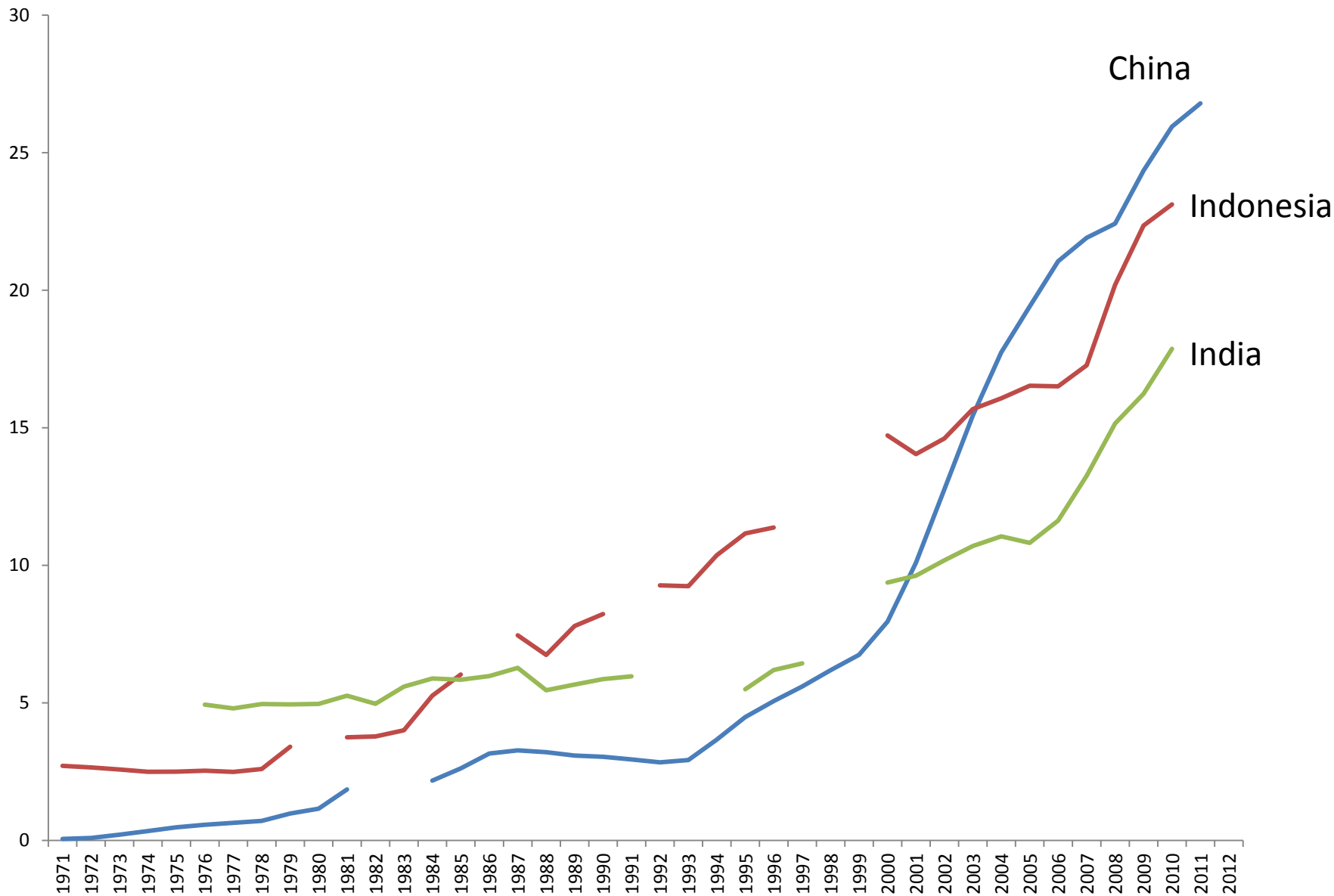
- Best form of resilience is to equip people with general human capital (not too specific)
  - Basics of literacy & numeracy
  - As emerge, increasingly tertiary
- Strong evidence for SBTC
- Managerial skills matter (account for 1/3 of TFP differences across countries)
- Asia a success story

# Amazing progress of human capital in Asia.

<b>% of those finishing secondary (5 yr window) in tertiary</b>	<b>1971</b>	<b>1991</b>	<b>2010</b>
<b>China</b>	0.05	2.9	26.0
<b>Indonesia</b>	2.7	8.2 (1990)	23.1
<b>India</b>	4.9	6.0	17.9
<b>Japan</b>	17.6	30.0	59.7

Source: World Bank, SE.TER.ENRR, <http://data.worldbank.org/indicator/SE.TER.ENRR>

# Amazing growth of tertiary education in Asia



## 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/>
- Inequality & technology
- <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 OECD 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

- 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

# Factors to improve management skill

- Product market competition (esp free trade)
- Human capital
- Family-run firms
- Flexible labour markets
- Foreign Direct Investment



