

Seminar Summary

“Job Creation in the Western Hemisphere: Reviewing Best Practices and Setting a Policy Agenda”

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Introduction

Host government Argentina has chosen "Creating Jobs to Fight Poverty and Strengthen Democratic Governance" as the theme for November 2005 Summit of the Americas. To stimulate thinking on this theme, the U.S. Department of State hosted the seminar, "Job Creation in the Western Hemisphere: Reviewing Best Practices and Setting a Policy Agenda." The following is a speaker-by-speaker summary of the seminar.

Welcoming Remarks

Ambassador Roger Noriega, Assistant Secretary for Western Hemisphere Affairs, U.S. Department of State, noted some of the key elements in job creation: good macroeconomic and trade policies; creating the right business climate and labor market conditions; building a long-term focus on education and worker rights; promoting social safety nets and entrepreneurship; and stamping out corruption and other social ills. In addition, Ambassador Noriega asked seminar participants to begin considering the following questions: 1) Where should governments start? 2) What are the basic elements necessary to create good jobs? 3) What are we doing that works well?, and 4) What are the specific, tangible goals leaders should commit to do next November?

Overview of Job Creation in the Western Hemisphere

Dr. William Maloney, Lead Economist at the World Bank for Latin America and the Caribbean, examined four issues in job creation: 1) deficiencies in formal sector employment growth; 2) the challenges of increasing productivity growth, particularly through technological progress; 3) integrating labor protection policies; and 4) the role of micro-enterprises. In examining formal sector job creation, Dr. Maloney noted that the best way to reduce informality over the long term is to increase productivity in the formal sector. Second, Dr. Maloney noted that half of growth is due to technological progress. He added that Latin America is below the trend in creating and adopting new technologies. In explaining this phenomenon, Dr. Maloney stated that much of Latin America suffers from low-quality education systems, and that a large proportion of university studies focus on liberal arts rather than on science or engineering. Third, Dr. Maloney examined the unintended effects of labor protection policies. Dr. Maloney cited the example of government health insurance, which serves as an indirect subsidy to informality, because workers have fewer incentives to stay with formal firms. Instead, some of these workers may choose to start their own business. This leads to Dr. Maloney's fourth point: micro-enterprises often increase worker income. However, micro-enterprises do not create many new jobs, because, unlike small and medium-sized enterprises (SMEs), these businesses generally do not expand beyond the family.

Panel I: Success Stories in Job Creation

Mr. Ben Fairfax, Director, INR Office of Economic Analysis, U.S. Department of State, moderated the first panel. Mr. Fairfax emphasized that there is no magic bullet for job creation. However, he noted that experiences in North America, Central America, the Caribbean, and South America help participants gain a better grasp of the issues facing the region.

North America: Dr. Donald Parsons, Professor and Chair of Department of Economics at The George Washington University told a cautionary tale regarding U.S. success. Over the past 50 years,

the United States economy has created over 85 million jobs and maintained unemployment rates of between five and ten per cent. He pointed to several key practices in explaining the U.S. record of success: relative absence of civil strife; flexible capital and labor markets; moderate tax burdens; and reasonable access to educational opportunities. Dr. Parsons cautioned, however, that the United States has benefited, in part, from a "happy accident" that may not easily translate to other societies. In highly unequal societies, envy often takes precedence over greed, and economies may become trapped in a "low growth, high envy equilibrium" that constrains creation of new jobs. To break out of this equilibrium, Dr. Parsons recommended that governments limit intrusions into the market, invest in health and education, effectively communicate government policies to the public, and discourage discrimination—that is, create the conditions necessary to "get lucky."

Central America: Dr. Isaac Cohen, Chairman and CEO of Inverway, LLC, argued that greater openness in trade and investment would lead to job creation. Dr. Cohen stressed the importance of maintaining an attractive climate for investment, citing previous job creation experiences during the import substitution and maquila eras. Employment in the maquilas, largely thanks to FDI, doubled from almost 250,000 people in 1996 to 500,000 in 2002. Unfortunately, Central America has not enjoyed the success of East Asia in creating domestic linkages to the maquilas. Although some complain of low maquila salaries, Dr. Cohen suggested that the relevant trade-off is not "low-wage vs. high-wage job," but rather "low-wage job vs. no job." Dr. Cohen attributed the 1996 decision of Intel to set up a \$300 million computer chip plant in Costa Rica, in part, to the fact that Costa Rica had introduced computers in its education system 15 years ago, and therefore had a computer literate labor force.

Caribbean: Dr. Ralph Henry, Consultant for KAIRI Consultants, stressed the unique circumstances in small developing island-states. Dr. Henry noted that much of the Caribbean suffers from lack of diversification, vulnerability to trade shocks, and stickiness in wages. Dr. Henry highlighted Barbados as a success story in the Caribbean, primarily for its focus on tertiary education and training. Dr. Henry added that the citizens of Barbados must participate in training programs in order to receive unemployment insurance, which helps improve human resource development. For other countries in the Caribbean, Henry suggested that diversification and strengthening of tradable sectors are the keys to sustainable employment creation in the 21st century. Dr. Henry talked about the need for better skills, not lower wages, in order to compete with China. In response to a question on remittances, he suggested that Haitians living abroad should consider opportunities for long-term investment in Haiti.

South America: Dr. Roberto Abusada, Consultant for LatinSource, focused on the high correlation between job creation and growth in the 1990s. He argued that sustained growth, particularly if driven by productivity growth, is the single most important factor in creating new jobs. Dr. Abusada stated that integration into the world economy is a key element in generating productivity growth. As an example, Dr. Abusada explained how Peru benefited from a globally competitive textile sector. Dr. Abusada argued for the need for private investment in infrastructure, and noted the differences over the last ten years between Peru and Chile. Dr. Abusada also stressed the need to reform employment protection systems in South America. He called on governments to reduce excessive benefits for some privileged groups in order to expand benefits across a broader segment of the population.

Keynote: Job Creation and the 2005 Summit of the Americas

Introduction: Ambassador John Maisto, National Summit Coordinator at the U.S. Department of State, gave a brief background of how the Summit process addressed the challenge of job creation at Miami (1994), Santiago (1998), Quebec City (2001) and the Special Summit in Nuevo Leon (2004). Ambassador Maisto stressed that the task ahead is to "find concrete solutions to more and higher-quality employment."

Keynote Address: Ambassador Jorge Taiana, Argentine Secretary of Foreign Affairs and Chairman of the Summit process, outlined Argentine plans for the 2005 Summit of the Americas. Ambassador Taiana explained that employment, poverty, and democratic governance are directly inter-related and represent some of the key concerns confronting our hemisphere. He added that decent work is the most effective instrument to ensure human and material progress. In order to promote decent work, Ambassador Taiana suggested that governments take action in areas such as rule of law, trade, and international financial matters. At the same time, he stressed the need for governments to integrate macroeconomic policies into job creation, promote linkages to increase private investment, promote SMEs, reorient unemployment benefit policies, and promote training and skills. Ambassador Taiana emphasized the need for “novel, achievable, and transformative” Summit proposals.

Panel II: Policy Recommendations on Job Creation

Mr. Arnold Levine, Deputy Under Secretary for International Labor Affairs at the U.S. Department of Labor, moderated the second panel. Mr. Levine explained that the Department of Labor has adopted the theme "The Power of E Cubed: Employment, Education, and Economic Development", as a formula for economic growth. He suggested that a key question for policy makers is how best to balance the need for protections - protections for entrepreneurs, for investors, for workers, and for private citizens - with the need for adaptability and openness in our product, capital, and labor markets. He also noted the importance of job turnover in a vibrant economy. In the United States, job turnover is very high: in a labor force of approximately 150 million, about 50 million people change jobs every year.

Promoting SME Development: Dr. Jurgen Weller, Economic Affairs Officer at the Economic Commission for Latin America and the Caribbean, provided an overview on SMEs in the region. He cited access to credit and technology as important factors for SME success. Dr. Weller stated that SME promotion programs are appropriate where market failures hinder their development. Dr. Weller called for public and private sector financing of SME development programs, and regular evaluations of SME promotion program effectiveness. Dr. Weller highlighted the role of entrepreneurial linkages and clusters to find common interests, share technology, attract investment, and create more jobs.

Labor Policy Reforms and Labor Ministry Strengthening: Dr. Gustavo Marquez, Principal Labor Advisor at the Inter-American Development Bank, stated that unemployment, job instability, and low salaries are three of the top six concerns of the general public in the region. He stressed that technology and labor supply growth are solutions, rather than obstacles, for employment growth in Latin America and the Caribbean. Dr. Marquez pointed out that the inequality of wages reflects inequality of education. Dr. Marquez also noted that thirty per cent of workers in Latin America and the Caribbean change jobs every year. This turnover, or “churning,” explains 1/3 of productivity growth. Dr. Marquez also recognized that churning imposes serious costs to individual workers. The key is for governments to maintain labor market flexibility while maximizing the coverage of safety nets. Dr. Marquez also argued that labor ministries should increase their capacity to register, enforce, and evaluate the impact of policies. He also called on labor ministries to “go local,” where possible, to meet labor market needs at the regional and municipal levels.

Labor Market Training and Intermediation: Dr. Jacqueline Mazza, Senior Social Development Specialist at the Inter-American Development Bank, emphasized the need for quality education to build human capital in the region. Dr. Mazza stated that most labor training systems in Latin America and the Caribbean were state-based, high-cost, and placed graduates in sectors with little demand. One important exception is Brazil's SENAI/SENAC system, which relies on direct private-sector management. Dr. Mazza noted that some countries were making improvements in their training systems by relying on private sector-NGO partnerships, public-sector financing incentives, and direct

private sector participation. In the end, Dr. Mazza stressed that the most relevant training for workers is on the job and in the firm. Dr. Mazza also discussed labor intermediation services, which seek to improve the speed and the quality of insertion of workers into the labor market. Labor intermediation services include information systems, training registries, job fairs, and on-line services. Dr. Mazza said that some countries are developing successful labor intermediation services, though they are not widespread in the region. Peru, for example, invited churches and local NGOs to provide labor intermediation services, which significantly increased their rate of success in a short period of time. Services in Panama and Mexico are also showing some success.

Participant Roundtable Discussion

Preliminary Conclusions : Mr. Krishna Urs, Director of the Office of Regional Economic Policy and Summit Coordination in the Western Hemisphere Affairs Bureau at the U.S. Department of State, drew six basic conclusions from the seminar: 1) it is deeply important to get the macroeconomic framework right to reduce volatility and permit growth; 2) meeting the challenge posed by low-wage Asia-- especially with the end of textile quotas-- requires concerted action by governments in the region; 3) human capital investment is necessary to create better and higher-quality jobs; 4) governments must focus on SMEs, which play a major role in job creation; 5) there is a clear connection between productivity and innovation, and a need to increase investment in research and development; 6) market economies depend on job churning to create new jobs through the loss of some old ones; the key is to plan for job churning appropriately.

Summary Remarks: Mr. Eric Farnsworth, Vice President of the Council of the Americas, highlighted the need to bring the private sector into the discussion because of its key role in generating jobs. Mr. Farnsworth stressed the importance of greater personal security in the region, noting that top executives will not relocate without confidence in the safety of themselves or their employees. Mr. Farnsworth also called for open trade policies, explaining that free trade agreements benefit economies by opening investment at least as much as they do through new trade.