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**"Expanding employment opportunities:  
Embedding "Human Utilisation" in the  
Post-2015 MDGs", in Tanuka, E., S.  
Mazumdar and M. Sengupta ed., Human  
Development in the Global South:  
Emerging perspectives in the era of  
Post-Millennium Goals, Institute of  
Human Development, New Delhi**

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2015

Online at <https://mpra.ub.uni-muenchen.de/63791/>  
MPRA Paper No. 63791, posted 25 Apr 2015 17:37 UTC

## **Expanding Employment Opportunities: Embedding “Human Utilization” in the Post-2015 MDGs**

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“Seeking a job is an arduous journey into the impossible.”

(Participant, UN Post-2015 Youth and Employment Workshop, Amman, Jordan, 18 December 2012)

### ***Introduction***

The eminent economist Mahbub ul Haq – working closely with and drawing on the work of Nobel Laureate Amartya Sen as well as other well-known development economists such as Paul Streeten, Gustav Ranis, and Francis Stewart – conceived the concept of human development and formulated a composite indicator, the human development index, by which it could be broadly measured. The aim was to place people at the centre of economic development and “enlarge people’s choices including greater access to knowledge, better nutrition and health services, more secure livelihoods, security against crime and physical violence, satisfying leisure hours, political and cultural freedom and sense of participation in common activities.” For Haq, the “objective of development was to create an enabling environment for people to enjoy long, healthy and creative lives.”

Haq and Sen were to have a profound influence on development thinking. Their contribution was recognized when world leaders meeting at the turn of the century drew up a list of goals to be achieved by 2015. More popularly known as the Millennium Development Goals (MDGs), these reflected the work of Haq and Sen as well as subsequent work that the concept of human development had inspired.

The basic premise of this paper is that, while we have moved closer to achieving some of the MDGs by 2015 – halving extreme poverty, raising life expectancy and achieving some of the education and health objectives – we have made hardly any progress towards the better utilization of existing human resources through the creation of productive, remunerative and decent work, especially for young men and women entering the work force (Target 1B). This lack of progress, I will argue, reflects deficiencies in the way the target was formulated and was to be monitored. It also underscores the glaring absence of a practicable framework for translating the laudable goal of developing human resources (by investing in education, health and other needed interventions) into the goal of “full and productive employment and decent work for all, including women and young people.” This paper makes a preliminary attempt to suggest how this might be done and incorporated in the post-2015 MDGs.

Its main argument is that one important way of doing this would be to raise an additional overarching pillar – that of “human utilization” (as was done earlier for “human

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development”). This would help focus attention on the urgent need to provide more and better employment opportunities, the lack of which largely accounts for frustration and social unrest, especially among the young and vulnerable groups in the labour force. Formulating the post-2015 MDGs under the twin pillars of “human development” and “human utilization” and then developing an analytical framework to determine how we would move from one to the other, could well lead to a more meaningful discussion on the growth and development strategies and policies needed.<sup>2</sup>

A good starting point is to analyse how the goals related to the utilization of human resources were formulated in the current MDGs and their indicators of success. We then show how little progress has been made in achieving these goals by reviewing both past trends as well as the current employment and labour market situation globally and especially for South Asia. The latter review, as we shall find, reinforces the urgent need to raise the pillar of “human utilization” in the post-2015 MDGs.

### *The Millennium Development Goals 2015*

It is important to remind ourselves that the original MDGs almost completely ignored the issue of the productive and remunerative utilization of human resources. The only exception was MDG 8, Target 16, which stated:

In cooperation with developing countries, develop and implement strategies for decent and productive work for youth.

However, no specific indicators were developed to measure success in achieving this target beyond stating that trends in youth employment would be monitored, presumably to judge if there was any improvement in the situation.

In 2008, mainly due to the efforts of the International Labour Organization (ILO), a new and lofty MDG target, 1B, was added to the original list, which aimed to:

Achieve full and productive employment and decent work for all, including women and young people.

As for other goals and targets, the following four indicators were developed to monitor progress towards the new target:

- 1.4 Growth rate of labour productivity (GDP per person employed)
- 1.5 Employment-to-population ratio
- 1.6 Proportion of employed people living below the poverty line (the working poor)
- 1.7 Proportion of own-account and contributing family workers in total employment (vulnerable employment rate)

Another employment-related target was also added under MDG 3, namely:

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<sup>2</sup> This work draws on research and studies with which the author was closely associated between 1985 and 2003, starting with the setting up of the Asian HRD Network by ILO/ARTEP, which culminated in the adoption of the Global Employment Agenda by the ILO’s Governing Body in March 2003.

Promote gender equality and empower women.

This was to be monitored by the following indicator:

### 3.2 Share of women in wage employment in the non-agriculture sector

Interestingly, the main activity envisaged as part of achieving these MDGs was to raise awareness of these indicators and ensure that they would be used in national labour market monitoring systems. Little was said on how one might go about achieving these objectives, presumably leaving this to individual countries.

Importantly, there was very little discussion or analysis on the rationale for selecting these four indicators to monitor progress in achieving MDG Target 1B. This being an important omission, we attempt to seek a possible rationale as follows:

1. Productivity growth, as an indicator of success, brought out the importance of generating additional output with the existing labour force, thereby making available the resources needed to create more and better jobs in the future to absorb the fast-growing labour force. It needed to be kept in mind, however, that increases in productivity would also decrease the capacity of the economy to absorb more labour (i.e., employment elasticity would decrease) and, therefore, a balance between the two had to be maintained.
2. The employment-to-population ratio represented the extent to which the population was engaged in economic activity. An increase in this ratio would, among other things, represent a decline in the dependency ratio, i.e., the number of people who are working in relation to those who are not.
3. A decrease in the working poor would represent an improvement in the incomes of those who, earlier, were not earning enough to keep themselves and their families out of poverty.
4. By arguing for a decline in the share of own-account and contributing family workers in the labour force, the underlying assumption was that this represented a vulnerable part of the workforce – as distinct from, say, wage earners, who were in a much better position to bargain for higher wages, recourse to social protection, and safe and better conditions of work.

Even if one were to accept, for the time being, the validity of these indicators, the question still remained: was it possible – based on movements in these indicators – to say with any confidence that, overall, progress had been made in moving towards achieving Target 1B? One can only presume that interpretations of success or failure were to be left for each country to judge, although the annual MDG reports (United Nations Development Programme) and, to some extent, the annual Global Employment Trends reports (ILO) have attempted to monitor progress at the global and regional level.

In all fairness, the ILO – the driving force behind suggesting these four indicators in 2008 – had provided country case studies of Pakistan, Botswana and the Ukraine to show how the indicators could help monitor progress against achieving Target 1B. It was quick to add, however, that these indicators should “be used as a *starting point* [italics added] for a *fuller* [italics added] labour market analysis based on a broader set of indicators.” Clearly, there was already some uneasiness surrounding these indicators as well as

perhaps the realization that they were insufficient to measure progress on the important goals that Target 1B had set.

The ILO case study of Pakistan (see Labour Market Information and Analysis Unit, 2008), with which I was familiar, suggested that progress had been made during 2000–07 on all four indicators. To this, the report added a number of qualifications pointing out that the large majority of the employed, both adult and youth, were still engaged in vulnerable employment. Additionally, the number of the employed that belonged to the working poor (one in eight) remained high. In terms of additional labour market indicators, the case study pointed out that Pakistan faced a special gender challenge, given its persistently very low female labour participation rates. To be honest, it was never very clear on reading this analysis whether any real progress had been made in achieving Target 1B.

All one can say is that we seemed to have realized the importance – albeit somewhat late at the midway point in 2008 – of utilising human resources through the creation of productive, remunerative and decent jobs. Unfortunately, the indicators of success were never quite convincingly worked out; in many cases, movements in these indicators were difficult to interpret.

### ***Global and Regional (South Asia) Employment and Labour Market Trends***

With less than a year left till 2015, we analyse the labour market situation based on the latest data and gauge what progress has been made towards achieving MDG Target 1B.

The ILO's Global Employment Trends 2014 report presents a rather dismal picture of the global employment situation. It points out that unemployment has increased in recent years and is set to worsen, albeit gradually, reaching 215 million jobseekers or almost 6.1 percent of the labour force by 2018. Youth unemployment has also increased, standing at 74.5 million young people (aged 15–24 years) in 2013. The youth unemployment rate has reached 13.1 percent, which is almost three times as high as the adult unemployment rate. There has also been a steep increase in the number of young people engaged neither in employment nor in education or training.

The report goes on to say that labour force participation rates are not increasing and that there has been a pronounced drop in participation rates in East and South Asia. Vulnerable employment, i.e., either self-employment or work by contributing family members, still accounts for almost 50 percent of total employment, while employment in the informal sector remains “stubbornly” high. The only positive development is that the proportion of the working poor has continued to decline globally, though at a slower rate. In 2013, there were 375 million workers (or 11.9 percent of total employment) living with their families on less than US\$ 1.25 per day compared to 600 million in 2000. However, even in 2013, 839 million workers (or 26.7 percent of total employment) were living on US\$ 2 or less.

South Asia accounts for slightly over a quarter of the total world labour force, estimated at around 3.3 billion. Open unemployment is low – around 4 percent – given that, in the absence of any real effective social protection system, almost all those of working age have to work mainly in the informal and agriculture sectors. However, the region's female labour force participation rate is among the lowest in the world – at 56.1 percent

in 2013. The number of working poor, i.e., those living in households with a per capita income of less than US\$ 1.25, has almost halved although the number of those living on less than US\$ 2 a day is still very high.

In India, there is strong evidence that employment growth was almost negligible during the boom years of 2004/05 to 2009/10, representing an employment elasticity of almost 0 (see Papola, 2013). This would suggest a growth rate in productivity of nearly 8–9 percent in these years, which does not appear credible. This low growth in employment is attributed to a decline in labour force participation rates, mainly among females, although it is not clear whether this was due to increased enrolment in secondary and higher education. Unemployment rates declined in this period and so did the proportion of the working poor. More importantly, there was an increase in employment in the organized sector and real wages in all sectors and categories also showed a rapid increase. According to the ILO Global Employment Trends 2014 report, total employment growth seemed to pick up between 2009/10 and 2011/12 (13.9 million jobs, though these were mostly in the informal sector).

While India and the other major South Asian economies, Bangladesh and Sri Lanka, managed to weather the global financial crisis, Pakistan did not. After growing at an average rate of 7 percent between 2002/03 and 2007/08, the growth rate has averaged around 3 percent in the last five years. The employment and labour market impact of this slowdown has, however, been smaller than expected with unemployment levels increasing from around 5 percent in the earlier period to around 6 percent in the latter (see Amjad, 2012). Real wages have not fallen and may well have increased in some sectors, notably agriculture and services, while declining in manufacturing. The working poor declined by almost half between 2000/01 and 2009/10 although these estimates, which are drawn from poverty estimates, are contested.

### ***MDG Report 2013***

In reviewing the progress made on Target 1B (“Achieve full and productive employment and decent work for all, including women and young people”), the MDG Report 2013 states that “the slowing of economic growth spells continued job losses, with young people bearing the brunt of the crisis” (see United Nations, 2013).

The report points out that, following a moderate increase during 2003–07, employment among the working-age population declined marginally from 61.3 percent in 2007 to 60.3 percent in 2012. The two main reasons for this decline were the fall in the labour force participation rate and rising unemployment. The gender gap in employment persists and is most acute in northern Africa and southern and western Asia. Moreover, young people have borne the brunt of the financial crisis and recession post-2008 in the form of rising unemployment and falling participation rates.

The only positive development has been the decline in the proportion of workers living with their families in extreme poverty (on less than US\$ 1.25 a day). Since 2001, this share has declined by 294 million, leaving behind a total of 384 million before this threshold. In developing regions, this translates into a decline to 15.1 percent of the working poor in 2012 from 32.3 percent in 2001 and 48.2 percent in 1991. However, if we change the goalpost to, say, US\$ 4 a day, this figure increases to 60.9 percent for

developing countries while the proportion of the working poor living on US\$ 2–4 is around 26.2 percent.

***An assessment of the MDGs related to employment and decent work, including women and youth, and progress till 2013***

What emerges from this analysis of key labour market indicators is that, as we approach 2015, there has been little progress: with the exception of one indicator, the situation is as depressing as it was in 2000. Some developing countries experienced some improvement during the period of high growth between 2002 and 2007, but this soon faded away with the financial crisis and subsequently anaemic recovery.

The remarkable progress with regard to the decline in the proportion of the working poor is intriguing. Having introduced this concept in the ILO's World Employment Report 2001, I feel that, on reflection, it is a poor indicator of developments in the labour market. For one, it is an indirectly estimated variable, i.e., it is calculated from estimates of poverty based on household survey data. Our mistake was to have used an indicator that shows family income and welfare to derive an indicator that reflects labour market conditions in terms of the income or wages of those family members who are in the labour force and employed. My view now is that the labour market indicator that best reflects the actual situation of workers is wages, even though wage earners account for only 35–40 percent of the labour force in developing countries.

There is still, however, another question that needs to be answered. If, as the ILO claims, the most effective means of reducing poverty is through the provision of productive and decent employment, then how is it that extreme poverty was almost halved in the last decade or so while the employment situation showed little progress on the whole? Changing the goalpost by raising the poverty line does not provide an answer as the ILO and other international agencies are now doing. Clearly, other factors matter, such as the provision of social protection or safety nets and subsidies on essential food items as well as productivity growth, especially in agriculture. It is a question that needs careful analysis, which I will not attempt here.

***Embedding “human utilization” indicators in the post-2015 MDGs***

The ILO's position on the post-2015 development agenda is quite forthright. It claims that the MDG employment indicators “have proven their analytical value” not only at the global and regional level, but also in analyses carried out at the country level (see ILO, 2014, box 2, p. 13). It argues (i) that discussion on the post-2015 development goals is still underway and that one of the key elements of the vision for the development agenda is inclusive economic transformation that ensures decent work; and (ii) that the current set of MDG employment indicators provides a basic framework for targeting progress. Consequently, the ILO argues, these indicators should be maintained although they could be refined or extended. It suggests, for example, including social protection, given that it plays a fundamental role in creating more inclusive and sustainable growth paths.

An alternative suggestion is being put forward here. The goal of full and productive employment and decent work is a global objective that has been strongly supported by the ILO tripartite constituents. The concept of decent work put forward by the ILO around the time the MDG 2015 goals were being formulated was a very important

contribution as it correctly changed the focus from just creating jobs to creating more and better jobs, which were defined in terms of rights at work, a living wage or remuneration, social protection and social dialogue.

The ILO is rightly proud of its history and achievements in defending and furthering workers' rights and better and safer working conditions. But should these be made an explicit part of the MDG agenda and future goals if subsequently adopted?

The real strength of most of the 2015 MDGs was that, while simply stated, they captured some of the most pressing challenges developing countries faced in improving people's lives and conditions. At the same time, the goals were easily understood and, therefore, implementable.

### ***Human Utilization Indicators and a Human Utilization Index***

My own suggestion for the Symposium would be to consider and discuss the concept of human utilization to help develop a framework, goals, targets, and indicators for the post-2015 development agenda. Additionally, constructing a human utilization index (HUI) would help monitor progress and compare relative performance among developing countries.

Drawing on the experience of monitoring progress against indicators related to productive employment and decent work opportunities in the 2015 MDGs, we could, for example, set the goal of significantly increasing the productive and remunerative utilization of human resources. The following three labour market indicators could be used to measure and monitor progress on this goal: (i) the employed labour force as a proportion of the total working-age population; (ii) the proportion of the labour force receiving less than the minimum wage (or the income equivalent for non-wage earners); and (iii) the rate of growth of real wages in the lowest wage earners category (e.g., rural wage labour).

These three indicators will better capture the most pressing employment and labour market challenges facing South Asia: (i) increasing labour participation rates, especially among women; (ii) improving the level of real wages and incomes (rather than the working poor); and (iii) improving the growth of real wages to reflect the increased demand and remuneration for labour (rather than growth in productivity, which need not translate into an increase in real wages).

I am aware that these indicators may not fully reflect improvements in youth employment, which is seen as an important political and social imperative. My view is that, although a number of important initiatives have been taken (including the ILO's Youth Employment Network) and many ideas and success stories generated for creating employment for young people (as reflected, for example, in the manual prepared by the World Bank), their overall success was very limited, primarily, because of low economic growth and the low employment intensity of growth. Improving employability and skills training may help, but experience has shown that, unless economic growth is higher than a threshold level, these measures will have at best a marginal impact on the overall situation of youth employment in a country.



I must reiterate, however, that I feel very strongly – especially given the situation in Pakistan and (even if slightly better) the rest of South Asia – that the most important element of any future development agenda must be the employment and empowerment of women. This is perhaps the only way we can defeat the forces of obscurantism and fundamentalism that have arisen in many of our countries. This goal should, therefore, be more adequately and forcefully reflected in the indicators I have suggested.

### ***Towards an Integrated Framework for Economic Development***

The suggested framework based on the twin concepts of human development and human utilization would help establish better linkages between investment in the development of human resources and their more productive utilization. It will also help identify the key economic and social policies needed to ensure that these resources are better utilized and result in the creation of employment and decent work opportunities.

To illustrate, one of the biggest impediments to reducing unemployment and underemployment is a very high population growth rate and the resulting high growth of the labour force. Despite its many limitations, the one result that has stood the test of time is that employment elasticity with respect to GDP growth in the South Asian economies is in the range of 0.40–0.45 (in terms of the creation of productive and remunerative employment). If, as in the case of Pakistan, the labour force is growing at around 3 percent, then the economy would need to grow by at least 7 percent just to absorb the increase in the labour force – leaving aside the equally important task of reducing the existing high levels of unemployment and underemployment. Concerted efforts, therefore, are needed to reduce the growth rate of population and this issue has to figure prominently in the future development agenda.

To take another example, it is necessary to give equal emphasis to the *quality* of education and skills imparted as it is to increasing enrolment ratios, especially at the secondary and higher education level. The quality of graduates resulting from the rapid expansion of higher education in South Asia has led to a massive decline in standards and, hence, the employability of these graduates.

The role of labour market services, including placement services, has also been neglected in South Asia. The earlier government-run employment exchanges may have faded away, but there is a need to revive these services – including through private agencies – because they can play an important role in reducing skill mismatch and ensuring that labour resources are more efficiently allocated.

### ***Key Economic Policies to Expand Employment Opportunities***

Let me point to five important lessons we have learned in analysing employment growth in South Asia.

The first is that greater economic integration – both with the rest of the world and within South Asia – will spur faster economic growth and generate more productive and remunerative employment opportunities. The recent experience of India in the post-reform period does not, to my mind, contradict this assertion: the reduction in employment growth in India was caused by a dramatic slowdown in labour supply while,

at the same time, unemployment rates declined, wages increased, and employment in the organized sector increased.

The second lesson – as recent studies conducted by the ILO and the Institute for Human Development, have shown – is that it is clearly premature to signal the demise of manufacturing and, within it, of large-scale manufacturing as the harbinger of the creation of wage employment and decent work opportunities. This will require economic reforms, some of which will be painful, but by reducing protective barriers and arbitrary and inconsistent decision-making and by providing suitable infrastructure (especially removing or at least reducing energy shortages), this sector still has considerable potential for reasserting itself as an engine of growth and employment generation in South Asia.

The third is the sound potential for both productivity gains and employment growth in agriculture, especially in the non-farm sector in rural areas, by setting up agro-industries and participating in local, national and global agriculture-based value chains.

The fourth is the considerable potential of modern and IT-driven services in driving total factor productivity growth and generating employment, as India has shown over the last decade. In Pakistan, it is estimated that the arrival of 3G and 4G mobile technology could, potentially, generate up to a million jobs in the next four to five years.

Finally, we must note the substantial increase in overseas migration and in the size of the South Asian diasporas in the last decade or so, as reflected in both the number of workers going overseas as well as in the level of remittance inflows. In the case of Pakistan, official remittance flows have increased from US\$ 1.5 billion in 2000/01 to an expected US\$ 15 billion in 2013/14 or almost 6 percent of GDP. These remittances have played a major part in stimulating economic activity – especially, in rural areas to which the bulk of the remittances flow – as the overall economy has stagnated. They have also played a major role in reducing poverty from around 30 percent in 2000/01 to an estimated 12.4 percent in 2009/10 (based on the national poverty line, which, when adjusted for exchange rate differences, is about the same as in India).

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