



Tackling Labor Market Impediments to Inclusive Economic Growth

Western Hemisphere Department
International Monetary Fund

Presented to High Level Forum on the Caribbean

Outline

- ▶ The growth and employment gap of the Caribbean
- ▶ The burden of excessive unit labor cost
- ▶ Labor market factors that inhibit jobs and inclusive growth
- ▶ Conclusions and policy recommendations

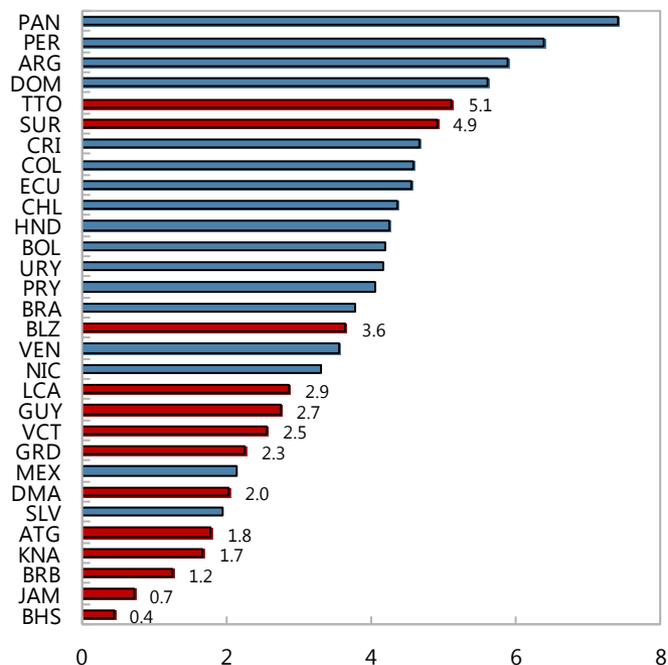


Growth in the Caribbean has underperformed Latin America, leading to persistently high unemployment

Average growth in the Caribbean was about half that of Latin America...

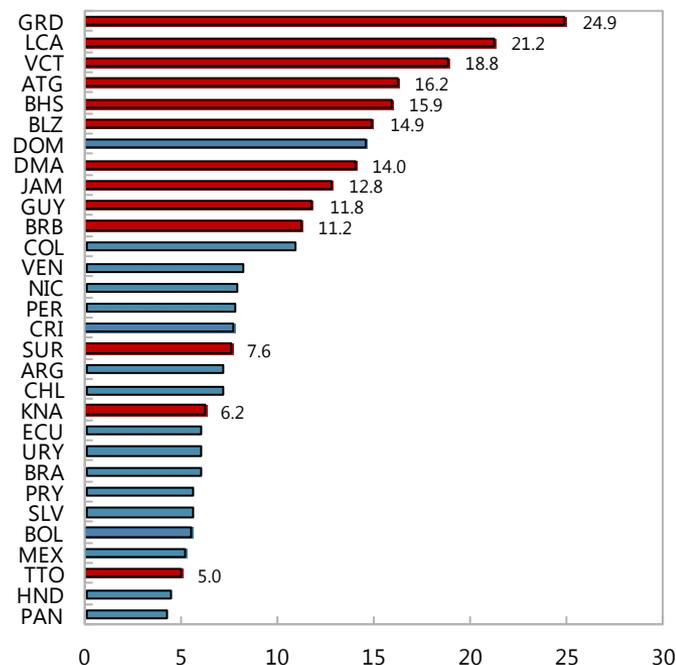
... while unemployment was significantly higher.

Western Hemisphere: Real GDP Growth, 2002-11
(average, percent)



Sources: World Economic Outlook; and National authorities.

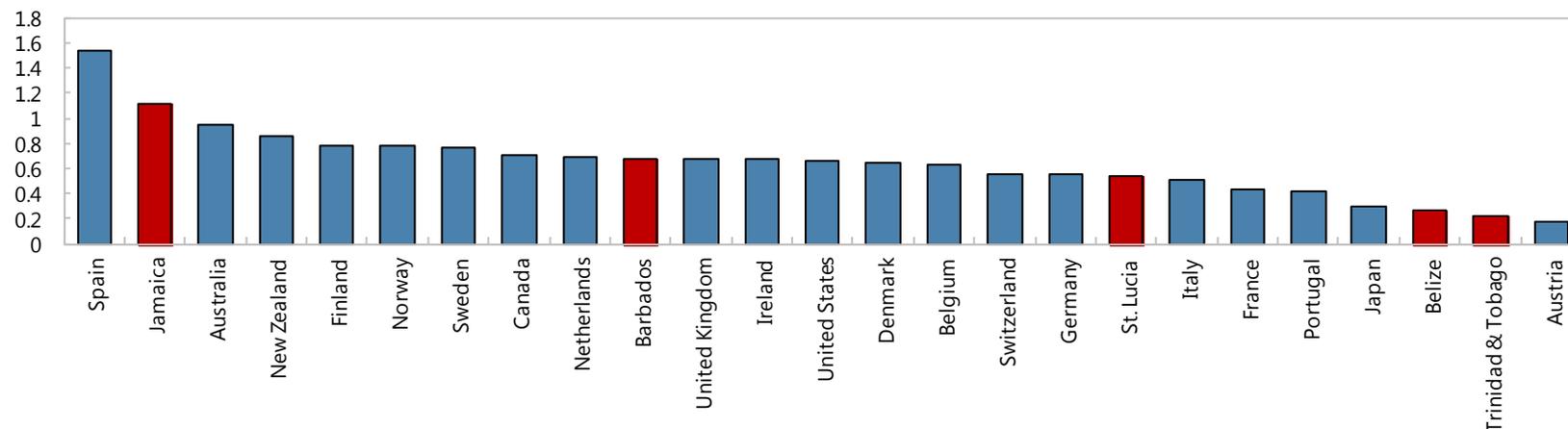
Western Hemisphere: Unemployment Rate, 2011 1/
(percent)



Sources: World Economic Outlook; and National authorities.
1/ Data refers to 2011 or latest available.

Significant growth is needed to reduce unemployment, since the job response is low

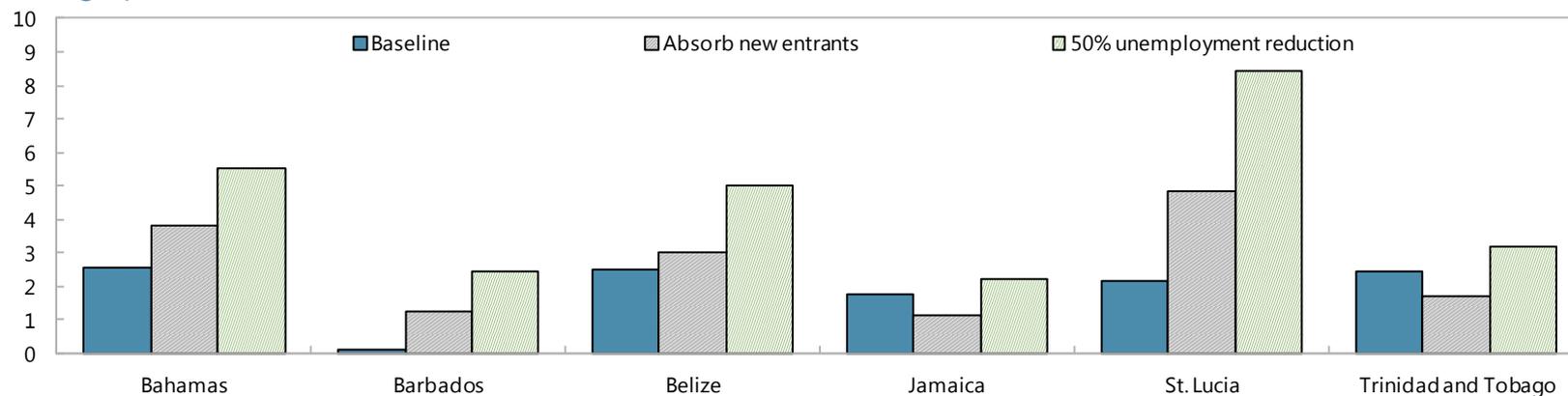
Employment - Output Elasticities



Source: IMF staff calculations.

Real GDP Growth, 2013-18

(average, percent)



Sources: World Economic Outlook; International Labour Organization; and IMF staff calculations.

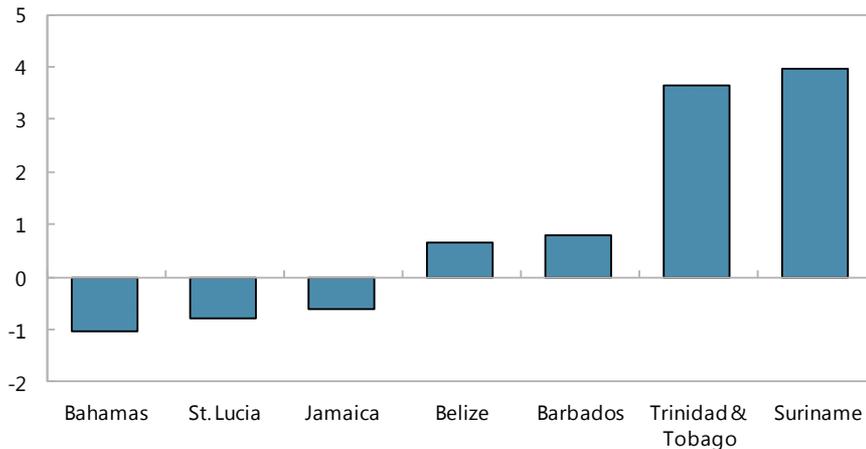


Low productivity, and growth in government wages, inhibit employment-intensive growth

Growth in labor productivity has been weak except for Suriname and Trinidad and Tobago...

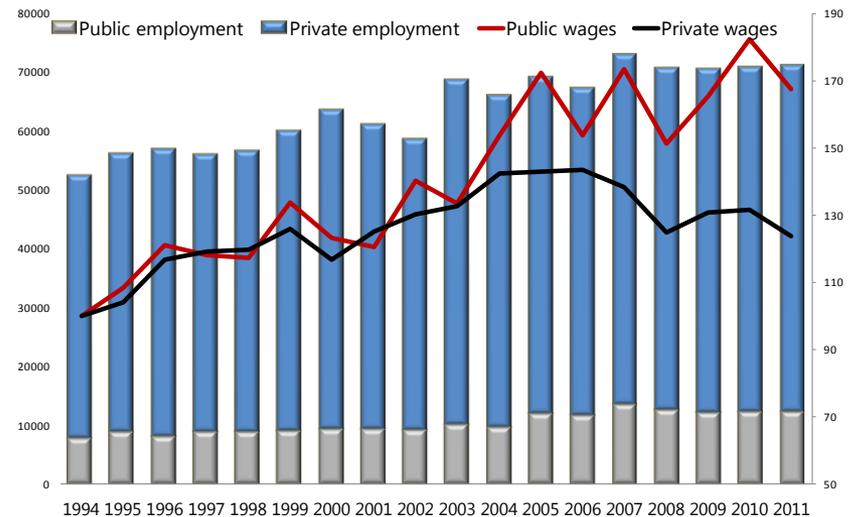
... nonetheless public sector wages have kept growing. Private sector wages have decoupled.

Productivity Growth, 2000-11
(average, percent)



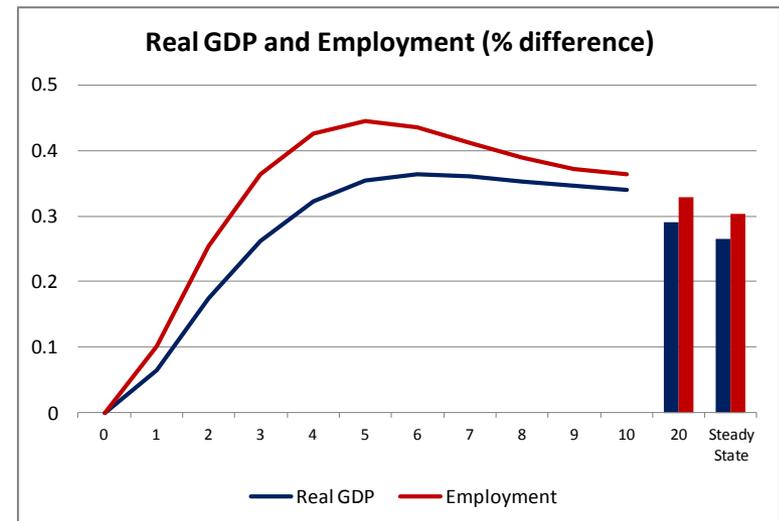
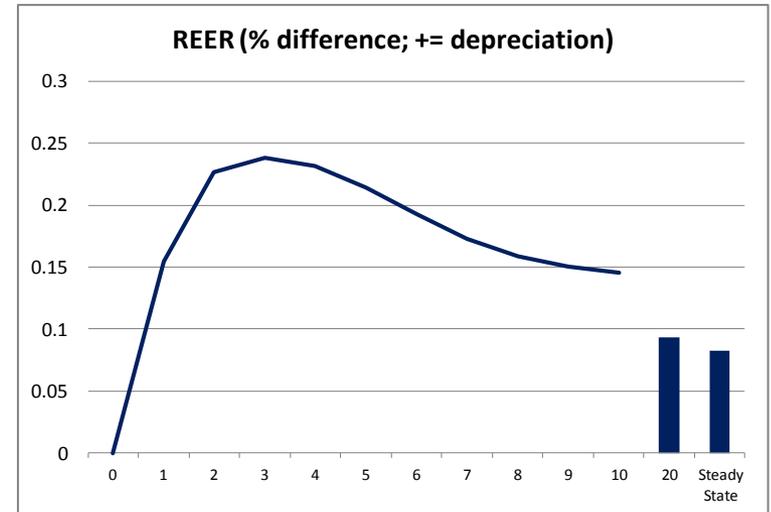
Source: World Economic Outlook.

Employment and Wages: St. Lucia
(numbers of workers, real wage index 1994=100)



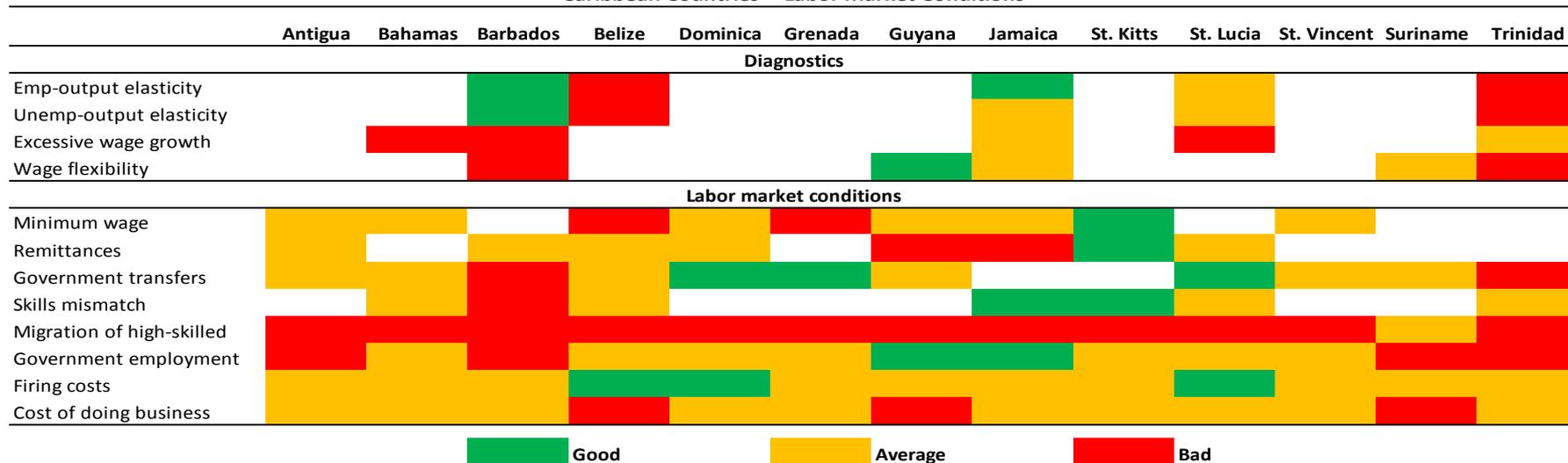
Labor market reforms could help improve employment and growth

- ▶ Simulation: 1% reduction in wage distortions (labor costs in excess of productivity)
- ▶ Reduction in labor market inefficiencies generate:
 - a depreciation in the real effective exchange rate
 - an expansion of employment
 - increase in output
- ▶ Potential GDP is higher in the long run



Factors inhibiting labor market adjustment and inclusive growth (preliminary assessment)

Caribbean Countries -- Labor Market Conditions



Source: IMF staff estimates.

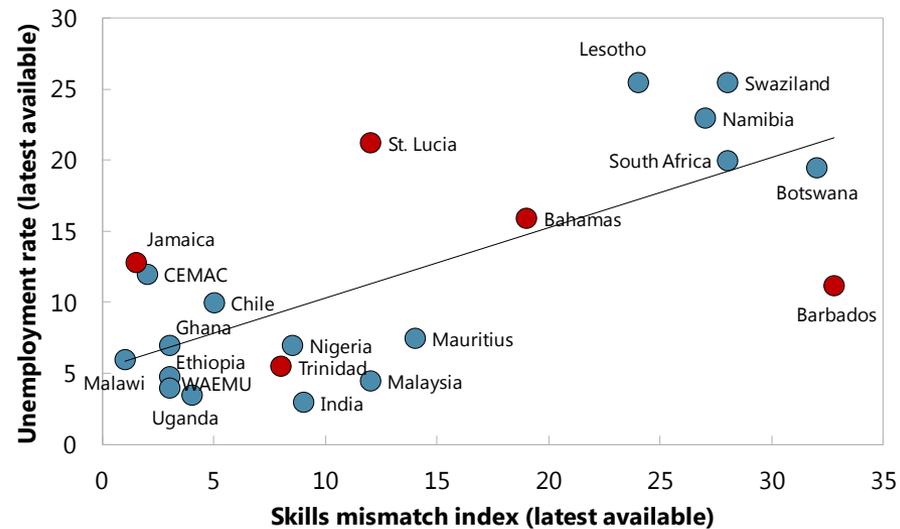
Significant lack of data that limits analysis but:

- Skills mismatch and migration of skills sap the productive labor supply
- High reservation wage and minimum wages could limit job growth
- Government wages push up wages economy-wide and limit private employment growth



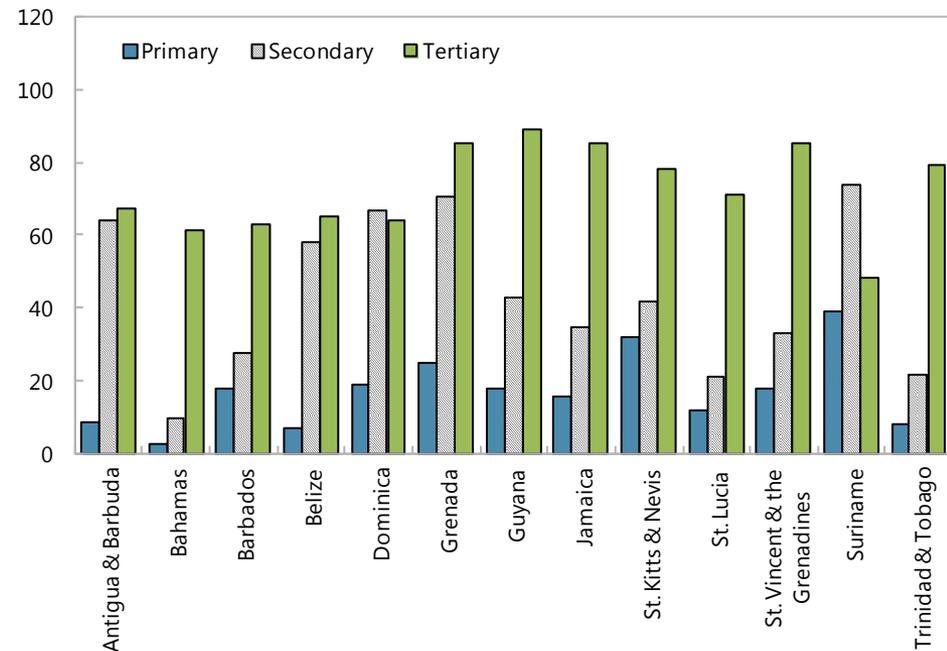
Skills mismatch limits productivity growth and employment, exacerbated by migration of skilled labor force

Unemployment and Skills Mismatch
(percent)



Sources: WEO; country authorities; and IMF staff estimates.

Brain Drain by Level of Schooling, 1965-2000
(percent of labor force that migrated to OECD member countries)



Source: Docquier and Marfouk (2005).

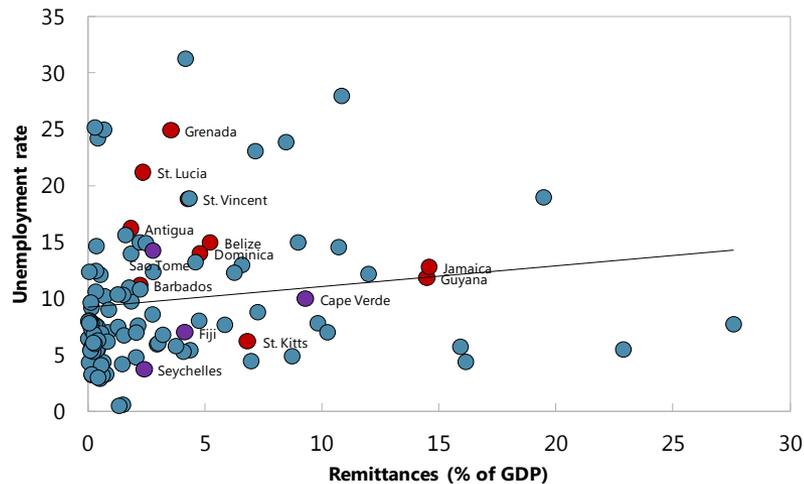
Reservation wages and minimum wages are associated with higher wage costs and unemployment

Remittances help to sustain the unemployed but they also could push up reservation wages—as does the option to migrate...

... while minimum wages can create a gap between labor demand and supply.

Unemployment and Remittances

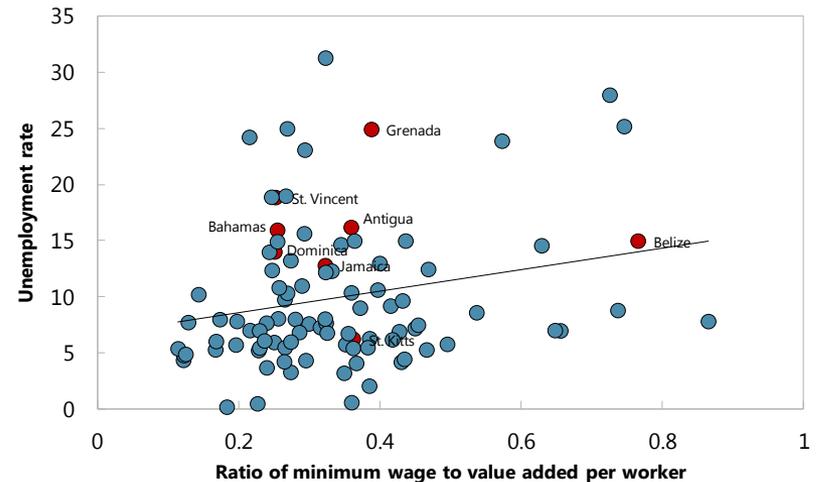
(World, latest available)



Sources: WEO; WDI; and country authorities.

Unemployment and Minimum Wage

(World, latest available)



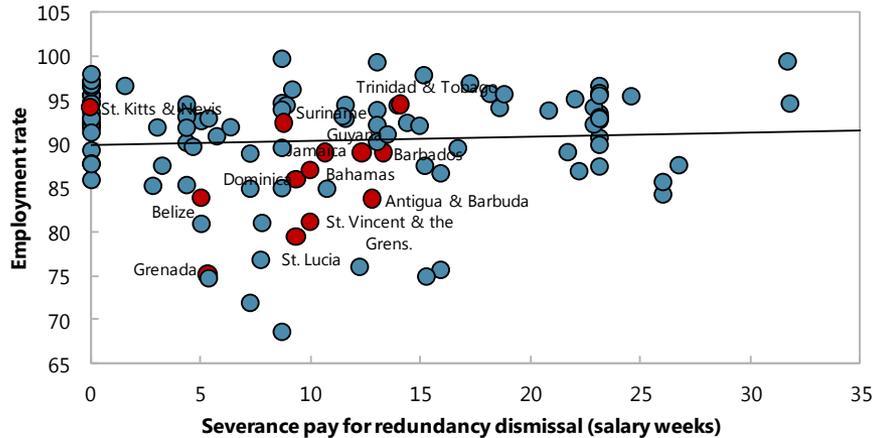
Sources: WEO; Doing Business; and country authorities.



Employment protection appears to be moderate, while wage rigidity is high except for Guyana

Employment and Cost of Firing

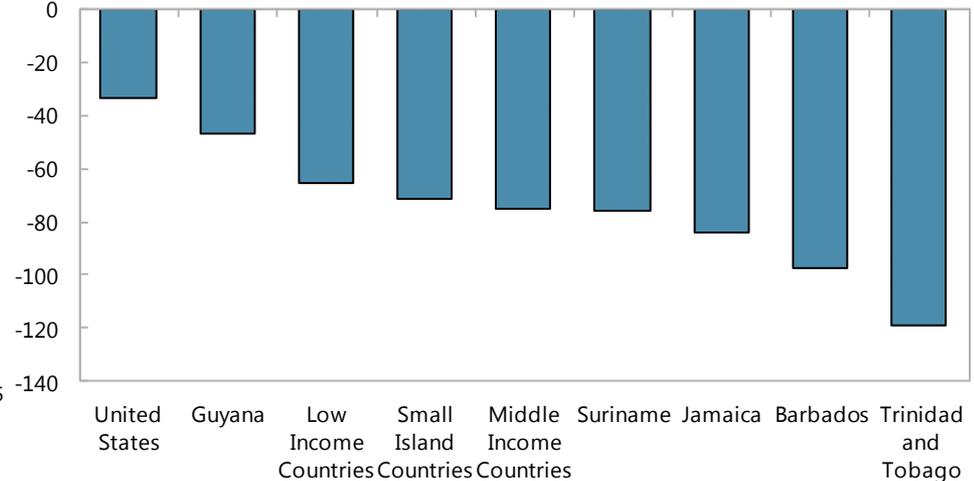
(Latest available)



Sources: World Economic Outlook; Doing Business; and country authorities.

Wage Determination Flexibility

(rank out of 144)



Source: World Economic Forum, Global Competitiveness Report 2012-2013.

Conclusions and Recommendations

- ▶ Inclusive growth hinges on aligning wage costs with productivity and with international competitors
- ▶ **Labor market reforms should aim to:**
 - ▶ Align educational output with skills demand
 - ▶ Align wage growth with productivity increases and with employers' capacity to pay; e.g. through tripartite agreements
 - ▶ *Wage moderation*
 - ▶ *Revenue-neutral switch from taxing labor to consumption*
 - ▶ Revise labor laws, and improve flexibility
 - ▶ Achieve a competitive real effective exchange rate along with wage moderation to help employment growth
 - ▶ Strengthen data availability for policy analysis

Thank You!

