

Your Excellency, the President of the Republic of Namibia, Mr Hifikipunye Pohamba,
Honourable Ministers and Members of Parliament
Leadership of the National Union of Namibian Workers
Other Dignitaries here present,
Members of the Media,
Dear Delegates to this symposium,
Ladies and Gentlemen,

It is indeed a great honour and a pleasure to be afforded the opportunity to make a short statement on behalf of the Friedrich-Ebert-Stiftung, one of the co-sponsors at this very important gathering.

Before I take this opportunity to add a few reflections on the topic of this symposium, let me first of all commend the NUNW for having taken the initiative to restart a very necessary national debate on the current state and the future development of the economy in this country centring around two fundamental and related issues namely productivity and employment. Actually, this debate is not starting today but has been thoroughly prepared by a series of regional workshops to which we were also able to lend our modest support.

As we all know, the creation of productive jobs is the key to economic growth, social development and improvements in living conditions. Those economies that today are characterized by the highest incomes per capita in the world are also those which have shown the most impressive increase in labour productivity growth over the past two centuries. This has pushed average per capita income in these countries far beyond subsistence levels.

The driving factor behind this rapid growth in productivity first in the Western world, later in Japan and nowadays in the Newly Industrialized Countries - mainly in East and South East Asia - has been a symbiotic combination of investment in human and physical capital, technological progress, and institutional and organisational innovations - as well as an increased mobility of goods, capital and labour.

On an aggregate level, *labour productivity growth* which is defined as the rise in output per unit of labour input is essentially driven by two mechanisms.

The first involves the shifts of resources, including labour, from sectors with low productivity levels to sectors with high productivity levels or growth rates. This process is usually referred to as *structural change*. In the economically advanced

countries the shift of labour from agriculture to industry has been an important source of productivity growth.

In the developing world however, structural change remains a key challenge and structural change, as it occurs, is not necessarily associated with productivity growth. An insufficient absorptive capacity in the modern sectors, in combination with demographic growth exceeding the capacity of the economy to expand, is pushing people to seek their survival in low productivity-low income jobs, mostly as self-employed workers in the informal economy. There is therefore the double challenge of raising the absorption capacity of the formal economy (employment creation) and of increasing the productivity in the informal economy.

This issue also hints to *possible trade-offs between employment and productivity* – or at least between employment growth and productivity growth -, as most – albeit not all -, productivity-enhancing technological and organisational changes tend to have a labour-saving bias. The alternative then is to either have more, but less productive and lesser paid jobs, or less but more and better paid jobs. The negative employment effect of higher productivity can only be reversed, where higher productivity leads to a simultaneous expansion of production through the lowering of product prices and increasing demand. The fundamental development challenge therefore is, to find ways of how to embark on this high road of simultaneous productivity growth and employment growth.

The second mechanism of productivity growth concerns *productivity growth within individual industries or sectors*. There are essentially three sources which drives this:

- The first and most obvious source is investment in physical capital goods or *tangible capital*, i.e. machinery, equipment; in recent years capital goods that embody information and communication technology (ICT) have become of particular importance now that ICT is generally viewed a the most important source of productivity improvements for the coming decades;
- A second source of industry productivity growth is investment in so-called “*intangible capital*”. This includes investment in the formation of human capital, i.e. skills development, in research and development, organizational changes and any other form of knowledge creation and the facilitation of knowledge flows (knowledge diffusion), as well as the absorption and adaptation of new technologies, etc.
- Thirdly labour productivity growth it is not only based on the amount of investment into tangible and intangible capital but also a result of the efficiency with which these resources are transformed into outputs. This is usually referred to as “*Total factor productivity growth*”. TFP growth

itself is strongly determined by technological developments, innovations but also institutional factors such as the functioning of markets.

From a public policy point of view the challenge is to come up with policies that promote productivity growth and job creation, i.e. that promotes investment in tangible and intangible capital and TFP growth.

Firstly, this relates to the role of Government in *setting the “rules of the game”* for the functioning of markets, capital and labour markets in particular. Government may also have to intervene more directly when there is obvious market failure (e.g. where the banking sector is not providing start-up capital for small businesses).

Secondly this relates to the State as the *provider of public goods and services* like, for instance, an adequate formal education system, adequate vocational training, technical and communication infrastructure (e.g. fast access to the internet), etc. which are fundamental for high and increasing productivity.

Thirdly, this relates to the role of the State in either creating the incentives for or taking itself the lead in productivity-enhancing technological, organizational or institutional change, involving all relevant stakeholders including companies, workers, research institutions and institutions of higher learning. With all these stakeholders here present a resolution on a possible *collaborative framework for enhanced productivity* could be a possible way forward than comes out of this important symposium.

In conclusion, Director of Ceremonies, albeit what I have tried to sketch here, it must be said that there are no universal and detailed policy prescriptions for how best to promote productivity – and at the same time employment – - policy prescriptions which can apply in every country at any time and under any economic, social and cultural condition. Although learning from other experiences may be of help, each situation requires its own specific homegrown solutions. One thing however that historical and cross-country evidence suggests is that a firm and consistent political will among all relevant stakeholder to embark on a process of economic modernization which is aimed at creating an environment that actively encourages institutional and technological change and innovation provides the key to realize the potential for productivity growth and the creation of decent jobs.

I THANK YOU