

The Impact of The Public Expenditure Cuts Policy on the Labor Market in Vietnam



Social Science

KEYWORDS : Impact, public expenditure, Vietnam, labor market

Nguyen Thi LanHuong

Ass. PhD. Institute of Labor Science and Social Affairs

ABSTRACT

The purpose of this study is to evaluate the impact of public expenditure cuts on employment and income to support policies for the development of the labor market. Impact evaluation is of interest for policy makers as well as researchers. This paper presents a method – that is based on a Computable General Equilibrium model – to analyse the impact of the public expenditure cuts policy on employment and income in industries and occupations in Vietnam using macro data, the Input output table, 2006, 2008, 2010 and the 2012 Vietnam Household Living Standard Survey.

INTRODUCTION

For Vietnam's deeper and deeper integration into the global market, its economy is also faced with a number of constraints that are caused by the severe impact of global economic expenditure cuts. After the global economic crisis in 2007-2008, the global market for export and investments narrowed rapidly. This has caused Vietnam's economic recession. Together with the common trend in the world, the Government of Vietnam has applied various measures to cope with its economic recession and to stabilize the environment for the macro economy towards sustainable development. Flexible and comprehensive implementation of a range of fiscal policies and other macro policies has assisted Vietnam's economy to overcome the crisis. The economic growth rate still reached 5.3 per cent in 2009 and the inflation rate decreased to 6.88 per cent from 23 per cent in 2008.

In the period of 2011-2012, in order to stabilize the macro economy and to deal with the accelerating inflation rate, the Government aims at reducing the aggregate demand of the economy via four (04) key measures: increasing the revenue of the state budget; maintaining an over-expenditure rate of less than 5 per cent of GDP; postponing ineffective public investment projects; and saving the recurrent expenditure of less than 10 per cent. Public investment is the reason for inflation because of its low inefficiency. As a result, there is an increase in production costs and product prices. This has had a negative impact on people's income.

Public expenditure needs to be cut to save investment for effective works and projects. Investment needs to be allocated for projects already started that can be finished, but not for new ones. Scarce capital, a high proportion of investment capital in GDP and the high incremental capital output ratio may affect the employment situation of several industries that provide services and goods because the Government reduces its demands for goods in the market. Public expenditure cuts can lead to an unemployment situation and unstable social disorder.

MODEL AND DATA

The theory of the ILSSA-MS is constructed on the ORANI-G model with an extension of a detailed modelling of the labor market. ILSSA-MS has a theoretical structure, which is typical of a static CGE model, it contains detailed modeling of labor demand and supply, distinguished by 113 industries, 26 occupations and 6 qualifications.

The ILSSA-MS model database is compiled from the input-output table for Vietnam for the year 2012. To update the model so that it describes the structure of the economy in 2012, we shock the model with observed changes in economic variables over the period 2006-2012.

EMPIRICAL RESULTS

The results of the simulation show that when the Government implements the contractionary fiscal policies, the recurrent ex-

penditures are reduced by 10 per cent; construction, 17.8 per cent; transportation and warehousing, 10 per cent; and media & information field, 11.7 per cent. The impacts result in a GDP decrease of 0.09 per cent and a decrease of 0.06 per cent of total jobs or 30 thousand jobs. On other hand, about 2.5 per cent of new jobs have not been generated due to the expenditure cut.

It can be seen that the contractionary fiscal policies of the Government have directly influenced the industries that provide goods and services for the Government, such as construction, exploitation, the processing industry, health, healthcare services, and cultural and sport services. When the Government cuts down the expenditures of these industries, the total demand for these kinds of goods and services in the economy will reduce. Enterprises will have to regulate their production and business to reduce their product size, which will result in a decrease in the common output of the economy. As a result, total jobs will also reduce.

Impact on jobs in some industries:

The results from Table 1 show that due to the contractionary public investment and inflation restraint policies; several industries, such as construction, construction material production, transportation, etc. have been negatively affected when their capacity for job creation is limited. Besides, some other industries such as agriculture, leather and footwear or other manufacturing industries have created more jobs due to these policies.

Table 1. Percentage of employment and income change by industry

	Industry	Percentage of an increase/decrease in employment	% of change in income
1	Forestry	0.23	-0.13
2	Fishery	0.42	-0.14
3	Mining	0.16	-0.39
	Sand and gravel mining	-0.31	
4	Food products, beverages and tobacco	0.19	-0.31
5	Non-metallic products	-0.02	-0.41
	Brick production	-0.69	
	Cement and cement related production	-0.76	
6	Metal, machinery	0.16	-0.41
7	Chemistry	0.28	-0.46
	Paint	-0.49	
8	Textile, footwear	0.49	-0.19
9	Other manufactured goods	0.28	-0.33

10	Electricity, water	0.11	-0.35
11	Construction	-1.27	-0.52
12	Commerce and repair	-0.05	-0.28
13	Hotel & Restaurant	0.11	-0.27
14	Transport and communication	-0.1	-0.33
15	Financial services	0.24	-0.38
16	Real estate and business services	0.11	-0.47
17	Public management	-0.15	-0.46
18	Education	-0.03	-0.46
19	Health and social services	0.05	-0.41
20	Other services	0.1	-0.29

Source: Calculated from the simulation with ILSSA-MS model

The direct investment cut for the construction field and ineffective projects has decreased the number of jobs by 1.27 per cent and its backward effects have influenced the business and production of the industries which produce construction materials, cement, and sand and gravel quarrying. As a result, these industries have cut down their production size and the labour demand of these industries have slightly declined (sand and gravel quarrying has a decrease of 0.31 per cent; brick production, 0.69 per cent, cement production, 0.76 per cent, transportation and communication, 0.1 per cent).

The results also show that the most negatively affected industries are construction, cement production, brick production, and paint production. The results from the simulation also indicate that when the Government cut the recurrent expenditure by 10 per cent and a decrease in investment for construction by 17.8 per cent, 40.7 thousand jobs were lost (equivalent to 1.27 per cent). The cement industry did not face a direct cut, but it lost 0.76 per cent of jobs because it is an input for the construction industry.

Table 1 also illustrates that the labour cut in construction, cement production, etc. has led to a reserve employment shift movement from these industries to agriculture. As a result, the number of jobs in agriculture and fishery has increased by 77 thousand or 0.23 per cent and 0.42 per cent, respectively.

Contrary to the above-mentioned trend, some industries still had an increase in labour demand such as the garment and textile industry (0.49 per cent) because they are key and strategic industries in Vietnam.

The results also show the characteristics of Vietnam's labour market, in which there is a close connection between rural and urban areas and the role of agriculture, and rural areas and the informal sector in job creation - in the stagnated economic situation.

Impact on income:

Though public expenditure cuts were only applied for some industries; the outputs of these industries can be the inputs for others. Therefore, expenditure cuts or production size reduction in the industries that the Government applied the expenditure cut policies to, would indirectly affect production and business activities of other industries. As a result, wages and income would be influenced in every industry.

The table 1 show that expenditure cuts caused a decrease in workers' income in all industries of the economy because of job loss or reduction in working hours in construction, cement pro-

duction, and transportation. There was an increase in the jobs in agriculture and the informal sector. The agricultural industry had a decrease in the percentage points of income and so it was also slightly affected by the policies.

Negative impacts of the policies on wages and income were mainly for the construction field. This is the field that was directly influenced by public investment cuts in terms of their production size and number of jobs. The wage level in this industry was stipulated to be 0.52 per cent lower than the wage level before the policies were implemented. Agriculture - forestry - fisheries was affected by the policies least (the wage level was 0.13 per cent lower than the level before the policies were implemented). In fact, when enterprises have difficulties with their orders or the problem of production reduction, they do not often dismiss their workers easily because they are waiting for a new business and production cycle with new expected orders. In such circumstances, workers often have their working hours reduced. As a result, their wages and income tend to fall.

POLICY IMPLICATION

Key conclusions

Government expenditure cuts have led to a reduction of about 0.06 per cent in the total number of jobs or about 2.5 per cent of new jobs have not been created.

The industries, the jobs of which were reduced the most, are those facing direct expenditure cuts, including: the construction material and cement production industries, and transportation.

The impact of government expenditure cuts has caused a decrease in the number of jobs in industries. However, the results differ between industries. Most of the industries are faced with job reductions, while some sectors witnessed an increase in jobs.

Some industries were less affected by the public expenditure cuts (garments and textiles, export industries). There was an increase in jobs and workers' income decreased slightly.

Policy implications

Expenditure cuts are essential in the context of high inflation, but we need to pay attention to assessing its short-term and long-term impact on the labour market;

Social protection policies to reduce the negative impact of public expenditure cuts play a very important role in acting as a tool to ease the shocks for the unemployed workers or those who suffer from income reduction.

It is necessary to harmoniously combine expenditure cut policies with social security policies (balancing macro policies, assessing potential impact on the labour market and regarding labour as one of the important variables).

It is necessary to encourage the private sector and the whole of society to engage in formulating and monitoring policies on developing labour and the employment market.

Policies need to be designed for vocational training to meet the demand of human resource development, especially highly skilled labours working in key export and import industries, in production and the service providing sectors.

A comprehensive, multi-level, flexible and effective social security system needs to be developed and employment and social security programs for low-income labourers need to be designed.

There is a need to continue to renew goals, content, programmes and methods related to vocational training towards providing a good environment in which learners can practice.

The capacity in monitoring and controlling quality of vocational training needs to be improved: verifying the quality of vocational training centres and training programmes. On that basis, labourers can play a more active role in dealing with policy changes or difficulties derived from economic crises.

And there is a need to finalize and develop information systems for collecting, processing, analysing and forecasting information on the labour market and to establish banks that can serve labourers and unemployed labourers seeking jobs.

Acknowledgement:

This research is funded by Vietnam National Foundation for Science and Technology Development (NAFOSTED) under grant number III.4-2011.15

REFERENCE

1. MarkHorridge, Brian, Martin, Riaan, Areef, "The macroeconomic, industrial, distributional and regional effects of government spending programs in South Africa", 1995 | 2. Institute of Labor Science and Social Affairs, "Labor social trend, 2011", 2012 | 3. Viet Nam Institute of Economics, "Public investment in Vietnam in the last ten years" | 4. V Đình Anh, "The optimalcapital structureforsustainableeconomic growth", 2010 | 5. V Thành T Anh, "The coordination between monetary policy and fiscal policy for economic restructuring", 2012 | 6. General Statistic Office, Statistical yearbook