

Can dreams come true?

What it will take for beliefs in inclusiveness to foster growth

Ekkehard Ernst
Leaza McSorley

ILO Research Department and
Glasgow Caledonian University

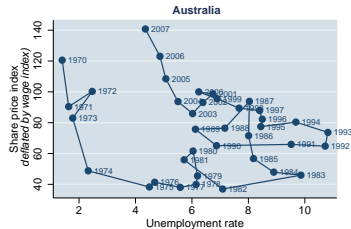
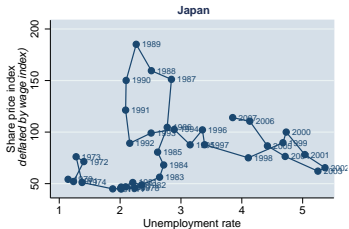
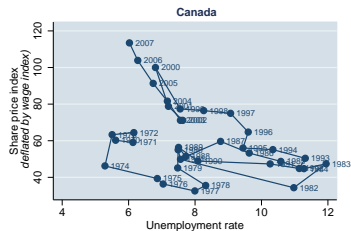
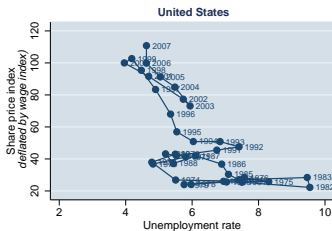
March 2018



International
Labour
Organization

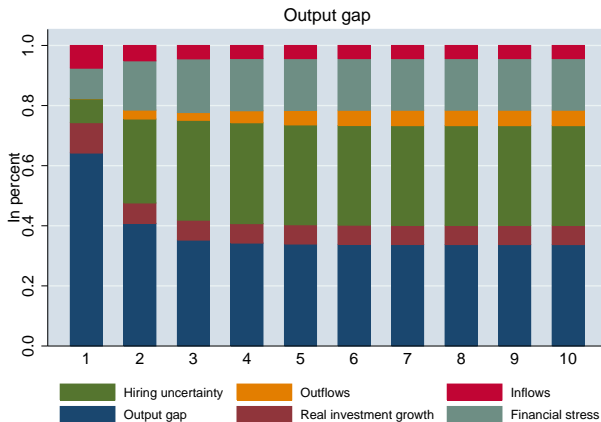
Why are expectations important?

Example: Asset prices, investment and unemployment



Why are expectations important?

Example: Hiring uncertainty and the output gap



What are expectations and how do they evolve?

- ▶ How do expectations emerge?
 - ▶ socially constructed, communicated and believed (Dow, 2015)
- ▶ Dynamics of expectations
 - ▶ Effects on economic growth, inequality and jobs
- ▶ Recent theoretical developments
 - ▶ Incorporating pluralistic perspectives into the narrative
 - ▶ Institutional economics: power, institutions and social norms
 - ▶ Feminist economics: measures of equality and non-market value

Labour market networks and information

Micro-structure of (labour) markets

Unemployment duration depends on network structure:

- ▶ Calvò-Armengol & Jackson (2004)

Emergence of social institutions can be fostered in tightly-knit interactions:

- ▶ Social interactions are segmented, not fully random: Ernst (2004)

Shock transmission in production networks, use sectoral data:

- ▶ Acemoglu *et al.* (2012); Castagna *et al.* (2017)

Social networks and labour market outcomes

- ▶ Montgomery (1991, 1992, 1994)

Social-network structure and information contagion:

- ▶ Jackson *et al.* (2017); Shiller (2017)

How do expectations affect labour markets?

- ▶ Asset prices, investment and jobs: Phelps curves (Zoega, 2009; Hall, 2014; Kilic & Wachter, 2015)
 - ▶ Hiring uncertainty and financial market turbulence
- ▶ Social consequences of labour market outcomes:
 - ▶ Labour prospects and social unrest, youth male unemployment (see, e.g., ILO, 2015)
- ▶ Central bank communication and the real economy:
 - ▶ Central bank focus and the job-content of growth
 - ▶ Variability of communication and trend unemployment

How to influence expectations

- ▶ Applying it to 'real world' economic policies
 - ▶ gender mainstreaming (McSorley & Campbell, 2016)
 - ▶ Lighthouse effects of policy changes
- ▶ How to foster inclusive growth patterns?
 - ▶ Virtuous cycle (Coyle & Mitra-Kahn, 2017; Sen, 2001)

Bibliography

- Acemoglu, D., Carvalho, V. M., Ozdaglar, A., & Tahbaz-Salehi, A. 2012. The network origins of aggregate fluctuations. *Econometrica*, 80(5), 1977–2016.
- Calvò-Armengol, A., & Jackson, M. O. 2004. The effects of social networks on employment and inequality. *American Economic Review*, 94(3), 426–454.
- Castagna, A., Chentouf, L., & Ernst, E. 2017. *Economic vulnerabilities in Italy: A network analysis using similarities in sectoral employment*.
- Coyle, D., & Mitra-Kahn, B. 2017. *Making the future count*. Indigo Prize winning entry.
- Dow, S. C. 2015. The role of belief in the case for austerity policies. *Economic and Labour Relations Review*, 26, 29–42.
- Ernst, E. 2004. *The evolution of time horizons for economic development*.
- Hall, R. E. 2014. *High discounts and high unemployment*. Tech. rept. 19871. National Bureau of Economic Research, Cambridge, MA.
- ILO. 2015. *World employment and social outlook. Trends*. Geneva: International Labour Organization (ILO).
- Jackson, M. O., Rogers, B., & Zenou, Y. 2017. The economic consequences of social-network structure. *Journal of Economic Literature*, 55(1), 1–47.
- Kilic, M., & Wachter, J. A. 2015. *Risk, unemployment, and the stock market: A rare-event-based explanation of labor market volatility*.
- McSorley, L., & Campbell, J. 2016. Whatever happened to gender mainstreaming. In: Berkowitz, P., Bachtler, J., Muravska, T., & Hardy, S. (eds), *EU cohesion policy: Reassessing performance and direction*. London: Routledge.
- Montgomery, J. D. 1991. Social networks and labor market outcomes. *American Economic Review*, 81(5), 1408–1418.
- Montgomery, J. D. 1992. Job search and network composition: Implications of the strength-of-weak-ties hypothesis. *American Sociological Review*, 57(5), 586–596.
- Montgomery, J. D. 1994. Weak ties, employment and inequality: An equilibrium analysis. *American Journal of Sociology*, 99(5), 1212–1236.
- Sen, A. 2001. *Development as freedom*. Oxford: Oxford University Press.
- Shiller, R. J. 2017. Narrative economics. *American Economic Review*, 107(4), 967–1004.
- Zoega, G. 2009. *Employment and asset prices*.