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**MOVING JOBS CENTER STAGE:**

**A DISCUSSION NOTE**

Attached for the September 24, 2011, Development Committee meeting is a document entitled "Moving Jobs Center Stage: A Discussion Note," prepared by the staff of the World Bank.

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A DISCUSSION NOTE**

**Why focus on jobs?**

Recent world developments have put jobs at the center of the policy debate. The global financial crisis resulted in massive job losses in both emerging and industrial countries. In the latter, there is concern about a jobless recovery; in the former, a robust comeback cannot hide workers' vulnerability to shocks. Political upheavals in the Arab world highlighted the discontent of educated youth whose employment opportunities fall short of their expectations. These political upheavals could boost transparency and accountability in the region, but if "good" jobs don't follow they may also result in increased instability.

Recent developments create a sense of urgency, but they are also a reminder that jobs are the cornerstone of economic and social development. Arguably, most development work is related to jobs, even if we do not often articulate it in that way. We approach jobs from different professional angles: infrastructure development, competition and innovation policies, skills upgrading, labor market interventions. But we do so in a compartmentalized manner. Our clients often say that the most pressing issue they face is jobs, but our support to them is not structured with that centrality of jobs in mind. In our macroeconomic work, we tend to assume that employment will be created if growth materializes. At a more disaggregated level, we focus on labor supply, demand and matching. This leads to thinking in sectoral terms, emphasizing skills, the investment climate and social protection. The enhanced attention that job issues are receiving around the world offers an opportunity to break the silo approach, and take a more integrative approach.

The last time the World Bank itself took a view on labor markets was 16 years ago, with the World Development Report on *Workers in an Integrating World*. Back then, the issue was globalization, and whether international trade and capital inflows would hurt employment. By now we are in an inexorably integrated world and the questions have evolved. What happens to jobs in one part of the world has implications on others. East Asia moving up the value-added ladder and shedding jobs in light manufacturing opens up opportunities for countries in poorer regions to fill that slot; it also raises jobs challenges for countries in more advanced regions. The upward trend in the price of food and fuel associated with rapid economic growth in the developing world is a mixed blessing for resource-rich countries, which confront both increased incomes and real exchange rate appreciation. As jobs are created in developing countries, global demand expands and employment prospects improve in the industrial world. Gaps between labor market conditions in different parts of the world open new avenues for international

migration. In all these ways, it is necessary to take an integrating perspective not only across sectors but also across countries.

Structuring the analytical and policy tools to boost the creation of more and better jobs in an integrated world could help develop the sort of widely accepted framework that is currently missing. At present, the various global constituencies involved look at jobs issues through their own lens. Economists think about labor supply, demand and matching; trade unions about wage employment and formalization; employers about productivity and profitability; politicians about ways for the government to “create” jobs. The challenge is to articulate a vision that cuts across sectors, addresses the dynamic links between growth strategies and jobs, and provides tools to consider policies and programs from a jobs perspective. This is not to say that the jobs lens should replace the focus on overcoming poverty and raising living standards, but rather that jobs are a critically important intermediate outcome to that effect.

This discussion note is an invitation for views on how to address issues related to jobs in both middle-income and low-income countries, in ways which are relevant from a policy perspective and are perceived as non-ideological. Ideas on the challenges faced and on the nature of the analyses that could help address them would be extremely valuable for the preparation of the forthcoming World Development Report 2013, on *Jobs*.

## **Jobs as the “hinge” of development**

Economic development is about improvements in living standards supported by productivity growth. It also involves deep social change, associated with education, urbanization, the emergence of the middle class and the drive towards greater gender equality. We tend to think of these transformations from a growth perspective, sometimes augmented by social analysis. However, on closer inspection they are all related to jobs. The development process is about some jobs becoming better and others disappearing, about people accessing jobs and changing jobs, and about jobs “migrating” to other places, within and across countries. It is also clear that political stability, hence the very foundation of continued economic and social development, is affected by the pace and the nature of job creation.

Jobs can in fact be seen as the “hinge” connecting four transformations at the center of economic development:

- From an economic perspective, jobs provide the earnings opportunities to lift households out of poverty and raise their **living standards** afterwards. Improved yields in farming, access to off-farm small enterprise activities, migration of family members to cities, and transitions to formal sector employment are milestones on the path to improved material well-being. This has been well documented in the context of numerous poverty assessments, but there continues to be a connection between jobs and living standards after escaping poverty as well.

- Through job creation and destruction within sectors, and reallocation across sectors and countries, jobs are also at the root of aggregate **productivity gains**. Economic units differ in their potential, and competitive forces result in some of them expanding while others contract or disappear. There are also gaps in productivity across sectors, and the reallocation of labor across them can contribute to growth (or subtract from it). This link between productivity growth and jobs is well recognized in some areas of economics (such as industrial organization or industrial trade) but does not always permeate our growth analyses.
- Jobs are also associated with **social change**. The feminization of the workforce has influenced relationships within households and transformed the economic and social role of women. The development of wage employment has led to the emergence of the middle class, with its associated demands for better governance. The idea that the structure of the economy changes with development is well accepted in relation to the composition of output. However, over the course of development the structure of the labor force changes too: by sector of activity, by location, by type of occupation, by gender. While patterns can be recognized, speeds and paths vary across countries.
- Last but not least, jobs affect **social cohesion**. There is a rich literature on the links between happiness and work status. It started in industrial countries, showing lower levels of personal fulfillment (and higher levels of depression) among those unemployed or living on social assistance, even after controlling for income. But this line of research has burgeoned in recent years in the developing world. In parallel, recent work on identity sees jobs as part of who we are. The growing availability of values surveys in developing countries should allow exploring whether jobs are connected to optimism about the economy, trust in institutions or willingness to participate in collective action.

### **What is a good job in a developing country?**

Thinking about jobs from the point of view of these four transformations is consistent with a broad definition of jobs, as earnings opportunities associated with the use of labor. Wage employment is less prevalent in the developing world than it is in industrial countries and formal wage employment even less so. Even the notion of unemployment is of limited relevance when only a fraction of the labor force works for a wage or a salary. For a conceptual framework on jobs to be useful, it has to consider the use of labor under a broad variety of forms, including farm employment, unpaid family work in household enterprises, self-employment and casual labor. That framework should include activities leading to monetary payments, and those involving a contractual relationship between an employer and an employee, but it should not be restricted to them. And it should not consider the growth of formal wage employment as the only yardstick to assess progress towards job creation.

Thinking about jobs in the context of the four transformations highlighted above provides a potentially more useful lens to make the intuitively appealing notion of good jobs operational. Rather than starting from the aspirations metric provided by formal wage employment, it relies on hard data to understand which jobs and jobs transitions have greater payoffs in terms of material well being, productivity gains, social change and social cohesion, in a specific developing country context. From this perspective, “good jobs” are not those matching a series of ideal criteria, but rather those which can support increases in household expenditures over time, contribute to faster productivity growth at the aggregate level, contribute to social inclusion and gender equality, and minimize the risk of conflict.

Seen this way, the notion of good jobs varies depending on the country context. In poor agrarian economies, making farming jobs better and creating off-farm employment opportunities for those living in rural areas may be the most conducive ways to improve living standards. At higher levels of development, the biggest gains may come from wage employment, especially as the agglomeration effects from urbanization and the productive links from integrated value chains kick in. At all levels of development, one of the most important advances would be to reduce the variability of earnings associated with both formal and informal activities, in a way that does not generate incentives against working, saving or investing. Jobs attributes also include non-pecuniary dimensions, and some jobs may be better than others at providing a sense of dignity, empowering women or fostering social cohesion. But which jobs are these may also vary from country to country and in the same country over time.

Data from household surveys, enterprise surveys and value surveys can be used to understand what good jobs are in a specific context. Two jobs may look alike in terms of the current earnings associated with them, but may be different along other dimensions. Some may lead to higher living standards over time, through a faster accumulation of skills while working. Some may empower women and result in a better allocation of resources within households. Some jobs may be associated with a higher productivity of labor than others, depending on how they are connected to other economic activities, through vertical integration, production clusters, or links with world markets. Or they may lead to a faster growth of labor productivity. And some jobs may be more conducive to social stability than others, by reducing the appeal of criminal activity and violent behavior, or stimulating participation in collective decision making.

### **Jobs agendas are different but interconnected**

Thinking about good jobs through the lens of these four transformations is also useful to highlight linkages and trade-offs. There will be circumstances where the jobs making the greatest contribution to living standards, or to social cohesion, may not be the most conducive to productivity gains, or to social change. Put differently, there may not be a perfect overlap between development strategies focused on poverty reduction, rapid growth, social inclusion or political stability (the debate on how to make growth pro-poor can be interpreted through this

lens). But there are also linkages between jobs that are good from different perspectives. A youth bulge can be transformed into a demographic dividend or become a social, political and economic challenge. Conversely, without growth the many proposals for job generation to solve the employment issue may not be sustainable. There is a societal choice in deciding which jobs should be the focus of economic policy, and clearly identifying trade-offs and complementarities would be an important contribution to an informed choice.

One way to illustrate the diversity of policy challenges faced in relation to jobs is to consider the labor situation of the various regions in the developing world. At the risk of caricaturing, in Sub-Saharan Africa the immediate challenge is to increase earnings from farming and create enough off-farm jobs. South Asia is confronted with the need to create enough productive jobs to absorb one million new entrants to the labor market every *month* for several decades. East Asia faces almost the opposite challenge, as rapid wage increases will lead to a massive destruction of jobs in low-end manufacturing, a much bigger restructuring than that of the state sector two decades ago. The Middle East struggles to find alternatives for educated (though not necessarily skilled) youth who aspire to civil servant jobs. In Latin America, the debate is about rebuilding the social compact around jobs, encouraging formalization without undermining efficiency. Eastern Europe, like many industrial countries, is confronted with a jobless recovery amidst an ageing labor force.

While jobs agendas differ across regions, in an increasingly integrated world they are also connected with each other. There is a global migration of jobs, shaped by world transformations which include the move towards higher value-added activities in East Asia and the trend towards increasing prices for natural resources around the world. Both developments open up strategic opportunities (from manufacturing in India to smallholder agriculture in Africa) but they also raise challenges (from enclave employment in resource-rich countries to Chinese competition in Mexico). There is also international migration of workers. Even if development strategies were successful at addressing the jobs agenda at the country level, mismatches between labor supply and labor demand are bound to occur, and employment opportunities may need to be found abroad. Some of those mismatches are on a massive scale. Almost inevitably, international migration will be one of the policy levers to consider in South Asia and in Sub-Saharan Africa, given the very rapid growth of their labor forces. Other mismatches are more specific, and can be shaped by culture or attitudes towards work. For instance, new economic zones in Jordan attract Bangladeshi workers, more than Jordanians.

The migration of jobs provides a forward-looking context to identify where good jobs may come from in a particular country, and which policy actions could do the most to support the creation of those jobs. This international context is also useful to foresee the needs for economic restructuring, and be proactive in managing it in economically efficient and socially acceptable ways.

As for the migration of workers, it should also be seen through the lens of the four transformations highlighted above. Thus, migration may be a positive force towards improvements in living standards in sending countries and increased economic dynamism in

receiving countries. But there will also be circumstances in which social cohesion could be affected (especially when recipient countries are very homogeneous). Trade-offs and complementarities will thus need to be assessed at the global level too.

### **Focusing on the obstacles to job creation**

Traditional analyses of the link between growth and job creation consider the degree to which employment affects overall economic activity. The framework discussed above makes it possible to go deeper, by asking where good jobs will come from, and which jobs will gradually disappear. Indeed, jobs are never created at an even pace throughout the economy. Robust employment growth in parts of East Asia and in African economies, such as Mauritius, was associated with dramatic structural change; conversely, the lack of structural change in the Middle East and North Africa has contributed to high unemployment. A rapidly growing manufacturing sector was the salient feature of the former group of countries, whereas labor market issues are overshadowed by the role of the public sector in the latter group. Differences in the vibrancy of job creation can be found not only across sectors: they are also noticeable across enterprises of different sizes, or with different degrees of state ownership. Labor redundancy and job destruction are part of the process too. Overstaffing is common in countries that relied heavily on public ownership, but it is also a central part of industrial development in countries moving up the value added ladder.

Understanding where goods jobs could come from in a particular country context is essential to concentrate efforts on encouraging job creation where it can make the biggest difference. In some cases, the focus may be on specific products or on specific sectors; for instance, light manufacturing may offer more opportunities for productivity growth through global integration than non-tradable services. In other cases, the focus may be on economic units of a certain type; thus, small and medium enterprises may create more jobs than bigger ones. In yet others, location may be the most important consideration; for example, secondary cities may be less congested and have a more accessible pool of low-cost labor than major urban centers. And institutional characteristics of economic units may matter as well; in general, state-owned enterprises have a more bloated workforce than their private sector counterparts.

Understanding where good jobs could come from should also help identify what the most relevant obstacles to job creation are in a specific country context. Some of those obstacles may be found in the labor market itself, for instance under the form of a mismatch between labor supply and labor demand. But in most cases it may be necessary to go beyond the interventions that come to mind when thinking about labor demand, supply and job search. The interventions required, from infrastructure development to agricultural extension, may actually be far removed from traditional labor market policy. A broader view is indeed needed to understand, say, why 80 percent of Uganda's population works in the agricultural sector, where productivity is less than 20 percent of what it is in manufacturing; or whether the service sector of India would be

able to create “good” jobs on a sufficiently large scale to absorb millions of entrants into the labor market; or how Mexico can expand the coverage of its social protection programs without dissuading formalization.

When looking outside the labor market, the framework discussed above should also help focus the attention of policy makers to the most relevant constraints to employment generation. Traditionally, obstacles to job creation are identified with the help of investment climate assessments, based on quantitative and qualitative assessments of the constraints and costs faced by enterprises, or based on careful codifications of the regulatory environment. However, there tends to be a considerable diversity in the assessment of constraints depending on the sector, size, location and ownership structure of enterprises. Similarly, the environment for doing business is assessed on the basis of the laws and regulations applying to a specific type of economic unit, namely a small domestic firm operating in the capital city of a country.

Removing constraints to private sector development is bound to remain central in any development strategy centered on jobs. But the impact would be greater if the focus is on the obstacles faced by the subsets of economic units (sectors, sizes, locations...) deemed to have a higher potential to create goods jobs, rather than on “average” obstacles. The individual policy recommendations resulting from this prioritization may not be new, but their mix would respond better to the jobs challenge faced in a particular context.

### **Implications for development policy**

Seeing jobs as the “hinge” that connects living standards, productivity growth, social change and social cohesion, could provide a framework for policy makers, researchers, advisers and civil society to take a fresher look at their growth strategies, one that is articulated around jobs. Assessing what good jobs are in a specific country context, understanding which activities or units have the greatest potential to create those jobs, identifying the most relevant obstacles faced by those activities and units, and deriving the implications for economic policy across all sectors (and not just in the labor market), are key steps in that rethinking. Going through these steps in practice mainly requires common sense and accessible data, and should be possible at any development level.

While it is not the intention of this note to dwell on theoretical considerations, it should be pointed out that there is a connection between this relatively intuitive framework and more rigorous economic analysis. That connection rests on market failures and externalities, in a way that broadens the approach of traditional labor market analyses. If some jobs are better than others, even after controlling for the earnings and benefits associated with them, then their value to society as a whole is higher. This is because of the externalities these jobs have on the rest of the economy; for instance by fostering the accumulation of skills while working, or by improving resource allocation within households, or by increasing the productivity of other sectors through cluster and agglomeration effects, or by dissuading violence and disengagement

from society. The overall value -- or in economic terms, the shadow price -- of jobs may differ from the earnings and benefits associated with them. And that shadow price depends in turn on societal choices on objectives such as poverty reduction, economic growth, social inclusion or political stability.

In practice, going through the key steps mentioned above is tantamount to identifying the most relevant market imperfections and externalities in a particular country context, and designing policy responses accordingly. Labor market imperfections may be the main issue to address, but it should not be taken for granted that challenges related to jobs always have their solution in the labor market itself.

For instance, if good jobs are associated with greater human capital accumulation while working, education policies should make it easier for people to work in those sectors, and more appealing for enterprises to hire them. Human capital per worker is rising dramatically throughout the world, despite no systematic trend in the wage premium associated with education. But there is a frequent disconnect between increased education and training on the one hand, and getting people into jobs on the other. Investment climate surveys often reveal a mismatch between human capital formation and employers' needs. The framework discussed in this note, and highlighted in the recent World Bank Group education strategy, suggests that attention should go into educating the labor force in anticipation of structural transformation, helping workers acquire not just more or better education, but skills that enable productivity, innovation and entrepreneurship in the activities with the greatest potential for job creation.

A similar logic can be applied in the case of social protection programs. These programs try to compensate for the absence of insurance markets to deal with a range of shocks, from crises to disability to longevity. But as long as formal sector employment is a pre-requisite to access income smoothing mechanisms, social protection programs may amplify the gap between good jobs and other activities involving the use of labor. This is why lessons need to be distilled from a range of programs being tried by developing countries around the world, from subsidized health insurance in Mexico to the non-contributory old-age pension program of South Africa; from the employment guarantee scheme of India to the Di Bao minimum income program of China. At the same time, attention should also be paid to the potential distortions from these programs on incentives to work, save or formalize.

A third area illustrating how the framework proposed here can influence our thinking about program design and evaluation concerns mechanisms for voice and participation. If some jobs are associated with a higher level of subjective wellbeing than others it is probably because they give workers a stronger sense of being an integral part of society. But there could also be institutional arrangements giving this sense of inclusion through greater voice on work-related matters, through the possibility to bargain collectively or through access to fair dispute resolution mechanisms. At the same time, there are examples of arrangements of this sort becoming an obstacle to structural transformation and job creation. Rather than approaching programs in these areas from first principles, it is worth assessing what has worked well in practice and what has not, in both the formal and the informal sectors.

Last but not least, the framework in this note also has implications for program appraisal that are consistent with the reinvigoration of cost-benefit analysis in economic development. If some jobs have positive productive or social externalities, their contribution to aggregate well-being will be understated by the earnings and benefits associated with them. This logic is generally accepted in extreme situations; for instance, when recognizing that programs to keep young men occupied in conflict states are worth their cost because the alternative is to having them join militias or gangs. But it also applies in less extreme circumstances. The debate on whether India can skip manufacturing and focus on services illustrates the point; skeptics believe that most jobs in services amount to little more than making ends meet while manufacturing can lead to deeper structural transformation. Investments in urban infrastructure, power generation or transport connectivity should be appraised under this light if the skeptics are right. The same logic can be applied to social protection; it would certainly favor those programs which create opportunity over those which only cushion drops in earnings.

### **Questions for further discussion**

- With jobs agendas differing so vastly across regions and countries, some experiencing jobless growth and others overheating, is an integrated approach to the jobs issue appropriate?
- In which ways, if any, would a jobs-centered development strategy be different from a growth strategy, or a poverty reduction strategy?