Moving Jobs to the Center Stage

Berlin Workshop Series 2013
Acknowledgements

The Berlin Workshop was a result of close collaboration between the staff of the World Bank, the BMZ, and the GIZ’s Development Policy Forum. We acknowledge and extend our sincere thanks to Justin Lin, then Senior Vice President and Chief Economist of the World Bank, Martin Rama, director, and Jesko Hentschel, deputy director of the World Bank’s World Development Report 2013 on Jobs. We also would like to express our appreciation to Henriette Strothmann, Executive Director of the Development Policy Forum, Sigrid Schenk-Dornbusch, BMZ and Eva Weidnitzer, GIZ. We sincerely thank all authors of this publication as well as all participants in the workshop for their valued input. In addition, we would like to explicitly thank the conference coordinators, Judith Klemmer and Timo von Koenigsmarck, whose commitment and outstanding management skills made the meeting a success. Finally, we wish to thank the editor Grit Schmalisch for all of her dedicated efforts and support in preparing these papers for publishing.
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Agenda
Introduction

Once a year in the fall, the World Bank, the German Federal Ministry for Economic Cooperation and Development (BMZ), and the BMZ’s convening authority, the Development Policy Forum of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), hold an international policy workshop in Berlin. This long-established flagship event, known as the “Berlin Workshop,” brings diverse perspectives and expertise from outside the World Bank, providing an excellent forum in which to exchange ideas and debate in the course of preparing the World Development Report (WDR). The objective always was, and still is, to widen the scope of inputs into the WDR by integrating the views of leading experts from across the international research community.

In 2011, the two-day Berlin Workshop on “Moving Jobs to the Center Stage” brought together representatives or development practitioners from academic, inter-governmental, and think-tank institutions in Europe, the United States, Egypt, Turkey, Bangladesh and the Philippines, as well as from the World Bank and the German development organizations. Participants at the Workshop gathered to discuss the connection between jobs and important dimensions of economic and social development, and to explore policy options to cope with the challenges of massive demographic shifts, global migration of jobs and deep changes in the very nature of work. They exchanged views on the first outline of the WDR to provide the authors of the WDR with ample food for thought.

The topical issues addressed by the Workshop were: conceptualizing “good jobs” and social cohesion; the link between jobs, technology and growth; jobs and labor market institutions; the youth employment challenge; jobs in the informal economy; and jobs, migration and social inclusion. These proceedings include discussion papers on topical issues and the workshop program. Most of the discussion papers were drafted by the editor based on the workshop presentations, and reviewed by the respective participants; some papers were written by participants themselves. Participants’ institutional affiliations identified in this publication are as of the time of the conference, November 11, 2011.
Social Cohesion in a Shifting World

Johannes Jütting, Head of Unit, Poverty Reduction Development Centre, Organisation for Economic Cooperation and Development (OECD), Paris

In November 2011, the OECD launched its Perspectives on Global Development 2012: Social Cohesion in a Shifting World, with the following key messages:

1. As economic uncertainty deepens, now is the time for developing countries to channel their recent prosperity into a more ambitious social cohesion agenda.
2. The process of rapid growth in many developing countries simultaneously presents an opportunity and a risk for social cohesion.
3. It is not only about what you do, but also about how you do it. A social cohesion policy agenda calls for different priorities in policy making.

With the “shifting world” framework, OECD basically alluded to the ascendancy of the East and South. The framework is inspired by the four-speed world view developed by former President of the World Bank, James Wolfensohn.

The OECD report looks at high-growth converging countries – such as well-performing countries in the Arab world but also China, India, and Thailand – and argues that these countries now have the opportunity to invest more in social progress: They have doubled OECD per capita growth rates during the last ten years and experienced increases in tax revenue relative to gross domestic product (GDP), which broadens the fiscal space and creates more resources for their governments. Especially at a time when there has been a debate about rebalancing the economy through consumption-led growth, investing more in the social agenda is key.

The report also argues that these fast-growing countries face numerous challenges – the emerging aspirations of the middle class, for example. It discusses a few policy fields related to employment, social protection, fiscal issues, and civic participation, and tries to link these up with the social cohesion policy framework, thereby concluding that public policies can make a difference if there is an integrated policy framework instead of a focus on one particular field of employment, social policies, or fiscal policies.

The World Bank’s 2013 World Development Report (WDR 2013) flagship report might take a close look at the conceptual framework behind the OECD report and, when introducing the concept for WDR 2013, should keep in mind that there are obviously other definitions. After considerable debate on how to frame their concept, the OECD arrived at the “social cohesion triangle,” which includes three different angles: social inclusion, social capital, and social mobility. The concept of the WDR 2013 basically takes the social capital angle. It discusses trust and civic participation. These are important features of social inclusion; however, the mobility factor could easily be added to the WDR job study. The other angle is obviously how to deal with minorities, the poor, and marginalized groups. Thus the social inclusion angle is equally important.

An employment strategy should take all three elements into account – social inclusion, social capital, and social mobility. Viewing employment outcomes through the social cohesion lens showcases where this can bring about change. If you take social inclusion, it should link employment, education, and social policies in particular. To some extent, there seems to be a puzzling effect if you look at North African examples: People have acquired skills, but in terms of their ability to find jobs, there seems to be a mismatch between skills and jobs. It is very interesting to understand what kind of skills and training are needed to get a better job.

The WDR 2013 will address labor market institution issues. Here, the debate has shifted quite a bit. We often see labor conflicts in western societies because the economy is shrinking and labor must be shed, but in China there is an increase in labor-related conflicts and collective labor disputes despite stronger growth and minimum wages. These increases in labor conflicts create demand for new labor market institutions. There are many fast-growing countries where there is a growing demand for these institutions, which will hopefully be able to regulate these collective action problems in a peaceful way.
One important theme for the WDR 2013 should likely be gender equality. In particular, social cohesion and gender equality is crucial. This becomes clear when the real bottlenecks that keep women stuck in their jobs are examined. The OECD Development Centre developed its own index for measuring these bottlenecks – the SIGI Index (Social Institutions and Gender Index), as it is convinced that these deeply rooted institutional constraints need to be removed if we wish to solve men- and women-related labor issues. The feminization of poverty is another closely connected point as we are seeing an increase in female labor force participation, but there is also the worrying aspect of a double burden on women: waged work and the bulk of household chores.

The main important topics in the WDR concept that have already been mentioned are linked to wellbeing and job quality, but work on structural transformation, which is linked to the shift of wealth among sectors would be a fitting addition. It is very interesting to look at how countries change as they move from agriculture to manufacturing to services, and how they link structural transformation with wellbeing and job quality.
The guiding question of the 2013 World Development Report focuses on “good” jobs – jobs that are good in the sense that they enhance people’s subjective wellbeing and allow them to make valuable contributions to their communities. From the perspective of human empowerment, “good” jobs compatible with human dignity are those that give their performers a decent level of agency, that is, control over how they fulfill their tasks. “Agentic” jobs in this sense have a cognitive, creative, and autonomous (CCA) component. Such jobs require a certain level of skill, so their performance produces feelings of mastery and meaning. CCA features by no means apply only to academic jobs in modern knowledge professions; CCA features can also be enhanced in non-academic jobs. They are also related to some craft skills. The crucial point about CCA jobs is that they involve skill, not deadening routines. The issue of CCA jobs in this sense is not just a luxury topic of rich countries; it is just as relevant for poor countries. For instance, a farmer who owns a plot of land has more agency than a seasonal farm worker.

Evidence from the World Values Surveys in Figure 1 shows that when the CCA feature of jobs increases people are more satisfied with their lives, feel healthier and freer. Even if we look only at low-income countries, the positive aspects of CCA jobs are obvious. This is evident from Figure 2. It shows that when the CCA feature increases people are more active in voluntary associations and more likely to participate in collective action that holds those in power accountable. Indeed, CCA jobs tend to increase the contributions that people make to their communities. The rise of agentic job perceptions is a first-rate indicator of “good” jobs that empower people and make our societies better places to live. The goal of job development is to create good conditions for these jobs, especially through investment in education and education systems. Often, this means breaking people free from social cohesion patterns that chain their initiative and restrict their agency as autonomous individuals. Under increased agency, social cohesion is reshaped from group-clientelism toward voluntary commitments.
Session I: Conceptualizing “Good Jobs” and Social Cohesion

Figure 1. Agentic job perceptions and subjective wellbeing

CCA: Cognitive-Creative-Autonomous perceptions increasing from CCA01 to CCA10.
Data source: World Values Survey Association (2010), round V-2005 (around 50,000 respondents in 50 societies, samples weighted to have equal size).

Figure 2. Agentic job perceptions and their correlates in low-income societies

Data Source: World Values Survey Association (2010), round V-2005. Analyses are for a subset of low-income societies (GDP/p.c. in 2002 below US$1,000), including samples from Burkina Faso, China, Ethiopia, Ghana, India, Indonesia, Mali, Moldova, Rwanda, Ukraine, Vietnam, Zambia (around 12,000 respondents in 12 societies, samples weighted to have equal size).
Structural Transformations: Impacts of Cities on Rural Labor Mobility in Bangladesh

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This summary explores the issue of how the main growth driver – the urban sectors – has influenced rural mobility in Bangladesh. It specifically addresses two links, based on the author’s own work and on research by Hossain and Bayes (2009).

The first link concerns how rapid urbanization has changed the rural land tenure system, which in turn has indirectly helped the poor and the poorest, by providing them with access to land. This may not have been a conscious strategy, but it has turned out to be much more effective than any political, costly land reform scheme.

The second link is that urbanization creates demand for seasonal rural unskilled/semi-skilled (cheap) labor in the property/construction sector, thereby reducing the acuteness of seasonal distress/unemployment in rural areas (much more than any social protection scheme), especially in the north of Bangladesh.

On the first link – land for the poor

Urban growth can change the rural land tenure system and positively influence welfare outcomes. Economists expected in the early 1990s that the rural sector, through high-yielding varieties (HYV), would become more profitable and, as a result, the share of rural households renting their farm land would diminish. In addition, they expected that landless tenants (or “pure tenants”) would virtually disappear. (Osmani and Sen, 2011). However, the data do not support this idea.

In Bangladesh, the share of rented land over the total land increased significantly: from 23% in 1988 to 33% in 2004, rising further to 40% in 2008. Agricultural Census data (1983/84, 1996, 2008) also supports the conclusion. The corresponding figure for the landless group (those owning up to 0.20 ha) also increased: from 31% to 50% during 1988–2008.

The social base of tenants became more broad-based and larger over time: the proportion of households leasing in land increased from 44% in 1988 to 54% in 2000, rising to 58% in 2004. The class of “pure tenants” did not vanish: the share of landless tenants (< 0.20 ha) increased from 34% in 1988 to 54% in 2004. In fact, most of the tenant farmers came from landless and marginal groups (0.21–0.40 ha): They accounted for 62% of total leased-in land in 2000, up from 51% in 1988.

The form of tenancy also changed. Inefficient share-cropping declined gradually over time: out of 40% of land leased in 2004, 16% was cultivated under cash payment for rent as opposed to 24% under share of the crop for the rent (note cash for rent was negligible in the early 1980s). Cash for rent creates more return on farm labor than share for rent (cash equivalent is one-quarter of the produce, while the typical share for rent claims about one-half of the produce).

This greater access to tenancy on the part of landless/near-landless households has been welfare enhancing: it has provided a way of climbing out of poverty. Favorable changes in land tenure as an exit route out of poverty have come as a surprise, as many observers of the period believed that the only way out under land-scarce conditions was moving towards non-farm rural labor. In Bangladesh, these changes have all happened without land reform measures (in contrast to what occurred in West Bengal under similar agro-ecological conditions, land availability and population density).
What conditions the return to (pure) tenancy: the relevance of the supply side

What prompted an increase in the supply of land through the tenancy market? The old tenancy literature that considered it as a form of labor contract underestimated the role of rapid urbanization and international migration. The increasing permanent relocation of middle-income and richer rural households into urban areas, as well as abroad, means that farming options for family-owned, labor-based operations have become unattractive over time. The same applies to the option of farming based on paid labor which demands supervision. As a result, an increasing amount of land became available through the tenancy market during the period of rapid urbanization and international migration.

Urbanization was 12% in 1983/84, increasing to 35% in 2010. Two major cities – Dhaka and Chittagong – constitute about 40% of the country’s consumption expenditure. Remittances now account for over 10% of gross domestic product (GDP).

What conditions the return to (pure) tenancy: the relevance of the demand side

However, the increased supply of land through the tenancy market does not explain why landless and near-landless tenants became a major player in the rental market. Where did they get the capital needed to pay for rent in cash (not to mention the capital to cover the costs of land cultivation)? Normally, the credit market option is ruled out as the land-poor are not seen as bankable borrowers. This is the role of microfinance. Landless and near-landless groups account for the bulk of institutional credit in Bangladesh (government plus microfinance institutions) – their combined share was 53% in 2008. The share of the landless group in total rural institutional credit increased from 21% in 1988 to 43% in 2008. Although micro-finance institutions (MFI) loans are given for non-farm rural sectors, the fund is often rechanneled into farm operations (and vice versa).

What can be deduced from the first example on the links between jobs, structural transformation, and growth?

The pattern of growth (such as rapid urbanization), global opportunity (international migration), and internal institutional development (microfinance) all matter greatly. Urbanization, international migration and microfinance all acted positively during structural transformation in Bangladesh. They indirectly brought about land tenure changes (a structural transformation) that worked favorably for the poor and the poorest. These factors helped the occupational mobility of the rural poor and reduced the level of unemployment and underemployment that mark their traditional existence as unskilled agricultural labor.

As many landless households now participate more than ever before in the tenancy market, this could have positive effects on the rural labor market, tightening and increasing the wage rate of unskilled rural labor – a possible hypothesis for future research.

On the second link – migration as social protection

A plethora of social protection schemes operate in the spatially poor and natural disaster-prone areas (the so-called Monga-affected areas) in Bangladesh. Seasonal migration to the urban construction sector (specifically the brick-making industry) can lead to a reduction of seasonal distress, perhaps more effectively than social protection programs. This is based on the preliminary evidence.

In the period 1990-2010, major structural change took place: the industry (manufacturing plus construction) share of GDP increased roughly from 20% to 30%, with the share of agriculture declining from 30% to 20%, while that of the service sector remained largely unchanged at 50%. Within the service sector, there have been shifts from low value-added services to high value-added services. These structural changes have been brought about by a combination of factors such as technological progress in agriculture, export-led manufacturing growth, and construction sector growth supported by international remittance.

Role of seasonal rural-urban migration

The case study of brickfield workers in the areas adjacent to the city of Dhaka reveals that they come from the disaster-prone areas of both the southern (coastal belt) and the northern (river erosion belt) parts of the...
country. Most of the migrant workers are in the 30-45 age group; 57% have no education and only a quarter have completed primary education, so the issue here concerns intersectoral (rural-urban) mobility at a very low skill level. Typically, they migrate during the lean season of September to October when there is a lack of employment opportunities in the rural areas (with duration of work ranging from 60 to 90 days).

Most of the respondents were engaged in agriculture (both self-employed and as laborers) and non-agricultural wage work as their main occupation prior to their migration. Typically, the average monthly income of the respondent before migration is BDT 1,280 in contrast to post-migration monthly income of BDT 5,385. Typically, they send on average BDT 16,000, annually, to their families that stayed back in the village (this may be compared to at most BDT 6,000 per year that is received by a social protection beneficiary in rural areas – including conditional cash transfer recipients).

Why could not all the poor groups from the same communities avail themselves of this migration opportunity? Microfinance institutions (MFI) can provide one explanation here in terms of differential access to migration-finance: 70% of the workers surveyed have reported being members of MFIs in the sending villages, and used MFI resources for migration financing – an option not always available to many extreme poor. There may be a possible influence of migration on food deficit.

Table 1. Subjective food-poor status before and after migration

<table>
<thead>
<tr>
<th>Food availability status of sending households</th>
<th>Before migration</th>
<th>After migration</th>
</tr>
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<tbody>
<tr>
<td>Occasionally in deficit</td>
<td>20.6</td>
<td>61.8</td>
</tr>
<tr>
<td>No deficit or surplus</td>
<td>8.8</td>
<td>35.3</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Concluding remarks on the second link

Seasonal rural-urban migration responds to urban growth areas such as the real estate and the construction sectors. This has strong potential effects on mitigating rural distress – possibly far more than social protection programs currently operating in rural areas, provided there other institutions are involved. Migration is therefore not a random process. Only those who can meet the costs of migration financing (supported by non-governmental organizations or MFIs) will be able to take advantage of the new opportunity.

Finally, therefore, considering the first link and second link, it appears that both case studies suggest the need to continue studying the interactions between institutional factors and global and national economic opportunities, in order to assess the welfare effects of the resultant changes in the national labor market.

References

This paper focuses on three issues. It discusses the link between employment and technology, and it shows the lessons learned from countries which have developed industrially, such as Korea and Mexico. The paper also tries to answer the question whether we can have industrial policies that are pro-poor. It concludes with some ideas about the development of institutions.

The link between employment and technology

The effects of technological progress on employment have been quite ambiguous. Two expected things have occurred: the first is a capitalization effect, meaning that technological progress favors employment by creating opportunities for profit – and this is where we expect the entire structural transformation debate to move. The other is “creative destruction,” which means that while technological progress destroys employment through restructuring, it is also likely to create more employment in some other sectors, or spread into the informal sector in developing economies.

With regard to technology, it is also important to look at certain characteristics of innovation, for example, whether the country is moving towards product innovation or process innovation. Evidence shows that product innovation has some positive effects on employment, while the results are not robust where process innovation is concerned. Literature on the debate about technology and growth also includes Skill-Biased Technical Change (SBTC), a concept which points to a shift in production technology that favors skilled over unskilled labor by increasing its relative productivity and, therefore, its relative demand. Both developed and developing countries’ technological progress is biased in favor of skilled workers.

Related to this is the question of what kind of growth matters for jobs. Whether countries prioritize growth or prioritize employment will also affect the technology chosen. If growth is your objective, then the choice will be a high level of technology. However, the example of India, which has a very high level of growth originating from high-tech sectors like finance and IT, shows that even when a large number of jobs is created – in the millions – this is nevertheless still small as a proportion of the total employment generated. It is therefore very important to move towards more employment-intensive growth, rather than just growth per se.

Industrial development – lessons learned from the Republic of Korea and Mexico

What have we learned from the industrial development patterns in two parts of the globe, the Republic of Korea and Mexico? If we look at industrial development in Korea, we see a very carefully planned economy with a very clear focus on industrial policies. The sequenced promotion of industries, from low- to medium- to high-tech industries, was very good, and it was inward-oriented in the sense that much of the technology came through trade, copying, reverse-engineering, and technology licensing. Dependence on foreign direct investment (FDI) was very limited, and firms developed their own R&D after a period of time.

The other point that is very important in the Korean context is that there was productive transformation as productivity increased in both the agricultural and industrial sectors at the same time. This is a very decisive aspect, because industrial sectors in many countries across the globe, including India, have not developed because of a lack of aggregate demand, or because agriculture has not attracted the kind of investment needed to create demand from the industrial sector, which would allow it to grow. Clearly, there is a need for productive transformation at both levels for any economy to grow.

The process of productive transformation in Korea was also backed up by educational structures and invest-
ment in education. This played a very important role, as the country invested in education not only at the primary level, but at all levels of education, including vocational training. Interestingly, Korea’s educational policy preceded its industrial policy. What is more, and what is also very specific to Korea as far as employment is concerned, is that skills were generated at all levels. There was no skills shortage, and employment was not such a major problem. However, workers’ rights and labor standards were not respected in Korea, both with regard to working hours and wages.

Figure 1. Educational structures as carriers of capabilities

On the other hand, Mexico was much more outward-oriented and attracted a lot of FDI. However, Mexico never had a clear-cut domestic policy for developing domestic firms; it basically lacked institutions that linked foreign capital with domestic firms or developed any sort of capability within domestic firms. It is interesting to note that foreign firms also owned firms down the value chains, meaning that there were no backward linkages as such in Mexico. Furthermore, there was a lack of focus on education policy or technology policy, and employment was generated largely in the low skill sector. As a result, when Mexico joined NAFTA, many of the firms moved to China, largely because of the low labor costs in China, and there was an enormous impact on employment.

Thus it becomes very clear that we should look back at what the Republic of Korea did when talking about industrial policy for any of the developing economies. The question remains, however, whether the Korean path or experience is replicable, especially if we take into account that we have global production networks and global value chains today. Thus, even if a country basically invests, it still might move down this road where truly global production processes become increasingly fragmented and segments of the value chains are located in different parts of the world, largely due to low labor costs.

**Industrial policy – Can it be pro-poor?**

To ascertain whether we can implement pro-poor industrial policies, we have to look into industrial development and poverty reduction, because unless we try to address the issue of poverty and increase the incomes of the poor, there will be no creation of aggregate demand or movement up the layers of industrial production processes.
Depending upon the pattern of industrialization considered, almost every country has deployed some sort of labor-intensive technology – during its early phases of industrial development – and has tried to employ unskilled workers and thus reduced poverty. This occurred in the Republic of Korea, Taiwan, Malaysia, and Thailand. In Bangladesh, the development of the textile industry resulted in increased demand for unskilled workers and reduced poverty. In Mexico, this was much less the case than in other countries; skilled workers benefited more than unskilled workers. In China, the situation has been quite mixed, as modern industrial development has taken place in the eastern coastal region, meaning that inland poverty was not reduced. With regard to India, many maintain that the early phase of industrial development was relatively capital intensive, and so did not really help reduce poverty. However, right from the time of independence, India systematically developed small and medium-sized enterprises (SMEs) and ancillary industries through backward linkages, which provided modest employment opportunities for the poor and unskilled workers. The liberalization of the Indian economy in 1991 resulted in strong support of the automobile sector. The production systems underwent a huge change from mass production to flexible production systems. The automobile industry in India is very hierarchical and the system comprises auto assemblers, firms, small firms, and informal enterprises. Even today, within the process of industrial development growing industries exist, and as a result, employment is generated even at the lower end of an industry – that is, in the informal enterprises. This is where enormous industrial growth can be found.

**Development of institutions**

In a labor-abundant economy, the development of institutions is indispensable for greater job creation. In addition, education should be given utmost priority. There is a need for more re-training, infrastructure support, and innovation, as well as for the creation of technological capabilities, for example, through investment in R&D. We also need to focus on poor, unskilled, and informal enterprises by having in place appropriate technologies that lead to more employment. Another issue that requires attention is the credit constraints enterprises face, which limit their investment opportunities. Finally, we need to emphasize vocational training and skill certification, as well as minimum wages, working conditions, and social security.
Why have some labor markets weathered the Great Recession better than others?

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The performance of labor markets during both the Great Recession of 2008–2009 and the ensuing recovery varied across different countries in unexpected ways compared to previous business cycles. Prior to the Great Recession, global economic downturns generally had a greater adverse impact on labor in developing countries than in more economically advanced countries. This pattern was reversed during the Great Recession. The adverse shock of the recession had a lesser impact on labor markets in developing countries than in advanced countries. During the recovery, employment and growth rates regained previous levels in developing countries more quickly than in advanced countries.

The Great Recession and recovery also saw a change in the cross-country pattern of labor market outcomes among advanced countries compared to previous cycles. From the 1980s until 2007-08, advanced countries with more market-oriented labor markets (such as the US and other largely English-speaking economies), expanded and adjusted employment levels relative to the working age population. These economies adjusted more successfully to negative macro-economic shocks than did more institutionally-oriented European Union (EU) economies. Many analysts and policy makers expected the US's superior performance in employment to continue after the implosion of Wall Street. However, this expectation turned out to be wrong. In the Great Recession, many European countries in which the government or social partners regularly intervened in the labor market and that developed US-style flexibility experienced fewer job losses and better recoveries in employment than the US and other economies.

This essay briefly reviews the evidence regarding the differing performances of developing countries relative to advanced countries, and the more market-driven advanced countries relative to the more institutionally-driven advanced economies during the Great Recession and its aftermath. I then draw five tentative lessons from the Great Recession/recovery experience about the role of labor institutions and markets in dealing with economic crisis. I conclude by noting the importance of financial market developments and fiscal and monetary policy in determining labor outcomes and I argue that it is incumbent on analysts and decision-makers concerned with the wellbeing of workers to pay greater attention to decisions in those areas and ways in which labor can influence those decisions.

Recession and recovery – Expectations and reality

Economic statisticians define recessions and recoveries in terms of changes in production as measured by gross domestic product (GDP), rather than employment. Throughout most of the post-war period, employment was a coincident (or mildly lagging) business cycle indicator, falling when GDP fell and growing when GDP increased. In the 1990s and the first decade of the 2000s, however, the link between GDP and employment during recoveries was weaker in several countries, of which the US is the most prominent. The results were “jobless recoveries” in which employment growth lagged considerably behind the recovery of GDP.

1 NBER defines a recession as “a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales”. It does therefore take account of employment, although GDP, real income, and other measures of production are used to determine whether a state of recession exists. The UK defines a recession as two or more quarters of decline in GDP.
For the purpose of this analysis I distinguish three types of employment adjustments over the business cycle.

The first is a "V"-shaped pattern, in which employment closely corresponds to GDP. In this adjustment process recessions are characterized by near co-terminus drops in employment and recoveries with commensurate increases in employment. The V shape is to be expected in an economy characterized by a fixed aggregate labor/output ratio (so that a 1% change in output translates into a 1% change in employment) or by most other aggregate production functions such as the Cobb-Douglas, in which the percentage change in employment due to a 1% change in output diverges from strict proportionality in direct proportion to labor's share of output, elasticities of substitution, and whether capital also changes during the period.

The second type of employment adjustment is a flat pattern in which GDP contraction and expansion has little impact on employment, producing stable employment over the business cycle. This is to be expected in an economy with strong employment protection legislation. In a recession, severance pay and related costs from laying off workers induce firms to maintain employees. In a recovery, the costs from laying off workers in a future recession induce firms to hire fewer workers than they would without protections against layoffs and thus achieve a modest increase in employment. Limited response of employment to output during both recession and recovery times produces rough stability over the business cycle.

The third type of employment adjustment is an "L"-shaped pattern. In this case, firms shed jobs during a recession but fail to rehire workers when GDP picks up, producing a jobless recovery. Some analysts believe that modern technology has enhanced the likelihood of this form of adjustment by shifting demand away from work traditionally done by less skilled workers and offering greater options for the use of machines/robots.¹ Digtalization purportedly strengthens the job destruction part of creative destruction without enhancing job creation. Other analysts worry about an L shape arising from the inability of national governments faced with high debt to GDP ratios to provide the fiscal-monetary stimulus necessary to restore full employment.

During the Great Recession and recovery, developing countries more closely followed the V shape than did advanced countries, which seemed to follow either stable or L patterns of adjustment. Export-oriented developing Asian countries were hit hard at first by the global recession and suffered sizeable output/jobs loss. In winter 2008–2009, for example, firms in China laid off some 20 million migrant workers in the Pearl River Delta but the Asian exporters made quick recoveries. By 2010 the labor market in China was booming once again. The pattern in other developing countries was similar. Prior to the Great Recession, any time the US suffered a recession, Latin America suffered even more. When advanced countries did poorly, Africa did worse. During the Great Recession, the opposite occurred. Developing countries in Asia, Latin America and Africa experienced more modest job losses/reductions in job growth than advanced countries. The ILO’s 2010 World of Work report shows that there was less loss of employment in lower-middle-income countries from the first quarter of 2008 through 2009 than in high-income countries (Figure 1.2, p 4). One reason was that employment in the informal sector of developing countries compensated for falls in formal employment (Figure 1.7, p 9). Working in the informal sector is generally less desirable than working in the formal sector – employment numbers therefore exaggerate the difference in experiences. However, inasmuch as it is better to work than to be jobless, developing countries tend to adjust more successfully to the recessionary shock.

Figure 1 summarizes the ILO data on the pattern of employment in advanced economies, emerging economies (upper-middle income in World Bank classifications) and developing economies (lower-middle income in World Bank classifications). Panel A depicts employment-population ratios. The figure for advanced countries shows a substantial drop in the employment-population rate from 2007 to a trough in Q1 of 2010, followed by a modest increase thereafter that nevertheless did not in 2011 return employment to its 2007 level.


3 http://news.xinhuanet.com/english/2009-02/02/content_10750749.htm
The figure for emerging economies shows a sharp drop from 2008 to 2009 but substantial recovery during 2010. The figure for the developing economies shows a drop in the growth rate between 2008 and 2009 but a continued increase thereafter. The unemployment rate statistics in Panel B show increased long-term unemployment and percentage of population in the “inactive state” in advanced countries compared to decreased long-term unemployment and inactivity in developing economies. Additional data in the ILO’s short term indicators of the labor market data files show that the difference in employment between advanced countries and other countries is most pronounced in manufacturing.5

Among advanced countries, most analysts expected that the flexible US and other (mainly but not exclusively English-speaking) countries with a similar reliance on market forces to determine labor outcomes would perform better than countries that maintained strong employment protection laws and labor institutions. As expected, the more market-oriented countries experienced sharp job losses in the Great Recession but did not make commensurate job gains in the recovery. For the most part, these countries had sluggish recoveries – more closely resembling the L shape than the V shape. The pattern is most pronounced in manufacturing in the US. Firms shed workers more rapidly than output fell during the recession, causing a huge increase in productivity but such a modest increase in employment during the recovery that the number employed in June 2012 in the sector fell short by 2 million of the number employed before the recession (June, 2007).6

Other analysts expected that Denmark’s “flexicurity” policies that encourage mobility while providing extensive unemployment benefits and flexibility reforms that many European Union countries had undertaken would produce better labor responses to the recession and recovery than those of countries that maintained strong employment protection laws and welfare state policies for dealing with the unemployment shock.

On the contrary, EU countries intervened actively in the labor market to preserve work and keep workers off the dole, despite the fall in output that functioned better on the employment side. These countries took sharp drops in productivity to maintain work. Data from the US Bureau of Labor Statistics (BLS) International Comparisons show that during the 2008–2009 Recession, ten of eleven EU countries reduced productivity to preserve jobs while US manufacturers increased productivity.7 Some EU countries kept employment up by encouraging work-sharing and reductions in hours despite reduced demand for output. Such policies allowed the Netherlands and Germany, in particular, to stabilize employment during the recession and increase it modestly afterwards. If during the recovery, EU productivity failed to snap back to previous levels, the EU would risk serious long-term economic damage. However, BLS data show substantial increases in manufacturing output per hour in 2009–2010 in countries that adopted job-preserving policies during the recession.8

The employment experiences of the US and Germany highlight the differences in responses between an economy that relies largely on an unfettered labor market and one where government and social partners intervene to maintain employment at socially desired levels. In the Great Recession, US employment fell by 6.4% in January 2008 from a peak of 138 million non-farm payroll workers to 129 million non-farm payroll workers in February 2010.9 By contrast, Germany had essentially no change in employment during the recession. During the recovery and through March 2012, the US increased employment by 1.1% over the February 2010 bottom rate while Germany increased employment by nearly twice that percentage gain. This, despite the fact that over the same period, the US and Germany had roughly comparable changes in GDP.

Lessons learned

Economic crises are “natural experiments” for assessing the strengths and weaknesses of different ways of organizing markets. Given that crises invariably produce greater and longer-lasting changes in economic

5 http://laborsta.ilo.org/sti/sti_E.html
6 http://data.bls.gov/timeseries/CES3000000001
economic crisis. For advocates of flexibility reforms that weakened both labor protections and the role of institutions in determining wage and employment outcomes, the surprising fact was that their preferred policies failed to help the labor market respond efficiently to the crisis. From the horse’s mouth, as it were, the OECD’s own assessment is overwhelming: “There does not appear to be ... any strong reason to expect that recent structural reforms mean that OECD labor markets are now substantially less sensitive to severe economic downturns than ... in the past ... the ‘great moderation’ apparently cannot be attributed to greater resilience owing to the types of structural reforms that have received a lot of attention from labor market analysts and policy makers ... any clear grounds for concluding that workers, generally, are either better or worse prepared to weather a period of weak labor markets than was the case for the past several recessions”11. Put in less bureaucratic terms, policies to increase reliance on market forces did nothing to buffer labor markets from the severe shock of 2008-2009.

3) In part, the effort to improve labor market performance by reducing the role of institutions did not succeed during the recession or its aftermath because real labor markets unencumbered by institutions do not behave according to textbook analyses of market clearing, and also because firms and workers cannot coordinate to increase possible options for responding to a crisis. In the ideal competitive market, wages bear much of the burden of adjustment; workers move rapidly into new jobs, keeping spells of unemployment short. Prior to the recession, evidence on the pattern of wages among US workers and establishments showed surprising divergences from the competitive ideal: high and rising dispersion of pay among seemingly similar workers/estab-

lishments rather than the convergence of wages to single market clearing levels. The recession did little to change this pattern, as the wage structure adjusted only modestly to the massive loss of jobs. Establishments and sectors with rising productivity reduced employment. Job mobility fell and spells of unemployment grew longer, though still shorter than in most European countries.12 The biggest problem, however, was the slug-

10 http://www.oecd.org/dataoecd/42/51/1941679.pdf; Also see http://www.oecd.org/dataoecd/57/7/1868601.pdf
11 OECD, Employment Outlook, 2008, pp. 39-40
12 Erling Barth, Alex Bryson, Jim Davis, Richard B. Freeman (2012), “It’s Where You Work: the contribution of establish-

ments and firms to the increased dispersion of US earnings” NBER WP, forthcoming

and social life than the “haggling” of markets during “normal” times, we may learn more about the nature of different institutional systems in times of crisis than in normal times. From the pattern of labor market responses to the Great Recession and recovery, I draw the following five lessons.

1) Labor institutions and policies matter. Those who are skeptical of the importance of labor policies and institutions on market responses to an economic shock should find their skepticism diminished by the Great Recession experience. As the US-German comparison just given indicates, countries with similar changes in output had hugely different employment experiences during the period. Table 1 shows the divergence between annual changes in GDP and employment in advanced countries during the 2008-2009 period, when the recession struck virtually all of them.

The range of changes in employment is considerable, not only overall, but also among countries with roughly similar changes in GDP. Countries with large declines in GDP (5% or more) had a 6.7 percentage point change in employment (from -1.5% in Japan to 8.2% in Ireland) compared to a 3.0 percentage point change in GDP. There is a similar pattern for countries with moderate declines in GDP (3.5% to 4.9%). Although the US and the Netherlands experienced the same percentage drops in GDP, the Netherlands suffered no loss of employment while US employment fell by 3.7%, making it the third most adversely impacted economy after Ireland and Spain. Except for the 4.6% increase in employment in Singapore, the experiences of countries with modest declines in GDP or increased GDP are less disparate. Point estimates regarding the elasticity of employment to GDP (= the ratio of the percentage change of employment over the percentage of GDP) summarize the disparate experience in a single statistic. As far I can tell, the differences in employment elasticities largely reflect differences in labor institutions and governmental responses to the recession: fewer job losses for countries that adopted policies designed to minimize the impact of the recession on jobs and more job losses for countries that did not adopt such policies.

2) Labor flexibility of the type promulgated by the OECD’s 1994 Jobs Strategynet did little to ameliorate the effects of the

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10 http://www.oecd.org/dataoecd/42/51/1941679.pdf; Also see http://www.oecd.org/dataoecd/57/7/1868601.pdf
11 OECD, Employment Outlook, 2008, pp. 39-40
12 Erling Barth, Alex Bryson, Jim Davis, Richard B. Freeman (2012), “It’s Where You Work: the contribution of establish-

ments and firms to the increased dispersion of US earnings” NBER WP, forthcoming
gish expansion of employment that created the longest jobless recovery in the country’s history. Profits recovered but employment did not.

4) By contrast, institutionally-driven labor markets performed better than expected because institutions did not set inflexible barriers to economic responses during the crisis but instead enabled firms and workers to coordinate on modes of adjustment that they could not have attained by themselves. The EU has categorized the institutional responses of European countries to the crisis as those that lowered working hours, for instance, through subsidized short-time work (Germany, the Czech Republic, Slovakia, Greece) and those that involved reductions in hourly productivity (the Netherlands, Japan, UK, and Romania), with the state paying for some of the wage for non-worked hours when firms were obligated to train workers. During the recession, short-term work skyrocketed in Germany. While this was not the whole story of the German “employment miracle”, it played a major role, along with related institutional responses, rather than labor markets unencumbered by institutions, in the avoidance of job losses in Germany during the recession.

5) Finally, developing countries not only responded more effectively to the recession than advanced countries, but China and the majority of Latin America raised wages and incomes for low income workers and families throughout the recession and the recovery by adopting pro-labor policies. China enacted a contract labor law that took effect right before the recession struck that improved the wellbeing of migrant labor by increasing medical insurance coverage, social security, and injury and unemployment insurance without adversely affecting the jobs recovery. China also greatly increased minimum wages during the recovery.

Conclusions

“It ain’t over till it’s over”. The world economy has not yet fully recovered from the Great Recession. The experience of recession and recovery through 2012 shows that labor markets in developing/emerging economies have done better than those in advanced economies in their response to the negative shock. The flexible US-style labor market model has not operated as expected; advanced economies that relied more on institutions with a sturdy safety net tended to do better in preserving and creating jobs during the crisis. Labor market institutions and policies made a difference in how the shocks impacted workers.

No form of labor market adjustment or policy can fully compensate for the adverse effects of the crisis. The underlying problem in the global economy did not come from labor markets but rather from the financial sector and governmental policies that put the interests of banking and finance above those of the real economy. Weak efforts to reform banking coupled with huge increases in national debt to stimulate economies and preserve the banking systems create the risk of a recurrence of the recession, yet again putting great pressure on labor markets. The best protection for workers is a better functioning financial system and governments that respond better to the wellbeing of workers. This is likely to require that groups representing labor pay

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13 European Union, Employment in Europe 2010, chart 12b.
15 Burda, Michael, and Jennifer Hunt (2011), “What Explains the German Labor Market Miracle in the Great Recession?” CEPR Discussion paper 8520, August, attribute 40 percent of the “missing employment decline” to having modestly increased employment within the country in previous years, 20 percent to wage moderation, and most of the remaining percentage to the adoption of working time accounts enabling employers to avoid paying overtime if hours per worker average out to standard hours rather than to government-sponsored short-time work.

greater attention to finance and monetary-fiscal policy
decisions than they have in most countries, and that
labor researchers add new variables or indicators about
the influence of labor on the operation of financial mar-
kets to their analysis of regulations, collective bargain-
ing, etc.

Figure 1A. ILO Estimates of employment-population rates for Persons Aged 15+ in Advanced Economies,
2004-Q3 2011, and in Developing and Emerging Economies, 2007-2010

Advanced Economies
Developing Economies
Emerging Economies

Figure 1B. ILO Estimates of Long-term unemployment rates and Inactivity Rates for Advanced and Developing,
Q3, 2007 to Q3, 2011

Source: ILO, World of Work 2012, Panel A from figure 1.11, p8, figures 1.12-1.13, p 19
Panel B, figure 1.2, p 5. Definition of country groupings. See list in Appendix A, p 22
Advanced countries: 36 high-income countries, with GNI per capita of US$12,276 or more.
Emerging countries: 30 upper-middle-income countries with GNI per capita of $3976 to $12,275
Developing countries: 23 lower-middle-income countries with GNI per capita from $1006 to $3975
The statistics relate to different numbers of countries from the groups, depending on data availability

### Table 1. Annual Rates of Changes in GDP and Employment, 2008-2009

<table>
<thead>
<tr>
<th></th>
<th>% Change GDP</th>
<th>% Change employment</th>
<th>Point elasticity of employment to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Large declines in GDP</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>-8.2</td>
<td>-3.5</td>
<td>0.43</td>
</tr>
<tr>
<td>Ireland</td>
<td>-7.6</td>
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<td>1.08</td>
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<td>Japan</td>
<td>-6.3</td>
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<td>Sweden</td>
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<td>-2</td>
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<tr>
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<td>-5.2</td>
<td>-1.7</td>
<td>0.33</td>
</tr>
<tr>
<td>Denmark</td>
<td>-5.2</td>
<td>-2.9</td>
<td>0.56</td>
</tr>
<tr>
<td><strong>Moderate declines in GDP</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-4.9</td>
<td>-1.6</td>
<td>0.33</td>
</tr>
<tr>
<td>Germany</td>
<td>-4.7</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
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<td>-4.1</td>
<td>-1.2</td>
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<tr>
<td>Austria</td>
<td>-3.9</td>
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<tr>
<td>Spain</td>
<td>-3.7</td>
<td>-6.6</td>
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<tr>
<td>Netherlands</td>
<td>-3.5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>US</td>
<td>-3.5</td>
<td>-3.7</td>
<td>1.06</td>
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<tr>
<td><strong>Modest declines/increases in GDP</strong></td>
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<td>Belgium</td>
<td>-2.8</td>
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<tr>
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<td>4.6</td>
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<tr>
<td>Korea</td>
<td>0.3</td>
<td>-0.3</td>
<td>--</td>
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<tr>
<td>Australia</td>
<td>1.3</td>
<td>0.7</td>
<td>0.54</td>
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Jobs under Fire: Employment in Conflict-affected and Fragile States

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Violent conflict is one of the main obstacles to employment creation and poverty reduction around the world. Setting aside for a moment war mongering, fighting, looting or piracy as occupational choices and hence profitable or utility enhancing activities, violent conflict remains a persistent, significant and complex driver of underdevelopment and human misery. While incidents of outright war and the deaths they entail vary from region to region and year to year, a significant burden on employment is also created by the legacies of past conflicts.

This paper explores the link between conflict and employment from a number of angles, offering comparisons with other areas of economics and hinting at some policy-relevant aspects. The main message is that conflict resolution remains a huge development challenge, enabling job creation to lead to poverty reduction and wealth creation – and in turn to more peace and security.

Violent conflict usually hinders economic activity and hence depresses growth. This may happen before the violence breaks out (as people expect violence and uncertainty rises, inducing a slump in investment and capital flight), when the fighting is ongoing (thus destroying capital depending on the nature of the conflict) or after the end of open hostilities (because rehabilitating infrastructure and rebuilding trust are equally slow processes). The whole conflict cycle hence has a dampening if not outright destructive effect on employment.

The type of conflict and the nature of employment are key determinants of the costs of conflict. Long-lasting civil wars may be more destructive to the social and legal fabric of an economy than shorter international wars, which may leave the governance and institutional framework of the economy intact. Furthermore, destruction in a localized war (either national or international) may be less severe and more domestic resources may be available to help rebuild, assuming the entire country does not suffer from simultaneous destruction.

Export-oriented sectors such as primary commodities may suffer more from war because the fixed production factors make the situation more vulnerable to disruption and looting. More informal sectors may suffer less from war as they may be more adaptable and less exposed to fighting. In summary, violent conflict entails a massive and often highly covariant stress, impacting on human, physical, financial and social capital in a variety of ways.

A critical issue often overlooked before the emergence of the so-called “fragile state” is the role of institutions in violent conflicts. The experiences of Somalia, Iraq and Afghanistan have illustrated how a lack of social cohesion, trust and legal structures breeds both violence and unemployment, which then probably interact in a complex and dynamic fashion. It is rather surprising that economics as a discipline has taken so long to address this topic, as economists are used to making and then relaxing assumptions in their models.

One of the most fundamental but often implicit assumptions of economics is that there is respect for property rights. If two agents enter into a contract, then non-compliance with this contract can be pursued in the legal system. Even more fundamentally, it is the right of the State to shape the allocation of property rights and to regulate the use of force. However, enemies in a violent conflict call these assumptions into question.

For example, rebels wishing to secede claim the right to shape property rights in their region, thus opening up a very fundamental conflict over governance and generating distrust, suspicion, pessimism and short-sightedness in the process. These are not good starting conditions for creating stable businesses yielding high
employment growth. Though much of labor research, also in development economics, concerns itself with much more subtle points, violent conflict is probably the most serious existing hindrance to job creation.

To illustrate the importance of property rights for conflict, consider the case of an economic recession – a time at which the economy experiences changes in quantities and prices. While some firms may go out of business and some people may lose their jobs, these are regular adjustments which do not really change the face of the economy substantially (at least when compared to the following two cases).

During a period of economic transition from socialism to a market economy as experienced by certain sub-Saharan African countries in the 1980s, Germany as well as Central and Eastern European countries in the 1990s and some Arab states in the 2010s, adjustments in quantities and prices are involved, as are large structural changes. Rather than single plants or firms closing, whole sectors may cease to operate, thus changing the economic geography of entire countries.

The effects of war on an economy are similar to the experience of transition except that property rights are also systematically called into question. During transition, property rights may be administratively reallocated, but during war the reallocation is violent. This naturally changes the calculus of economic agents, if only because it now introduces a return to violence and with it a group of war entrepreneurs and beneficiaries of conflict who were previously disregarded.

In the following section I offer some examples from my own research to illustrate how war impacts on employment in several ways. In Northern Mozambique, we found that smallholders had perfected their coping strategies during the long civil war by growing local crops such as cassava and maize.1 After the war, donors encouraged farmers to turn to cotton, a traditional but neglected cash crop in Northern Mozambique. Farmers did adopt those crops but in doing so massively reduced their incomes and welfare. They saw the move as a desperate insurance policy, as returns from cotton and, say, maize are not perfectly correlated. However, diversification proved to be very costly and on balance farmers would have been better off if they had received assistance to perfect and adapt their coping strategies with cassava and maize, rather than being encouraged to adopt highly risky and, under the circumstances, inappropriate, farming practices.

In Northern Uganda, my co-authors and I found that a number of internally displaced persons (IDPs) had adjusted to life in the camps to some extent, with many people finding the opportunities for trading and the social services in the post-war IDP camps enough of an incentive to stay in these former camps, which ended up as new villages or urban centers in some cases.2 Other households returned home after the end of the war and restarted their agricultural pursuits in their home villages. Having experienced significant conflict in your home area drives your decision to return – but also shapes your views of the future.

Such examples demonstrate that conflict experiences and legacies can shape employment behavior and welfare outcomes – often years after the guns fall silent. This also has a methodological implication for research and analysis in conflict-affected locations. It is important to measure and monitor conflict exposure at the individual level. Even within households, men and women, adults and children, migrants and non-migrants, ex-combatants and non-combatants may experience conflict very differently – hence posing different challenges to their employment opportunities and constraints. We will have to measure this individual “conflict exposure” in future Demographic and Health Surveys (DHS), Living Standards Measurement Surveys (LSMS) and labor force surveys to make sense of employment behavior in conflict affected countries.3

There are two important caveats to be made about this simple truth. First, employment in this context may not

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be restricted to formal sector employment. In countries prone to conflict and fragility, informal employment (if not illegal employment) in subsistence activities such as agriculture and simple entrepreneurial and self-employment activities such as farming or hawking are numerically extremely important. In my view, these issues are often overlooked, thus reducing the relevance of such analyses for poverty reduction in some of the world’s least developed countries.

Second, and we have seen, it is hard to establish causality between violent conflict or fragility on the one hand and underdevelopment on the other. Most likely, these two processes go hand in hand in most circumstances. There is therefore no clear answer to the question of whether, as was attempted in both Iraq and Afghanistan, security first has to be established before creating employment or vice versa. It is hard to work well while shooting goes on overhead. Likewise it is hard to remain peaceful in the face of abject human suffering.

In conclusion, the nexus between employment, poverty and conflict is obviously of critical importance – even if we are far from fully grasping the details of how these issues relate to each other. From a policy perspective, it is important to consider how to achieve “secure jobs” – that is, to learn about which security conditions enhance job creation – and which labor market institutions encourage peaceful behavior.

Much can be gained in this regard by considering different levels of analysis. Even in times of conflict, individuals can be encouraged to strengthen their human capital, ideally in a way that is impervious to war activities. Furthermore, encouraging informal self-employment and entrepreneurship are good labor market policies in times of severe insecurity. At the local level, institutions counteracting violence and permitting markets to work can be strengthened, even in the absence of a functioning national government or a ceasefire. Finally, at the national level, policies reducing horizontal inequalities, strengthening formal institutions (including in the justice and legal system) and forming positive expectations of a peaceful future can contribute to “secure jobs”.

References


The focus of this paper is on Turkey’s labor market institutions, their effects on employment, and on policy implications for low and middle income countries. The paper bases on several studies (Betcherman, Meltem Daysal and Pagés, 2010, World Bank 2009 and 2009, Taymaz, E. 2006).

Effects of labor market institutions

There are a large number of studies on the effects of labor market institutions (LMIs) on income distribution, on wages of informal and formal sector workers or the employed versus the unemployed. These studies, primarily based on developed country data, show that LMIs have a strong effect on income distribution.

There are also a large number of studies on the effects of LMIs on growth and employment. These studies indicate that LMIs may have an impact on economic growth through two mechanisms. The first mechanism is incentives, such as a wage setting mechanism, severance pay, or training subsidies. The second is market selection processes. LMIs cannot change the selection processes, but they may encourage the rapid exit of less productive firms from the market, thus accelerating growth.

However, the empirical evidence on growth and employment effects of LMIs is rather weak and ambiguous. There are many reasons for these weak results. First, in the case of growth, it is difficult to identify general equilibrium effects or secondary effects of labor market institutions. Second, it is difficult to identify dynamic effects of policies and their long-term impacts on growth.

Third, when we analyze the effects of labor market institutions on growth, we use cross-country data, but we observe tremendous institutional diversity, and it is difficult to account for that much diversity, given the lack of observations for different countries. And fourth, institutional complementarities could be important. One institution may have a positive impact on growth, and another may have a negative impact, but once we have those two institutions together, the impact could be much stronger. However, it is very difficult to analyze these institutional complementarities.

It is unfortunately very difficult to generalize from a given study of one country to another for two reasons: first, parameter values are different, and the outcomes depend on the values of parameters, such as the elasticities of labor demand and supply and so on. For example, the impact of social security tax deductions depends on the elasticity of labor demand. If those elasticities are different between countries, then of course the effects will be quite different. And second, as mentioned above, institutional complementarities are very important. Varying institutional set-ups can cause a given reform to result in vastly different outcomes.

What we need is a large number of studies on different countries, so that we can understand the effects of these policies on their own particular context. Low and middle income countries have different characteristics than developed countries. The share of the agricultural or rural population is higher; small firms predominate. We see a lack of wage employment opportunities; there are different types of employment in the low and middle income countries (self-employment, unpaid family labor, etc.); and informality is widespread. These differences illustrate that labor market institutions are weak in low and middle income countries. In many cases, these countries do not have a well-functioning labor market at all.

A case from Turkey

Turkey is a middle-income country where we will look at four different institutions: labor taxes, employment subsidies, informalities, and short-term work allowances. We will then present empirical findings.

On labor taxes: The proportion of employers’ and employees’ social security contributions in Turkey is one of the highest amongst Organisation for Economic Co-operation and Development (OECD) countries. Thus, it has been suggested that reducing taxes on labor will reduce labor costs, so that demand for formal labor
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will increase. To understand the effects of reducing labor taxes on employment, we estimated labor demand elasticity and found that reducing employer social security contributions by 1 percentage point will decrease wage costs for employers by only 0.5 percentage point, and labor demand will increase only by 0.25%, because labor demand elasticity is around -0.5.

However, reducing social security contributions has a huge impact on social security revenues. The social security system in Turkey has a large deficit; therefore, reducing contributions even by one percentage point will make the deficit worse. So instead of reducing social security contributions across the board for all workers, it might be better to target low-wage workers, such as young workers and women. If there is a targeted decrease in social security contributions for young and women workers, the effect on employment will be as large as a general reduction, but the negative impact on social security contributions or social security revenue will be much lower.

On employment subsidies: There are regional subsidies to encourage regional development, especially in eastern Turkey. These have four destinations: employer social security contributions, reductions in income taxes on wages, subsidies for electricity consumption, and land subsidies. These subsidies are conditional on meeting new job creation targets.

We used different methods to understand the effects of these subsidies on formal employment and establishments, measuring changes in the extensive and intensive margins and also effects on average taxable earnings. We also monitored the increase in electricity costs as a proxy for output. The net impact of these subsidies ranges from a 4% to 13% increase in formal employment. But there was no increase in electricity consumption, demonstrating little increase in net output (and hence net employment); instead, we observe the formalization of existing informal jobs. So this policy may only change the formal-informal characteristics of jobs.

In Turkey, informality is about 50% of total employment; it is much higher in rural areas and about 30% in urban areas. It is widespread among the less-educated, the young, and micro-establishments, and in some sectors like manufacturing and trade. There seems to be an informality trap for less-educated women. Educated women can get formal jobs, but their share in the total is quite low.

Informal entrepreneurs and workers are usually less-educated. Informal workers are either young or old; formal workers are middle-aged men. Informal firms pay lower wages and they are less productive. The wage differentials between firms across different size categories (shown in Figure 1, with blue for formal and orange for informal firms) is about 25-30%, and the productivity differentials are about 20-25%.

Figure 1. Wage differentials by formal status (2006, manufacturing, male workers)
Informality scenario analysis: Figure 2 shows the expected effects on employment across different types of workers, educational levels, and age categories, if informal firms were legally forced into formality. Less-educated workers, usually informal, will be affected the most through loss of their jobs, and university educated people may gain some. Less educated workers cannot find jobs in the formal sector. They are the most vulnerable group and they earn much less than others. The young and the old will lose much through enforced formality. The employment level among the young is about 25% and is about the same for the old.

The transition from informality to formality may increase productivity, but not by 20% – the wage differential between formal and informal firms is 20%. The expected productivity gain is low – only about 5% – because informal entrepreneurs are less-educated, so even if they work in the formal sector, productivity will not increase by much. The transition from informality to formality could be very costly for some categories of people. However, it is necessary in the long run, because otherwise the vicious circle of informality will persist: Informal firms pay lower wages and do not train their workers. They are therefore less productive, so in order to survive they pay lower wages, do not train workers, and so on. In order to eliminate this vicious circle, there should be policies that encourage formality in the longer term, and retraining should be a part of these policies, in order to reduce the burden of transition.

The short-time work allowance (SWA) is a scheme aimed at protecting jobs so as to maintain workforce attachment during an economic crisis. In Turkey, SWA was enacted in 2008 as part of an unemployment insurance law. The duration of benefits was extended to a period of six months, and the level of benefits was increased by 50% in February 2009, because of the continuing world economic crisis. Almost all European countries introduced various SWA schemes at that time. The scheme aims at reducing labor input during an economic crisis through reductions in average working time, instead of decreases in employment. The share of working time reductions in labor adjustment is an indicator for the success of the SWA. The data reveal that during the recent economic crisis (2008-2009), Germany was more successful than, for example, Spain and Turkey, in protecting jobs through the SWA, i.e., through short term reductions in working time.

Figure 3 shows the effects of this policy in three countries, Germany, Spain, and Turkey, in the auto industry (one of their main export industries); the results are similar for manufacturing. During the crisis, labor input decreased as a result of the decline in output. Labor input can be decreased either by reducing the number of employed people or by reducing working time, and in the figure we have these two components: the blue field is the decrease in the number of employees, and the orange field is the decrease in working time. In Germany, reductions in working time dominated, but in Spain and in Turkey, the decrease in the number of employees exceeded the decline in labor input. Thus, the short-time work allowance did not succeed in retaining employment in these countries. In Germany, it was more successful.
Policy implications of empirical studies on the effects of LMIs on growth and employment

In summary, there is reason for cautious optimism about labor market institutions. They are important, but the growth and employment impact of each single LMI is likely to be small, at least in the short-term. However, the cumulative impact of a set of policies could be significant in the longer term. Which policies should be chosen? It is difficult to say, but short term defensive strategies (to “cut costs”) could have a negative impact on employment and growth. During a crisis period, firms tend to adopt short-term defensive strategies to cut costs, most importantly to cut labor costs, but these may have a negative impact on employment and growth, especially in the longer term, because firms also tend to reduce expenditures for training. Thus, for low and middle income countries, perhaps for the developed countries as well, policies should be put in place to encourage long-term investment and accumulation of skills, for example, employment stability and workers’ representation and organization, social dialogue and training, and investment in human capital. Furthermore, policies that can help reallocate resources from less productive to more productive sectors and activities, for example, wage compression, should be adopted. Collective bargaining and minimum wages could be important in that sense.

Although labor market institutions are important for jobs, it is necessary to look beyond the labor market as well, for example, at industrial policy. If we can increase the savings rate in the longer term, this can generate more investment in the urban sector, and will create more employment. Therefore, we should go beyond a traditional “investment climate” approach, and look more closely at the determinants of savings and investment.

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Youth Employment Challenges: Bridging the World of Learning and the World of Work

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The paper examines ILO’s latest findings in terms of youth employment and the ILO agenda on decent work. It also presents examples of developing public/private sector links for youth employment and concludes with a series of observations on coordination, with a particular focus on attempts by international organizations to work together on this issue.

ILO recent findings on youth employment – Imperatives

The 2010 full Report on Global Employment Trends for Youth presented an analysis of the latest available world and regional aggregates of key labor market indicators for young people aged 15 to 24, with a specific focus on how young people were faring in the face of the recent global economic crisis. It showed that youth unemployment was at record levels of about 13% in 2009. This was merely the tip of the iceberg, as there are many more young people in the NEET (“not in education, not in employment, not in training”) category. In Latin America, for example, estimates put 25% of young people aged between 18 and 25 in this group. Moreover, the jobs occupied by these young people when they do find work do not necessarily lead them out of poverty. This entails risks for society as a whole, such as social upheaval and loss of future productivity, as well as risks to individuals such as lifelong poverty. An updated version published in 2011 concludes that the situation facing youth in the labor market has not improved and even observes a downward turn in youth unemployment. Not only do youth unemployment rates continue to rise in developed countries, but the increasing length of the job search is leading young people to become discouraged and leave the labor market entirely. Young people in developing countries, on the other hand, continue to work while living in extreme poverty.

Productivity, understood as output per person, is very low in South Asia and East Asia, but these regions have the highest growth rates in productivity, thus giving rise to some optimism in terms of how poverty could be reduced in the future if earnings rise. Productivity growth is very low in developed countries, although the starting point is of course high. Concern is greatest in sub-Saharan Africa where productivity is lowest and not improving. This must change if employment is to lead to poverty reduction through productivity of work. Many countries are facing demographic challenges. Their retired populations will be supported by fewer young people in the future, while other countries are still facing large increases in young people entering the labor market. If the demography and productivity issues are considered in tandem, it can be assumed that those young people who are not currently entering jobs and will not therefore be productive in their future, will nevertheless be responsible at some point for growing numbers of older people. From this perspective, it appears the long-term consequences of today’s youth employment crisis will be all the more ominous.

This raises the skills issue: who gets trained, who gets employed, and what are the business strategies for using skills. Quality training to prepare young people for the labor market and business strategies are both essential. If business strategies rely on low skills, low productivity and low wages to be competitive, skills will not provide the answer for youth unemployment. Public policies to help leverage business strategies into higher value-added growth are therefore important if demand for

technical training for young people is to be increased. If young people do not see the benefit in terms of good work and earnings, with prospects of career advancement, then technical vocational training will be relegated to a second choice for those who have not managed to enter general or tertiary education. It will also be difficult to raise money for technical vocational training if that training is irrelevant to employers and young people. Public-private partnerships should encourage skills-based strategies – the private sector can help influence skills policies, provide training that complements classroom learning, and join partnerships with government to reach disadvantaged young people.

The ILO agenda on decent work

ILO accords high priority to youth employment within its general mandate on decent work, defined as productive work in conditions of freedom, equity, security and human dignity for everyone. It is promoted through the ILO policy agenda linking rights at work, employment, social protection and social dialogue: the four pillars of decent work which are also referred to in the briefing notes on the forthcoming World Development Report. ILO’s message to the world is to make employment the centerpiece – rather than the consequence – of development and growth strategies and to place decent work at the heart of poverty reduction and fair globalization strategies. This message has resonated in other institutions. The United Nations World Summit 2005 explicitly endorsed the concepts of decent work and a focus on young people as essential objectives for macro-economic policies and poverty reduction strategies. The Pittsburgh G20 summit, responding to the economic and financial crisis, which soon developed into an employment crisis, also stated that quality jobs should be at the heart of the recovery.

ILO skills strategy

In 2008, the International Labour Conference held a general discussion among workers, employers and ministers of employment to explore how skills development could help improve both the quantity and quality of work and address the trade-off between increasing productivity and increasing employment, and how those two goals could be pursued in tandem. ILO noted a vicious downward circle in most countries, where lack of good quality education and training ensnares people in low-productivity and low-wage jobs and livelihoods. The aim is to move to a virtuous circle, where more and better jobs make it easier to adopt technologies, diversify economies and boost employment. This virtuous circle is where more skills, productivity and employment can be achieved. The countries that have sustained this virtuous circle have linked education, skills and employment by ensuring the broad availability of quality education to all, matching supply to current demands for skills, helping workers and enterprises adjust to change, using skills as a driver of change, moving from lower to higher productivity and expanding accessibility to quality training (rural, women, disadvantaged youth, persons with disabilities). However, training is not a silver bullet; the potential benefits of training cannot be realized without job-rich growth. Education is important, but in the absence of macro-economic policies that focus on employment growth, improved skills provision will not lead to better employment.

Lessons of coordination

Countries sustaining the virtuous circle are able to overcome constraints in coordination, close gaps between basic education, vocational training and training, and the labor market and build institutions that help employers and training providers talk to each other, thus making investments in training more relevant to the labor market. They use these institutions to include skills in industrial policy. Countries need first to anticipate where they will create jobs, where they will have future comparative advantage and then determine the skill constraints to turn that potential into reality, and then provide incentives to adjust vocational education and training into those areas. In this way training providers become important assets to the real economy.

The benefits of sector coordination within industrial policy would be to improve the relevance of training, build public/private partnerships for both initial and ongoing training and involve social partners in all stages of skills policy and implementation. Coordination at sector level should be more demand-driven, but making training providers accountable is not always easy. If public investment in training focuses on the number of people who are trained or graduates and does not consider employment outcome and quality of training, the satisfaction of employers, or the earnings and liveli-
hoods of those who are trained, then investment in training will not have the desired employment benefits. However, the sector approach provides mechanisms to ensure that accountability.

Industrial policy should generate skills to transform trade and provide for economic diversification. Fair globalization means that countries are able to take advantage of opportunities, with enterprises and workers equipped with quality and new skills. This means embedding skills policies in broader economic and sector perspectives, beyond workplace skills, to address enterprise skills and improve productivity. Both the demand and supply sides in economies must be considered and the skills needed by employers must be anticipated.

Within the informal economy, there are two ways of engaging employers and skills providers. The first is to upgrade informal apprenticeship, which is a primary source of skills acquisition, especially in African countries. This requires upgrading the technical and teaching skills of master craftpersons, linking apprenticeships to formal education, encouraging business associations to pool resources to improve working conditions for apprentices or to invest in technology and equipment and helping communities and sector groups monitor the impact of apprenticeship training. A second way is to promote community-based training, linking technical and entrepreneurship training to livelihood opportunities. This requires improving the capacity of local skills providers to prepare communities to plan and participate in such training and monitor results.

Inter-institutional strategy

ILO was asked, along with the World Bank, the Organisation for Economic Co-operation and Development (OECD) and United Nations Educational, Scientific and Cultural Organization (UNESCO), to develop a training strategy on skills for strong, sustainable and balanced growth in order to help low-income countries develop their skills for employment strategies. The strategy was adopted by the 2010 G20 summit in Toronto. It considers the drivers of change on the supply and demand sides of the labor market and then looks at the building blocks for effective skills strategies, which most countries need to prioritize. Sector approaches and the involvement of social partners are key building blocks. International organizations have also been asked to develop a set of international comparable statistics or indicators on skills for employment, and to work with low-income countries to develop labor market information system, gathering data on such indicators for use in guiding and monitoring policy. The conceptual framework developed by the OECD and the World Bank looks at skills supply and skills demand, skills mismatch, and outcomes related not to the quantity of training but to employment and changes in productivity. One of the ILO contributions will be to the skills-to-work transition surveys that were carried out in about 20 countries in 2011 and will be repeated in two years’ time, whose objectives will include the definition of qualitative ways of collecting data from employers.

Integrating skills development into other parts of the economy is one of the key assets of the forthcoming World Development Report, because such a process links development, jobs, poverty reduction, work, voice, and decent work. Again, decent work is related to good jobs in both the informal and the formal economy and poses the challenge of jobs-rich growth to central banks and ministries of finance, so that messages around jobs and economic growth can achieve greater coherence.
The MENA Paradox: Higher Education but Lower Job Quality

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This paper explores the reasons behind the mismatch between education and jobs in the context of increasing informality in Egypt and Jordan, and contrasts the dynamics of the markets in both countries. It also addresses the formalization processes and the role of the levels of education, sector, job quality and skills development in formalizing employment.

The gaps in the Middle East and North Africa (MENA) region between education, young people’s expectations and what they are able to achieve in the world of work are the largest worldwide. The combination of these factors most likely gave rise to the phenomenon of “social disorder” which led, among other things, to the Arab Spring. The rapid expansion of education was the result of a social contract between the middle class, or those aspiring to join the middle class, and the region’s authoritarian governments, whereby education would provide them with lifetime secure jobs in the public sector. In return, the authority of the government was unchallenged. This authoritarian social contract created a tremendous demand for education, which was key to entering the public sector. However, this did not necessarily translate into skills; what people sought were in fact credentials.

This also had impacted the supply side of education. Educational institutions started providing generic degrees with little relevance to the labor market, because more was not demanded from them. This approach to education prevailed for forty years and is proving very difficult to reverse at short notice, even though demand for public sector employment has declined significantly. This inertia has led to a social demand for credentials, for reasons including marriage, amongst others.

The way in which the social contract unraveled proved interesting: rather than giving older workers in the public sector early retirement, everybody simply kept their jobs for life. The reduction in public sector recruitment affected newcomers to the system, thus shifting the burden of economic restructuring onto young people, making their education even less relevant. Improving the prospects of employment crucially depends on restructuring the education system away from credentials towards skills production. The data show a rapid rise of demand for university education, especially in the 1990s and the 2000s in Jordan and Egypt.

The labor market, by year of entry and by sector, shows public employment rising dramatically in the ’60s and ’70s, as a share of employment for new entrants (Figure 1). In Egypt, public employment started to fall in the 1970s. In Jordan, on the other hand, it fluctuated to a greater extent but essentially mirrored the behavior of public sector employment with informal private wage employment (defined as wage employment in the private sector without contract or social insurance) taking up the slack in both countries, although more so in Egypt than in Jordan.

In Egypt, formal private sector wage employment has increased moderately, but from a low base, moving from 3% in 1960 to 12% in 2005. In Jordan, it took off in the late 1990s – a marked contrast between the two countries (Figure 1). For workers with secondary education and above, there was a dramatic decline in public sector prospects, but an increase in informal employment in Egypt. Jordan performed better in absorbing these educated young people into the formal private sector.

Formal employment in the private sector in Jordan relied extensively on temporary contracts, especially in the latter periods, as the formal private sector became more flexible and was able to absorb more people. Workers have social insurance coverage but temporary contracts, whereas in Egypt flexibility increased after a labor law passed in 2004 enabling employers to adopt the same approach. However, the effects of that law are not yet reflected in the available data, which currently go up to 2006. Until that time, informality took up the entire slack.
Another interesting contrast between Egypt and Jordan is the role of family enterprises, unpaid family work and self-employment. In Egypt, unpaid family work still plays a major role in absorbing new entrants, especially the uneducated, as these workers depend upon their family enterprises to provide employment, against a background of increasing entrepreneurship and numbers of self-employed workers. In Jordan, household enterprises play a much more limited role in the absorption of new entrants.

The labor market demand for new entrants changed dramatically in both countries over time and the pattern of employment at entry also tended to determine subsequent employment. Once most people enter informal employment, they remain there. They may move from informal wage employment to self-employment, but rarely to formal wage employment, even ten years after entry.

We used the ILO concept of “decent work” to devise an individual job quality index by grouping various aspects of employment. This index is based on earnings and formality of employment (measured through social insurance, health insurance, and trade union membership); type of workplace (field, street, office); job stability; hours of work (too many or too few); and commuting time to work. The components were grouped using weights derived from principle component analysis. Earnings have at least the same weight as all the other components put together. For 1998 and 2006, we arbitrarily set the average job quality index at zero for both years. Job quality for the average worker, depending on year of birth, rather than year of entry, has been declining for men – starting for those born in 1950. For women, there was an initial improvement and then a decline, starting in the mid-1970s for those born in the mid-1970s (Figure 2).

Interesting trends appear when we disaggregate by educational level. Job quality did not essentially change much for those with less than a secondary education – almost the entire change in job quality applies to those with secondary education or above. This coincides with the transition from public employment to informal employment.

Two equivalent surveys looked at training in Egypt: the Egypt Labor Market Panel survey of 2006 and a similar study in 1998. People who receive formal training are mostly found in public enterprises, and to a lesser extent, informal private employment. However, even in these categories, less than a fifth receives any kind of training outside of school. Informal training includes apprenticeships and learning by working with more experienced workers. Those types of training are concentrated in informal work, particularly in agriculture and irregular wage work, as well as in informal wage work.

Formal training is limited because around two-thirds of wage employment within the non-agricultural private sector occurs in enterprises of fewer than ten workers. Programs like the Mubarak-Kohl Initiative focused only on large enterprises at the very top of the company size distribution, leaving behind all other small enterprises that simply cannot afford any kind of formal training opportunities. Training programs should reach at least 60% of the private sector and are difficult to design. They are now much less transaction-intensive than programs in the past, which attempted to match individual companies with individual training institutions or schools, with government playing a role in every transaction. If things are to improve, they must become much more generic.

There is a need to realign incentives within the education system towards providing skills. That may mean increased private provision of education with public financing. Vouchers are often not very popular, especially among people coming from the United States, but that may be the way to force the education system to provide what the market needs. Greater accountability must result. Increasing competition among education and training providers and their accreditation will be necessary to direct the incentive structure towards producing more useful skills. There is some evidence of the desired change even without public financing in the information and communications technology (ICT) sector in Egypt. They have received accreditation from international corporates such as Microsoft and Oracle, and people are paying for such training, with positive results.

The Jordanian experience shows that greater flexibility in employment contracts results in greater formalization. The Egyptian labor law passed in 2004 brought about similar flexibility in the Egyptian labor market by introducing fixed-duration contracts, renewable an
indefinite number of times. This may also result in greater formalization in Egypt. Social insurance schemes are now almost exclusively reserved for old-age pensions: social insurance schemes are thus needed to insure against labor market fluctuations. So far, none of this has come about but unemployment saving accounts and other social insurance schemes endeavoring to deal with the issues of greater flexibility are being considered.

There is a need for more labor market insertion programs that reduce the cost of formal hiring by possibly reducing payroll taxes or training subsidies for employers in early years, phased out over time, in order to overcome the lack of experience of young people, which currently prevents them from getting jobs. This cycle must be broken through subsidized internships or apprenticeships, so that they can acquire the experience needed to find their way into the labor market, even if their employers do not retain them after the subsidy period has passed.

None of this will work while much of the private sector escapes any kind of relationship with the government. Reducing the formality barrier is essential if private enterprises are to be interested in becoming formal. Currently the transaction costs of dealing with government are unaffordable for private small and micro-enterprises. There is too much attention paid to the upper end of enterprise distribution; examination is required of the costs of doing business at a small-scale level and ways of reducing these so that more businesses become more formal. This is not just a question of access to finance, but about making the entire bureaucratic environment more friendly. Bringing about such change is difficult in the context of a highly inefficient and dysfunctional bureaucracy such as that of Egypt, but it may be much easier to achieve in the case of Jordan, where the bureaucracy is still relatively efficient and effective.

Figure 1. Employment Structure in the First Job for New Entrants by Year of Entry into the Labor Market in Jordan and Egypt.

Source: Assaad (2012)
Figure 2. Predicted Job Quality Index by Year of Birth, Education and Sex in Egypt


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Is there potential in the informal economy? If so, how can it be unlocked?

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Informal small-scale economic activities account for an important share of production in many developing countries. The contribution of these activities to employment is even larger, in some cases exceeding 80% of total urban employment. Early views on structural change and economic growth often posited that a modern sector consisting of larger firms would absorb those employed in a traditional or informal sector. This has happened to some extent in some developing economies, but not to the extent implied by earlier development theories. Moreover, especially in somewhat more dynamic economies of Latin America and (South) East Asia, many informal entrepreneurs choose to stay informal, and should not be perceived as waiting for a job in the formal sector. In contrast, in less dynamic economies with a less pronounced missing middle, in particular in Africa, one is likely to find much larger shares of involuntary survivalist entrepreneurs, who would prefer a relatively secure formal sector job if only such jobs were available.

In addition, and very urgently from a policy perspective, millions of young people will enter the labor market in the developing world in the next two decades, in particular in Africa, the Middle East, and South Asia, and many of them will be absorbed in the informal sector. This scenario makes it necessary to rethink and challenge some common assumptions and views on informal entrepreneurs and to improve the integration of the informal sector in labor market policies. However, it is obvious that in most low income countries the dynamics necessary to lift a country onto a sustainable growth path are unlikely to arise in the informal economy or more generally from micro and small enterprises.

The message to policy makers is that the typical informal entrepreneur,¹ also in non-dynamic economies in Africa, should not too easily be labeled a survivalist waiting for a job opportunity, without entrepreneurial capacities or growth potential.² We argue and show that among those entrepreneurs typically considered survivalists – mainly because they operate with very little capital and generate low profits in absolute terms – there is a substantial share of entrepreneurs with business skills and entrepreneurial behavior that resembles skills and behavior of upper tier entrepreneurs or top-performers, as we call them (Grimm, Knorringa, and Lay, 2012).

Our data clearly show that very high marginal returns to capital can be earned by many of the very small informal businesses (Grimm, Krüger, and Lay, 2011). This is in line with many other findings in the literature, partly based on returns to capital, and thus robust to many potential biases (De Mel, McKenzie, and Woodruff, 2008; McKenzie and Woodruff, 2006). Our research suggests that the share of informal entrepreneurs with such growth potential – the “constrained gazelles,” as we call them – among all informal entrepreneurs is in a range of 20 to 50 per cent, depending on the country. It would of course be naïve to think that an exact threshold could be defined. We rather wish to emphasize that a substantial share of firms with very low capital stocks shows

¹ Unless otherwise stated, we use the term “informality” in this text to mean firms that are not registered with the tax authority. However, most of the statements simply apply to micro and small firms, whether there are informal or not.

² The findings and conclusions summarized in this short note are mainly results of a large research project that analyzed micro and small entrepreneurs in Western Africa and Madagascar (Unlocking Potential: Tackling economic and social constraints of informal entrepreneurship in Sub-Saharan Africa). This project is described on http://www.iss.nl/informality.
strong entrepreneurial dynamism. Nevertheless, there is no doubt that their optimal firm size will in most cases still be relatively small; they may however be the employers of those who do not have the same potential.

These constrained gazelles are mainly constrained by their business environment, i.e. external constraints such as the lack of access to capital, insurance, and productive infrastructure. Individual or internal constraints such as education and specific business skills are not the key restriction to these businesses. They already show a minimum of financial literacy, keep books, and react flexibly to change in market conditions. The true survivalists, in turn, lack all these capacities (Grimm, Lange, and Lay, 2011; Grimm, Knorringa, and Lay, 2012).

From a policy perspective, our findings may accordingly be taken as an argument for providing households with credit, savings devices, and insurance. Many households would be better off if they were able to invest in the enterprises of those who are credit constrained. In other words, well-functioning capital markets would lead to a better allocation of capital across households. Savings devices would also enable households to insure against business and non-business risks, while channeling savings into productive investment instead of withholding liquidity for insurance purposes.

More sophisticated and specific (micro-)insurance products may also set free additional resources that can be put into productive use in micro and small enterprises. In that respect, the insurance of household-related risks such as illness and mortality shocks seems not only economically more sensible, but is also empirically supported by the fact that household-related shocks are perceived as a more pressing problem than business-related shocks. In fact, we find some evidence that sharing obligations that partly result from the absence of formal insurance mechanisms impedes investment in small non-farm businesses (Grimm, Hartwig, and Lay, 2012). Hence, the provision of formal insurance – not only to the entrepreneurs, but also to the families that rely on them – may cushion such sharing obligations and hence also have a positive effect on investment.

For survivalists, in turn, the policy menu needs to be broader as both business environment and individual constraints are binding. In this segment, we find in particular female entrepreneurs with very low education levels who must routinely combine their entrepreneurial activity with housework. The socio-cultural environment and prevailing norms place a particular burden on women who desire to become entrepreneurs or to expand an entrepreneurial business. This implies that this very comprehensive set of constraints needs to be taken into account when policies for female survivalists are designed. Many male survivalist entrepreneurs would prefer and would be better off with a job as a wage worker. Some of these jobs could be provided by constrained gazelles if their potential can be unlocked.

On an aggregate level, enhancing the productivity of micro and small entrepreneurs will only lead to increased income in a context of general economic growth and, hence, rising absorption. In many low income countries, the initial push for growth and enhanced demand can come from agricultural transformation, as was the case, for example, in Indonesia and Vietnam. However, policy can help to further expand the absorption of informal sector products, first, by enhancing formal-informal linkages; second, through policies that focus on quality improvements in informal sector products, not only so they can better compete with formal sector products but also to facilitate the process whereby they gradually substitute for imports of non-sophisticated goods that can easily be produced locally (Böhme and Thiele, 2011, 2012).

Figure 1 shows that in the case of Benin, for example, the estimated income elasticities for informal products compared to formal and imported products is lower for both goods and services (imports are not relevant for services). This is also true for the informal distribution channel compared to the formal distributional channel. We find more or less the same pattern for all other countries of the West African Economic and Monetary Union.
Formalization per se should not be enforced in the first instance. This would probably be too costly in most low income countries. One should rather increase the incentives to formalize by providing better public services, such as a legal framework, business development services, and access to various markets, including export markets. If informal firms see a benefit in becoming formal, they will undertake the necessary steps. Figure 2 shows that in a sample of West African countries the willingness to register and the willingness to pay taxes are higher in countries with higher government effectiveness, as measured by the World Bank’s Doing Business Surveys. A first step might be to give informal firms legal recognition. This would at least draw a line between criminal activities and informal activities and would allow public policy to target the informal sector. In many countries, policy simply ignores the informal sector, as the law views these activities as illegal. Finally, and more broadly, a reliable and stable business environment is certainly conducive to capital accumulation in all firms, including micro and small enterprises.

Figure 1. Income elasticities of demand for informal and formal goods and services and the use of informal and formal distribution channels.


Figure 2. Formalize if it pays off

Source: Doing Business Surveys, World Bank and 123 surveys 2001/02, West African Economic and Monetary Union.
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Informal Employment: Recent Evidence and Future Policies

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This paper provides a definition of the terms “informal sector” and “informal employment”, and presents recent data on informal employment, including regional estimates and for urban India. It addresses questions about the causes and consequences of informal employment, and discusses policy options and recommends a “3 by 3” policy framework. Finally, the paper reflects on what needs to be done to bring about a paradigm shift in both the assumptions about and visions for the informal economy.

Informal sector and informal employment – a definition

There are official international definitions of the informal sector and informal employment. The International Conference of Labour Statisticians defined the “informal sector” in 1993. It is comprised of unincorporated enterprises that might also be, depending on the country context, unregistered or small. In 2003, the same body adopted a definition of “informal employment”, which may be inside or outside the informal sector. It includes the self-employed in informal enterprises, as defined in 1993, and it includes wage workers in informal jobs, without employment links to social protection. The self-employed include employers, own-account operators who do not hire others, unpaid contributing family workers, and members of informal producer co-ops. The wage workers in informal jobs include informal employees in formal firms, both private and or public, as well as informal employees of informal enterprises, domestic workers hired by households, casual day laborers, and sub-contracted workers.

Informal employment – recent evidence, regional estimates1 and urban India2

The regional averages of informal employment are broadly defined. As a share of non-agricultural employment based on direct measures, we have the following estimates (if there were better measurements of informality in agriculture, the percentage of informality in total employment would actually be higher in most instances): informal employment as a share of non-agricultural employment in South Asia is 82%, ranging from 62% in Sri Lanka to 84% in India; in East and South-East Asia 65%; in Sub-Saharan Africa 63% (ranging from 33% in South Africa to 82% in Mali); in the Middle East and North Africa (MENA) region 45%; and in Latin America 51% (but with wide variation across different blocks of countries by income levels), and Eastern Europe and Central Asia 11%.

Informal employment accounts for just under 80% of total urban employment in India, with a slightly higher percentage of women workers than men workers. Roughly half of the urban informal workers are self-employed, the other half are wage-employed. Of the self-employed, only 55% are employers who hire others, 74% work on their own account; and a large percentage (21%) are unpaid contributing family workers.

Just over half of the informal wage workers in urban India are employed by informal enterprises, another third (32%) by formal enterprises, 6% by households as domestic workers, and a very small percentage in urban agricultural operations (8%). By industry sector, nearly

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two-thirds of the urban informal workforce are in trade and non-trade services (29% and 32%, respectively); just over a quarter (26%) are in manufacturing; and 13% are in construction.

Four groups – domestic workers, home-based workers, street vendors and waste pickers – represented one third of total urban employment in India in 2010, with a slightly higher percent (41%) of urban informal employment. In 2005, these four groups represented one quarter of the urban workforce. The increase, between 2005 and 2010, in the incidence of these groups may be due in part to the global economic crisis.

Causes and consequences of informality

1. What explains the persistence of informal employment?

A mix of factors explains the persistence of the informal economy, and the specific mix depends on the particular group under consideration. Informality is driven variously by the broader environment, economic policies and trends, demographics, the regulatory environment, and the behavior of firms, both formal and informal. Individuals or households respond to that broader environment out of choice, necessity, social norms and tradition. It is important to point out that there are social norms, especially for women, which create constraints on their choice of employment. For example, women are conditioned to assume responsibility for domestic/care work and to observe norms of female modesty, which discourage them from seeking paid work outside the home. As for tradition, many individuals or groups pursue hereditary occupations. This is the case for many operators in a country like India where occupations are often hereditary or prescribed by which caste a person belongs to.

India has been growing rapidly, but employment growth has not kept pace: reaching a high of 2.85% per annum around 2000 and dropping to 0.2% per annum in the second half of the 2010 decade. Informal employment is quite volatile by industry branch and employment status. In the first half of the decade, the share of wage workers, own-account workers, and services decreased among urban informal workers, while the share of employers, unpaid family workers and manufacturing increased. In the second half, the share of own-account workers, unpaid family workers, and manufacturing decreased while wage-workers and construction jobs increased.

The share of the four groups of the aforementioned workers (domestic workers, home-based workers, street vendors and waste pickers) in total urban employment increased in the first half of the decade, except for street vendors, which remained stable. In the second half, the share of all four groups increased. In 2005, these four groups represented around 40% of women’s employment. By 2010, they represented only 25% of women’s employment. The trends for men were in the opposite direction. Most notably, the percentage of home-based workers who were women decreased and the percentages that were men increased. Larger structural forces, not just individual choice or necessity, must account for some of these shifts.

2. What is the relationship between poverty and informal employment?

The majority of the world’s poor are engaged in the informal economy where, on average, earnings are generally low and risks are high. However, the informal economy is segmented and there is also a hierarchy of earnings and poverty risk across the different segments and by sex.

Consistently, wherever data are available, the top two groups (employers and informal wage workers who have regular work) are predominantly men. The middle two groups (own-account operators and casual day laborers) contain a mix of women and men, depending on sector and country. And the lowest two groups, industrial out-workers and unpaid contributing family workers, are predominantly women. Average earnings are highest at the tip of this pyramid, and lowest at the bottom. The risk of coming from a poor household increases as you go down the pyramid, linking employment status with household income.
Policy options – “3 by 3” policy framework

The policy should be to expand formal employment opportunities first; and second, to formalize as many informal enterprises and informal jobs as is desirable for them and feasible for the government, by creating incentives for informal enterprises to formalize and for firms (both formal and informal) to hire workers with standard contracts and social benefits. As most of the working poor will continue to be in the informal economy, policy should thirdly, offer protection to reduce risk by providing both legal and social protection, and promotional measures to increase assets and earnings. Informal workers and operators should also be given a voice or allowed to participate in the processes and institutions that set policy rules and allow them to bargain.

Paradigm shift

Most of the room for improvement, especially for the self-employed, lies outside of the labor market regulations box, and goes beyond jobs. It has to do with livelihoods: the self-employed are not really integrated in a labor market; theirs is a derived demand from the markets for goods and services. For this group, labor regulations are not very relevant. There has to be a fresh look at how institutions constrain the informal economy. More importantly, the economy needs to be re-envisioned as a hybrid economy with economic diversity that allows firms and enterprises of different sizes to operate alongside each other.

References


Key Indicators for Asia and the Pacific 2011 – Recommendations for the WDR 2013

Niny Khor, Economist, Asian Development Bank (ADB), Manila

Key messages

This paper offers three key recommendations to be considered for the 2013 World Development Report. Firstly, while inclusive growth has been discussed extensively, efforts have only just begun to create standardized indicators to measure inclusiveness of growth, especially with regards to creation of good quality jobs. The second is related to definitions of informality and the reasons for its persistence. How do we define informality? Is it a small registered micro-shop? Is it a small textile shop in an unorganized sector? The third concerns the measurements and analysis of structural transformation, and the potential challenges to the labor market that arises from the process. These recommendations are based on research for Key Indicators for Asia and the Pacific 2011: Toward Higher Quality Employment in Asia, the ADB’s flagship statistics publication presenting economic, financial, social, and environmental indicators for the 48 regional members of the Asian Development Bank.

Ingredients for measuring inclusive growth

Developing Asia has sustained a high economic growth rate, averaging 8.6% per year between 1990 and 2008. This is a growth rate far higher than that observed in Organisation for Economic Co-operation and Development (OECD) countries, Europe, or Latin American countries. At the same time, this rapid expansion of the economies has come with tremendous reductions in poverty. As late as in 1999, about 40% of Asia’s total population (almost 2 billion people) lived below the $1.25 a day line. Yet by 2008, this poverty rate has halved to about 20%, largely due to developments in India and the People’s Republic of China. However, despite this progress, the bulk of poor people in the world today – almost one billion – still live in Asia. This stems from the fact that India and China are populous countries, which is also true of countries like Bangladesh and Pakistan, where poverty reduction remains a challenge.

One cause of increasing concern is that performance across and within countries had been very uneven. Low-income countries are not doing as well, and there is a huge variation in the performance of various non-income indicators. In the context of rising inequality, inclusive growth is necessary to avoid social tensions that might impede sustained growth. However, better definitions and quantifiable indicators are needed to track inclusiveness of growth. One attempt was made by the ADB’s Special Supplement of the 2011 Key Indicators: Framework for Inclusive Growth Indicators, which presents 35 indicators for tracking inclusive growth. The framework considers inclusive growth to contain three supporting pillars: the first and one of the most important is the growth of productive jobs; the second is access to education, health, and other services; and the third is social safety nets.

Quality of employment

One issue of particular saliency for Asia is the quality of employment. Currently, as a result of data limitations, most discussions on employment center on wages and employment. However, evidence from the World Values Survey shows that, as income grows, respondents focus less and less on income, and more and more on job satisfaction (see Figure 1).
Figure 1. Important job attributes for job selection (2000–2008)

Source: Figure 3, ADB (2011), p. 9.

Figure 2. Relatively low unemployment rate in developing Asia

Source: Figure 12, ADB (2011), p. 21.
Informality

In the aftermath of the global financial crisis, Asia has continued its robust growth accompanied by significant reductions in poverty, while maintaining relatively low rates of unemployment (see Figure 2). However, the quality of employment is not satisfactory. In particular, informal employment in Asia has been very high and highly persistent.

Figure 3. Percentage of informal workers across regions

The degree of informality in developing Asia was and is significantly higher than in Europe, Latin America, and the OECD (see Figure 3). In 1980, informal workers accounted for about 69% of the labor force in Asia, compared to 17.2% in developing Europe, 33.4% in Latin America and the Caribbean, and 8.3% in OECD countries. The surprise is that even after about two decades of rapid growth informality in developing Asia remained at very similar levels (67%) (see Figure 4). While we lack a uniform standard across countries to define what constitutes “informal,” most informal workers are associated with lower income, under-employment, less security, and an absence of social safety nets. But cross-sectional evidence shows that informality declines with growth in gross domestic product (GDP). Simultaneously, evidence also indicates that higher-quality employment away from informality is important for reducing poverty and income inequality.
Figure 4. Degree of informality in developing Asia (1990-2008), by country

Source: Figure 7, ADB (2011), p. 17.

Structural transformation

Why is the quality of employment poor in Asia? First and foremost, the share of the primary sector in Asia is still very high. After two decades of growth, the agricultural sector still accounts for almost half (about 43.5%) of all employment in Asia, which is the highest share amongst all the regions in the world. Second, despite the rapid pace of structural transformation in middle-income countries in Asia, a lot of the jobs continue to be low-wage manufacturing jobs. Third, low productivity levels and growth rates still plague lower income countries in Asia, where the transfer of surplus labor from the primary sector to the more productive sectors has yet to occur. In general, various policies seemed to have succeeded in facilitating the process of structural transformation, including promotion of trade and foreign direct investment (FDI) in the modern sector, managed migration from lower productivity to higher value-added sectors, improvements in productivity in rural non-farm activities, and development of skills for all workers.

However, more research is called for to meaningfully compare the speed and performance of countries during structural transformation. For example, in order to measure structural transformation, McMillan and Rodrik (2011) split labor productivity growth into two components. The first component is productivity growth within sectors. The second component is productivity growth due to structural change as workers move from one sector to the next. This gives us a tool to help ascertain whether structural change actually contributes to labor productivity growth or not. Using data similar to that of McMillan and Rodrik, we found some potentially disturbing trends. Before 1997, there was positive growth in labor productivity almost across the world, both within sectors and through structural change. After 1997, growth of within-sector labor productivity still remained positive; however, the contribution of structural change turned negative in Latin America (see Figure 5). This means that in Latin America the structural changes in the economy have occurred in a way that moves workers from more productive sectors to less productive sectors. What is even more worrying is that the same is true for three Asian countries, the Philippines, Malaysia, and South Korea. It is important to better understand why this is happening, in order to design policies that could ameliorate and reverse these negative trends.
Figure 5. Within-sector versus structural-change-driven productivity growth

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References

This paper highlights recent trends in migration, and briefly traces migration’s influence on labor market structures and dynamics in both sending and receiving countries. It also gives a short overview of the impact of migration on poverty reduction, growth, social development, and social cohesion.

**Immigration trends**

Migration takes center stage in relation to jobs. Whether migration is transformational remains a question, but there is no doubt that it is relevant for jobs. The demand-pull approach offers some exciting questions to immigration trends. The stock of migrants, measured in millions of people who do not live in their country of birth or origin, and time, measured in decades, taken from a dataset constructed jointly by the World Bank, the United Nations, and the University of Sussex, raise two interesting issues. South-to-South migration between low- and middle-income countries accounts for most of the stock of migrants and can be explained by geopolitical restructuring in some countries, for example, the partition of India and the division of the Russian Federation.

The “hot migration” is the growing South-to-North migration, and there will be new census data for 2010 showing that this trend will reach the level of South-to-South migration. One challenge will be to understand and predict the stock of South-to-North migrants – for two reasons: Wage differentials explain why people move from the South to the North, as does the existence of colonial and language ties. In the coming years, green migration will be important as more migrants move to green jobs, but increasing climate change or natural disasters will also be important pushing factors in this respect. Another pushing factor is conflict, causing an increase in the flow of asylum seekers and refugees.

**Migration and the labor market**

Economic impacts of South-North migration on receiving and sending countries have been studied over the past 20 years, and they vary depending on the short-run or long-run perspective and, most importantly, on the skills of leavers or arrivers compared to the host or sending labor market. If migrants substitute for the native labor force, there will be downward pressures on wages. If they complement it, the complementary labor force could grow.

The impact of flows in and out of the labor market is small. Across countries, the elasticity of wages and employment to migration varies, but it can be said that there are no enormous pressures on wages. Of course, when the labor force is split into high skilled and low skilled, one might see some differences; however, in the aggregate, the impact is rather small.

This does not mean that migration will not affect jobs or job growth. The point is to look beyond the direct impact of migration on jobs; migration interacts with living standards, productivity, and social cohesion. Migration affects these, even if it is possible to estimate the shadow prices of migration.

The effect of migration on the European Union (EU) labor market is not enormous. There has been an interesting “natural experiment”: In 2004, the EU expanded to include Eastern European countries. Germany imposed transition rules, meaning they did not open up their labor market immediately, while the market in the United Kingdom was opened up right away. If migration had impacted the labor market, there would have been a great deal of variance in macroeconomic fundamentals. Comparing both cases, we do not see a jump in macroeconomic fundamentals, demonstrating that worries were unfounded. Certainly there is a limited amount of information, and it is also limited in time and in validity, but it points towards these results.
Impact of migration on poverty reduction and growth as well as social development and social cohesion

As for the impact on poverty reduction, living standards, and growth in sending countries, and on social cohesion in receiving countries, it must be said that remittances are an important component of gross domestic product (GDP) in many developing countries, although there are potential trade-offs. There is statistically weak evidence that remittances have a positive effect on growth, health, and schooling. Return migration impacts on job creation through entrepreneurship. The trade-offs are with other forms of capital, for example, social capital. Emigrants lose some of the social ties they have in their home country and when they come back it is more difficult to start up a business, because of lost social capital. Migrants send money, which increases physical capital, but other members of the household are less likely to be self-employed.

Receiving countries have three non-labor-market channels of impact. The first is welfare spending. Europe is where the welfare magnet hypothesis is being analyzed to see whether welfare is attracting more migrants. In ten years there will be lists of Chinese cities with different levels of minimum wages or benefits. China is moving in the direction of better welfare than Europe (Hong Kong). Yet, we do not find that increasing welfare attracts more migrants, because they are less likely to get welfare than natives. While migrants as a group receive higher rates of benefits they are younger when they arrive, so that the probability that they receive welfare is not high, when compared to natives.

The second hypothesis is about happiness and whether migrants make natives happier or not. In the case of Germany, we do not find that Germans become unhappier as migration rises. This cannot be generalized, but offers a perspective, given the present comparability of the happiness data that is available in the short run. Using panel data on individuals over a 20 year period, controlled for local labor market characteristics, we found that migration does not have an impact on the labor market. The potential positive impact of migration on natives’ happiness could be explained by the cultural values that migrants might bring. Work is in progress in this area.

The third aspect, under discussion in Europe for 35 years (originally composed of six countries), is integration, social inclusion, and cohesion, which are still on the European Commission agenda for 2020 under objectives like sustainable and inclusive growth. Integration – including the ways in which migrants assimilate – is an important economic and social concept for migration. The Institut zur Zukunft der Arbeit (IZA) carried out a survey for the European Parliament to precisely determine the level of integration of migrants in Europe, based on the Qualitative Eurobarometer on Migrant Integration 2011, a study carried out every four years to measure social problems and perceptions. The study directs questions, for the first time, to the general public, the average voter, and migrants. When asked about the factors that can facilitate integration, both the native general public and migrants responded that being able to speak the language is an important factor. For migrants, legal status comes second, and having a job, third. The point is that while responses 1 and 2 are relevant to jobs, the responses emphasize employment opportunities more than jobs.

We posed similar questions to our network of experts, for example: What are the most interesting or significant barriers preventing immigrants from participating in the labor market? Most of the experts also say that language is a big issue. Of course, there are other issues of high importance like education and recognition of qualifications, which will be more of a challenge as migration grows in developing countries.

How can we make the best of the migration experience? From the perspective of the receiving country in Europe, this is a matter of integration policies, language, and recognition of qualifications and the effective enforcement of anti-discrimination law. From the perspective of sending regions, issues include how to attract back skilled, entrepreneurial emigrants by facilitating business start-ups with incentives such as tax benefits or simplifying bureaucratic requirements for becoming entrepreneurs.
References

Current immigration trends


Impact of immigration on the labour market


Immigration and welfare


Immigration and attitudes

European Commision (2011), Qualitative Eurobarometer on Migrant Integration, Aggregate Report, survey conducted by TNS Qual+.

This paper focuses on the perspective of developing countries, on South-South migration, with evidence from Egypt, Jordan, and Morocco. The paper deals with jobs, living standards, and social cohesion from the perspective of sending countries. The data on South-South migration that is used here refers to the year 2000, but was published in 2011, so the information is ten or eleven years old. National statistical systems may have better data, though. Still, this is the first time there is comprehensive information on South-South migration. The data indicate that South-South migration has declined but is still important, 25% of total migration. Furthermore, 15% of all migration to the South is to the oil Gulf States.

People migrate because of jobs, in particular, for good jobs; 80% of Egyptians, Jordanians, and Moroccans were employed before migration. It is not the unemployed who are leaving. People want better jobs, higher-paid jobs, and better living standards: jobs are at the center of why people migrate. There may be other reasons as well, such as political motivations, student migration, and family concerns. Much of recent migration into Europe has consisted of family reunification with an employed migrant. The Netherlands keeps a registry that includes motives for immigration since 1997; labor immigration is only 25% of total migration, although immigration into the Gulf States is nearly 100% labor-motivated.

It is not the poorest that migrate, since cost and credit constraints are important. For North Africans going to Europe, family and social networks play a very important role, especially for Moroccans. This is also the case in Mexico-United States migration.

Host South countries import workers to fill labor gaps, skilled, unskilled, or both. For example, if the Gulf States had not imported workers for the last 30 years, they would not have had the same level of economic growth. However, the effect of migration on employment and wages of natives is very small, as other studies show for the United States or the United Kingdom.

It is difficult to assess the impact for host developing countries in the South, because the counterfactuals are not known. In the Gulf States, there is high unemployment among the native educated, and the migratory system is highly regulated. So the question is whether immigration is creating high unemployment or whether queuing for public sector jobs by the educated is leading to the high unemployment. When it comes to South host countries, we know very little about the impact on employment and wages.

Migration is usually thought of as uni-dimensional, meaning that some countries import workers and others export workers. This is not always the case. Jordan imports and exports workers. The difference is quite simply their educational level; Jordan is exporting high-skilled workers and importing low-skilled workers. When immigration and emigration occur at the same time, the net impact can be difficult to assess.

Jordanian emigrants earn considerably more in the Gulf States, Canada, and the United States. Non-migrant Jordanians and immigrants are paid much less because of their lower educational level. In Jordan, imported workers do poorly compared to natives, and they take the sort of jobs that natives do not want to do. Even if they become entrepreneurs, it is not their first choice, but their last resort. When thinking about jobs, one must also consider workers’ rights and access to services that many immigrants lack.

Another important issue is the effect of temporary migration on social cohesion. Temporary migrants might not have sufficient incentives to invest in language skills or in learning about a particular country, because they are only spending a year or two in the host country. An example of lack of social cohesion is pro-
vided by Moroccans in Belgium, where the problem is not the first generation of immigrants, but the second and now the third generation. Basically, the gap is widening between natives and second/third generation Moroccans – who know very little about Morocco; they have been living and perhaps were born in Belgium. In terms of social cohesion, there are serious problems, which “jobs” on their own cannot address.

In regard to home countries like Egypt, emigration has had several consequences, including reduced unemployment and the reception of remittances. Another consequence has been the debate about whether developing countries are facing a brain drain or a brain gain as a result of emigration. Many policymakers in developing countries focus on the brain drain. Loss of the highly skilled can be problematic for some countries, but is more often outweighed by remittances and higher human capital investment. Remittances are motivating more people to invest in education, because they realize that if they invest in education, they are more likely to migrate. Hence, there is a brain gain. Remittances are considerable in countries like Jordan or Lebanon – 23% of gross domestic product (GDP), more than overseas development aid. Remittances reduce household poverty, but not necessarily inequality. With middle classes migrating, the gap could widen.

Another potentially positive consequence for developing countries is return migration and the increase in entrepreneurial investment. This has been the case among Egyptian, Moroccan, and Filipino returnees. When they invest, they create more formal jobs and better jobs compared to people who did not migrate. Migration has a further important benefit in that people acquire skills, return, and earn more than they did before. Egyptian returnees earn 10% more, the educated about 20% more. Destinations matter. Returnees from Arab countries earn 20% less than those from Western countries.

The Egyptian case is very different than the Jordanian case. The educational level of Egyptian migrants and returnees are very similar, but both returnees and migrants are more educated than non-migrants. On the other hand, Jordanian returnees earn more than non-migrant Jordanians, suggesting a possible human capital accumulation when abroad. However, immigrants in Jordan earn less on average than Jordanians. Controlling for education and age, the same pattern is observed: immigrants in Jordan earn the lowest wage. Interestingly, current Jordanian emigrants earn around four times as much on average as stayers. The gap is much bigger for those with university degrees, almost ten times as much relative to Jordanians non-migrants.

With respect to migration policy, better data on trends is needed, as well as in-depth studies and more census questions on migration. Some policymakers view migration as a tool for development and migrants as agents of development. Migration can be used as a tool for development, as is illustrated, for example, by Moroccan returnees and their investment in public goods, such as wells, roads, irrigation, electricity supply, etc. However, policymakers often forget that remittances are private flows and that migrants move to better themselves and their families; the responsibility for development should not be placed on migrants. Governments need to provide the right environment for development, for instance, through investment in higher quality education, a positive investment environment, and reform of the labor markets to reduce unemployment and push factors, etc.

Moreover, reducing the cost of transferring remittances is another important policy recommendation. Migrants in the United States, for example, spend 30% of their remittance to send money back to Lebanon. Finally, migration should be managed through bilateral or multilateral agreements. This would allow interventions to counterbalance the brain drain, for example, host country investment in education in origin countries to promote highly-skilled circular migration.
Migration and Social inclusion – Looking through the “Good Jobs” Lens

Steffen Angenendt, Senior Associate, Migration and Security, German Institute for International and Security Affairs, Berlin, Germany

The approach of the 2013 World Development Report (WDR 2013) to use the “good jobs” lens to assess development trends and policies is innovative and convincing. But from a migration policy perspective, migration-related aspects seem to be undervalued in the report’s October 2011 outline.

Nevertheless, the outline offers six starting points for bringing more migration into the 2013 report: Migration can be seen as an exit option, as a challenge for the Global South, and as a “hinge” of development; the report should also address the correlations between legal status and job quality; between duration of stay and access to good jobs; as well as the links between good jobs and remittances.

1. Migration as an exit option

The outline addresses, among other things, the link between population and employment growth rates. In the outline, the correlation is used to illustrate how important job creation will be in the future. But given, for example, the current debate in Europe on how to support a peaceful transition in the Arab Spring countries, a key question will be: Where will all these jobs come from? Under the given circumstances, especially the poor integration of many of these countries into the global economy, employment growth will be difficult. Many of these countries will face growing structural underemployment and unemployment, and policy interventions will be only partly successful. Then the question of migration as an exit option gains importance: Could temporary or circular migration be a solution? Could emigration reduce the pressure on national labor markets and thus foster development and peaceful transition? And should this option be taken into account by home countries and receiving countries?

Figure 1. Demographic pressure: exit option migration?

Employment growth needed to reduce unemployment by half

Source: WDR 2013 Outline, October 2011
Even if the WDR 2013 cannot provide adequate answers to these difficult questions, it would be helpful to address this topic and to mention that if jobs cannot migrate, people perhaps will.

2. Migration as a challenge for the Global South

Contrary to widespread perceptions in Europe and other industrialized regions, global migration is also a challenge for the Global South – given the fact that global migration flows nowadays are nearly equally distributed between the Global North and South, with South-North migration accounting for only a third of global flows.

Figure 2. Migration and development: Global migration flows, Global South & North, 2005

One of the main problems related to South-South migration is the lack of data and sound analysis of the driving forces and outcomes of these flows. Information on the quality of jobs available in South-South migration and the repercussions of migration on the quality of these jobs (as well as on job quality in the countries of origin) is especially limited. But all these correlations are important, because, given demographic and structural economic developments, it is to be expected that the bulk of employment growth will (and must) be in the South.

There is also a lack of data and studies on internal migration in developing countries and emerging economies. This extremely fast-growing and mainly urbanization-driven type of migration involves large numbers of migrants, especially, for example, in China. According to the Chinese Government, the most important domestic development challenge in China will be how to double the number of internal migrants within the next two decades without causing social and political turmoil. Also in this context, access to jobs and the quality of these jobs will be of utmost importance, to secure not only productivity and growth but also social cohesion.
3. Migration as a “hinge” of development

The outline’s idea of viewing jobs as a “hinge” of development should also include international and internal migration. In both cases, the outcomes are two-fold: Migration influences the development of the receiving areas as well as of the regions of origin, and the quality of jobs filled by migrants has repercussions on living standards, productivity, and social cohesion in both regions.

This may complicate the assessment of the impact of job quality on development (and vice versa) because, in this perspective, a second, geographical layer has to be added to the analysis: the distinction between regions of origin and destination.

Figure 3. “Jobs as the hinge of development”: also valid for labour migration (internal and transnational)

In this perspective, it becomes obvious that all three core aspects discussed in the WDR 2013 – living standards, productivity gains, and social cohesion – are also influenced by in- and out-migration. To analyze the development impacts of jobs, it thus would be useful to also take these implications of migration into account.

4. Legal status and type of migration

One major global trend in contemporary migration is the growing diversity of flows. Governments and international organizations have to deal with mixed types of migration, where the distinction between voluntary and forced movements becomes ever more complicated; the nature of migration is changing, with less permanent and more temporary and circular flows; and, in addition, migration policy in countries of origin and destination is becoming more heterogeneous and often varies between openness and closure.

Today, immigrants frequently face very different situations with respect to legal status and residence and protection rights, which, furthermore, often change over time. These shifts in legal status and conditions have serious impacts on the migrant’s living standards, integration perspectives as well as on their access to jobs. Obviously, irregular migrants usually have no access to good jobs.
Therefore, it would make sense to include the categories legal status and residence as well as labor market participation rights in the analysis of “good jobs.” Current migration research might offer – at least for some industrialized countries (like Germany) – empirical insights into the correlation between legal status and the quality of jobs. However, in general, the development impact of the legal status of migrants has not yet been sufficiently explored.

Figure 4. The "good jobs" perspective: add legal status & type of migration

5. Impact of duration of residence

The same holds for a second aspect of migrants’ economic performance and their role as development agents. Thus, the WDR 2013 should analyze the correlation between the quality of jobs and the duration of stay. Often, a prolonged stay leads to a more secure legal status (as is the case in most EU countries). But does a prolonged duration of stay usually correlate with access to better jobs, and what would that mean or imply for policy strategies?

For example, government statistics on the duration of stay of migrants in Germany indicate that in 2009 more than 80 per cent of the foreigners legally residing in Germany had been living there for more than nine years. In this case, such a correlation could also serve as an indicator for social integration.
Exploring the correlations between duration of stay, labor force participation, and job quality (and vice versa) would be important for designing future migration and integration policies, especially given the recent overall trend in industrialized countries towards promoting development-oriented temporary and circular migration schemes.

Figure 5. Impact of "good jobs" on migration I? Duration of stay, persons with migr. background, Germany, 2009

Figure 6. Impacts of "good jobs" II? Foreign population and labour force participation, Germany, 1960–2005
6. Impact of remittances

Remittances of migrants to developing countries are rapidly increasing. According to World Bank estimates, more than US$350 billion were transferred to developing countries in 2011. There is a lively debate on the development impacts of these remittances. Nevertheless, most governments of sending and receiving countries are convinced that these flows play an important role in fostering development, and try to support them.

But for the time being, there is only limited theoretical and empirical insight into how remittances are really influencing development, and into the correlation between job quality and remittances. There are hints that the share of remittances is higher from migrants in low-skill jobs; however, there should be more in-depth analysis of this subject.

If remittances have such an impact on development, it would be useful for development agencies to know more about this correlation, in order to help them design more effective approaches to remittances.

Conclusion

There are three reasons for systematically including a “migration and good jobs” perspective in the 2013 World Development Report:

1. Globalization is being increasingly shaped by internal and transnational migration and mobility of people and jobs.

2. Migration challenges and migration policies are high on the political agendas of most receiving and many sending countries.

3. A sound analysis of the quality of jobs available for migrants could provide valuable insights into migration dynamics, social cohesion, and development.

An analysis of the diverse links between migration, labor markets, and good jobs may contribute to the development of comprehensive, coherent, and sustainable labor market and migration policies.
Agenda

Moving Jobs to the Center Stage

Wednesday, 9 November 2011

7:00 pm Informal Welcome Dinner at the Saint Germain Restaurant, Hotel Concorde Berlin

Thursday, 10 November 2011

9:00 – 11:00 am Welcome and Introduction

Welcome Henriette Strothmann, Executive Director, Development Policy Forum, Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Berlin, Germany

Welcome Address Justin Yifu Lin, Senior Vice President and Chief Economist, The World Bank, Washington D.C.

Opening Address Friedel Eggelmeyer, Director General, European and multilateral Development Policy; South-Eastern Europe; South Caucasus; Middle East; Afghanistan and Pakistan, Federal Ministry for Economic Cooperation and Development (BMZ), Berlin, Germany


Discussion Open dialogue on the WDR 2013 concept

11:00 am Coffee Break

11:30 am – 1:00 pm Session I: Conceptualizing “Good Jobs” and Social Cohesion

While social cohesion is influenced by various political, economic, and social factors, the WDR 2011 shows that jobs can play an important role in alleviating situations of conflict and fragility. This topic is not only of immediate relevance for fragile states, like Afghanistan or Pakistan, but also for those in most recent transformation in the MENA region. This session seeks to explore the different dimensions of social cohesion, the relevance of job creation therein, and the respective policy measures to be considered.
Key Questions

1. What are different frameworks and evidence on how good/decent jobs are the hinge of social cohesion? What type of jobs can be considered as being conducive to social cohesion?

2. How can good/decent jobs and social cohesion be addressed in different contexts, i.e. LICs, MICs, and fragile states?

3. In what respect does a labor market strategy aiming at social cohesion differ from a labor market strategy aiming at growth or poverty reduction?

Chair: Dena Ringold, WDR 2013 team, Senior Economist, Human Development, The World Bank, Washington D.C.

Speakers:
- Johannes Jütting, Head of Unit, Poverty Reduction Development Centre, Organisation for Economic Cooperation and Development (OECD), Paris
- Werner Eichhorst, Deputy Director, Labor Policy, Institute for the Study of Labor (IZA), Bonn, Germany
- Christian Welzel, Chair in Political Culture Research, Leuphana University Luneburg and Higher School of Economics St. Petersburg, Luneburg, Germany

1:00 pm Lunch Break

2:30 – 4:00 pm Session II: The Link between Jobs, Technology and Growth – Implications for a Job-Centered Economic Policy

Many countries reached high economic growth rates before the Great Recession but failed to create a similar employment growth (“jobless growth”). By analyzing different pathways of development, conclusions can be drawn for how economic policy can effectively address national employment challenges. This panel shall serve to discuss available evidence on the long-term link between jobs, structural transformations, trade and economic/social development. Empirical evidence leaves little doubt that technological advancement and globalization have brought about enormous economic benefits in general, which raises the question of what jobs are being created and destroyed through technological advancement and how the occurring benefits and risks can be shared more evenly.
Key Questions

1. What are the key links between job creation, technological change, and economic growth? Which growth matters for jobs and which jobs matter for growth? Which lessons can be drawn from different pathways of development, e.g. Mexico, China, Rwanda, South Korea?

2. What role do technological advances have for economic development and job creation? How do they affect different groups in the labor market (high-skilled/low-skilled, women, young people)?

3. Which challenges and opportunities do green growth strategies present for developing countries?

4. Which measures can governments and donors/development agencies take to support growth supporting short and long term job creation (job security) and mitigate negative effects (job destruction)? How can private sector development be used to create poverty reducing jobs and growth at the same time?

Chair: Jürgen Zattler, Deputy Director General, Multilateral and European Policy, Federal Ministry for Economic Cooperation and Development (BMZ), Berlin, Germany

Speakers: Tilman Altenburg, Head of Department, Competitiveness and Social Development, German Development Institute (DIE), Bonn, Germany

Binayak Sen, Research Director, Bangladesh Institute for Development Studies (BIDS), Dhaka, Bangladesh

Uma Rani Amara, Senior Development Economist, International Labour Organization (ILO), Geneva

4:00 pm Coffee Break

4:30 – 6:00 pm Session III: Jobs and Labor Market Institutions

Interventions in the labor market, in the form of policies or institutional actions, deal with improving the match between labor demand and supply, protecting jobs, moving workers to new jobs, encouraging mobility, and ensuring equality of opportunity for all social groups in the labor market. Labor market outcomes can be positively influenced through a variety of interventions and policies: the establishment and improvement of employment services, changes in labor legislation, unemployment benefit schemes, taxes on labor, social partnerships, and active labor market policies. In this context, the issue of good/decent jobs and the search for a better
combination of flexibility and security regarding employment, income, and social protection constitutes a major challenge.

Key Questions

1. What is the relative importance of labor market institutions for job creation with respect to poverty reduction, growth, social change, and social cohesion?

2. Do certain labor market institutions play a different role in different country contexts (Sub-Saharan Africa, MENA, East Asia, South East Asia, Latin America)?

3. What type of labor market legislation can foster better job creation while providing workers with satisfactory security? Can flexibility be considered a viable concept for realizing these goals?

4. What are new approaches from an academic perspective on the role of labor market legislation and employment policies after the Great Recession? Are there lessons to be drawn for low and middle income countries?

Chair  Keijiro Otsuka, WDR 2013 team, Economist and Adviser, Coalition for African Rice Development (CARD), The World Bank, Washington D.C.

Speakers  Richard B. Freeman, Ascherman Professor of Economics, Harvard University, Cambridge, United States

Tilman Brück, Head of Department, International Economics, The German Institute for Economic Research (DIW), Berlin, Germany

Erol Taymaz, Professor of Economics, Middle East Technical University, Northern Cyprus, Turkey

6:30 pm  City Bus Tour and Joint Dinner at Restaurant Kaisersaal hosted by the World Bank

Afterwards  Return Shuttles to the Hotel
9:00 – 10:30 am  Session IV: The Youth Employment Challenge – The Need for Linking Skill Building with Private Sector Development and Economic Policy

Each year, millions of young people enter labor markets worldwide. However, young people are not only three times more likely to be unemployed than adults, but also more likely to work in informal and insecure work arrangements, characterized by low productivity, low earnings and reduced labor protection.

Skills that are relevant in the labor market are essential for young people to find and retain a suitable employment. New approaches to assess ‘human productivity’ increases may offer new insights how skills are created (non-cognitive), when they are important, and how skill building spurs productivity. It is furthermore important to find models that ensure that skills demands resulting from private sector demand as well as economic policy sector are systematically taken into account.

Key Questions

1. Which skills matter for job creation with the purpose of poverty reduction, growth, social development, and cohesion?

2. Should there be a systematic link between skill building and economic policy? How can skills needs be identified in the short and long term to be used for planning government interventions, i.e. how relevant are (cost-effective) labor market information systems, and which role should public and private sectors play?

3. What is the particular role of the private sector (e.g. on the job training) and the public sector, short versus long term, informal versus formal vocational training, and higher education? How to include the illiterate?

4. What are new approaches to assess ‘human productivity’ increases – both how skills are created (non-cognitive) and when they are important? How can skill building spur productivity?

5. What are the boundaries of a skills-oriented strategy? What are possible roles for further modes of cooperation with the private sector, e.g. in the form of youth employment pacts?
Informal employment is ‘normal’ in many developing countries: over half of non-agricultural jobs in developing and emerging economies are informal, in some regions such as Sub-Saharan Africa and South Asia, this share reaches 80 per cent of total employment. While in some countries informal employment seems to be decreasing, the overall trend is upward even in the presence of economic growth. From a development perspective, this is troubling: on the one hand, informal employment deprives governments of tax revenues and regulatory power; on the other hand, informal workers tend to be poor, often face dire working conditions and do not have access to social protection. Past approaches of tackling the challenges of informal employment by promoting formalization have not proven successful. A rethinking is needed to support workers in the informal sector while facilitating linkages and transitions to the formal economy.

Key Questions

1. What explains the persistence of informal employment? Which dynamics can be discerned within the informal sector?

2. What are the relationships between economic growth, poverty, and informal employment? In which way are women and men affected differently?

3. How to unlock the growth and job creation potential of informal firms?

4. How to strengthen skills development in the informal sector?

5. How can policies deal with the heterogeneity of informal employment?
12:30 pm Lunch Break

2:00–3:30 pm Session VI: Jobs, Migration and Social Inclusion – Empirical Evidence

In today’s globalized world labor markets cannot be analyzed in isolation. Unsatisfied labor demand in some markets may be met through migration, while emigration may ease pressures on markets with excess supply. Globalized labor markets and migration further raise the opportunity of knowledge transfer and development. At the same time inadequate frameworks and unregulated migration may have negative effects on local employment structures, social cohesion, and foster the formation of informal sectors.

Key Questions

1. What are recent trends and dynamics in migration, i.e. who migrates, when, and why?

2. What is migration’s influence on labor market structures and dynamics in both sending and receiving countries (including the impact on job creation and displacement of locals)?

3. What is the impact of migration, and its mechanism, on (i) poverty reduction, (ii) growth, (iii) social development, and (iv) social cohesion?

4. Which role should migration policy play to ensure positive effects on those four dimensions and to mitigate negative effects?
Chair: Yue Li, WDR 2013 team, Economist, The World Bank, Washington D.C.

Speakers:
- Corrado Giulietti, Deputy Director of Research and Deputy Program Director, Migration Area, Institute for the Study of Labor (IZA), Bonn, Germany
- Jackline Wahba, Associate Professor in Economics, University of Southampton, Southampton, United Kingdom
- Steffen Angenendt, Senior Associate, Migration and Security, German Institute for International and Security Affairs, Berlin, Germany

3:30 pm Response and Outlook
Speakers:
- Martin Rama, Director WDR 2013, Senior Economist, The World Bank, Washington D.C.

4:00 pm Closing Reception