

Introduction to the Employment Lab Guides

1. BACKGROUND

The Employment Lab has been set up in response to demands from the development community to strengthen the analysis of labor markets and the links between jobs, growth and poverty reduction, and to guide policymaking so as to boost the poverty-reducing impact of employment and earnings. The Employment Lab provides data-sets, software applications and methodological tools, guides to labor market analysis in low and middle income countries, and reference material to policy oriented theoretical and empirical research on this topic (Table 1).

This guide provides an introduction to the four written guides to labor market analysis that are currently available in the Employment Lab.

Table 1: Employment Lab.

Guides	Soft-ware	Data	Readings
Creating Labor Market Diagnostics in Low and Middle Income Countries Guide to Growth and Employment Analysis Guide to Employment, Low Pay and Poverty Analysis Guide to Labor Market Segmentation analysis	<i>ADePT Labor</i> : For producing a large set of basic tables of labor market and poverty conditions <i>JoGGs</i> : For analyzing links between growth, employment and productivity. <i>SIMPLE</i> : for simulations to evaluate the effects of economic policies and economic shocks on cross sector labor allocation and earnings. <i>Mobility STATA</i> code	The Labor Market Micro-level Database: labor market datasets for two points in time for a number of countries, Sources for country-based labor statistics.	Policy focused notes Country studies Conceptual and theoretical studies.

The Guides instruct users on how to employ the data at their disposal and the software provided to perform extensive labor market analysis including both quality and quantity aspects, and static and dynamic perspectives. They provide the analytical basis for monitoring of poverty, growth and labor market policy interventions.

Guide 1 focuses on developing solid labor market diagnostics with emphasis on both labor market status and labor market earnings and on labor market heterogeneity. Guide 2 turns to dynamic diagnostics to analyze the links between economic growth and labor market changes so as to better understand to what extent and in what way labor markets channel the benefits of economic growth through jobs and earnings (productivity). But even if aggregate growth is high, and earnings increase, the poor may not benefit. Guide 3 therefore addresses the links between

earnings mobility for the low paid and poverty reduction. [Guide 4](#), finally, explains labor market segmentation, how this can affect the poor, and how to detect the presence of segmentation in labor markets.

2. OVERVIEW OF THE GUIDES

Guide 1: Performing labor market diagnostics for low and middle income countries.

Understanding conditions in labor markets is critical to understanding poverty. Standard labor market analysis tends to be more adapted to developed countries where access to a job is an important welfare indicator and unemployment and participation rates therefore relevant measures of labor market conditions. However, conditions in developing countries tend to be different, with a large share of low paid workers and low productivity jobs. The poor are poor not because they lack access to a job per se, as indeed most of them work, but because they lack access to a job with sufficient earnings. This calls for measures which address quality issues as well – most particularly earnings - and access to higher earnings.

The guide provides an overview of how to prepare comprehensive diagnostics of labor market conditions, including standard and non-standard indicators which are more relevant for developing countries, notably measures of earnings. The guide highlights indicators that are essential for analysts to answer three principal questions:

- What are the conditions in the labor market?
- Which groups among the population are relatively disadvantaged, as measured by job attributes?
- To what extent does poor job quality overlap with poverty at the household level?

Guide 2: Analyzing the links between growth, employment, and productivity

Transferring the logic underpinning Guide 1 to a dynamic setting, mere job creation will not be sufficient to reduce poverty – creation of jobs with higher quality in the form of higher earnings are also needed. It is widely acknowledged that economic growth is a main driving force behind poverty reduction over the long run, and that labor markets provide the main transmission channel for this process. Higher earnings are likely to be correlated with labor productivity, at least over the longer term. The methodology proposed below thus addresses four principal questions.

- Is growth in per capita value added due to demographic changes or changes in the level of growth? For example, if growth per capita has increased, is this linked to slower population growth or higher output growth?

- Is growth correlated with increases in the quantity of jobs (job creation) or in the quality of jobs (increased productivity of existing jobs)?
- Are the changes in output per worker due to changes within sectors, or due to shifts of workers from low productivity to higher productivity sectors, i.e. changing employment structure?
- What are the sources of any increases in output per worker within sectors? Are they related to increases in Total Factor Productivity (TFP) due to innovation (better use of existing resources)? Or are they due to increases in the ratio of capital to labor in firms (adding more resources)?

Guide 3: Analyzing employment, low pay and poverty dynamics

While growth may be a necessary long term condition for poverty reduction, economy-wide labor productivity increases need not result in increased earnings for the low paid workers. The sectoral and other specificities of the growth pattern may signify very unequal earnings growth among different types of workers. Increased earnings may come through higher earnings on the job or through changing jobs to a better earning job. Finding out which is the most efficient option or combination of options are important from a policy perspective: should higher productivity in sectors where the poor work be encouraged? Or should policy focus on encouraging growth in higher productivity sectors and increase the poor's chances of getting a job there? The guide thus proposes methods to answer the following questions:

- What are the main determinants of earnings and earnings growth/mobility – and are they different?
- What are the respective roles of mobility across sectors vs. earnings growth within sectors?
- Do low pay traps exist and who is most vulnerable to fall into them?
- Finally, linking poverty with earnings, what is the role of earnings growth and sectoral shifts for poverty alleviation at the household level?

Guide 4: Labor market segmentation analysis

If the analysis of earnings and earnings mobility suggests that education increases the probability of higher earnings – will educating the poor solve the problem? Not necessarily, if segmentation is present. Labor market in developing countries are not always fully integrated competitive markets¹: there may be preferred and generally higher paying segments of employment, where most workers would want to be employed, but from which they are excluded; and least preferred segments were workers find jobs as a last resort. One result of

¹ This view can be traced back to the seminal work by Harris and Todaro (1970)

segmentation is that returns to education differ between segments; poorer workers must then be allowed access to those segments in addition to higher education. Segmentation, where present, can affect productivity, efficiency, worker welfare, and the optimizing choices of both workers and firms, and therefore also the effectiveness of policy interventions. The Guide therefore provides direction to the following questions:

- What is segmentation and what causes segmentation?
- How can segmentation be identified?

3. DEFINITIONS AND SEMANTICS

The conceptual, methodological and empirical work presented in the Employment Lab and in the guides relies on the following definitions.

- **Poverty:** Throughout the guides, the term poverty will refer only to the income dimension of poverty. That is, a person is defined to be poor if his income is below a predefined threshold.
- **Labor markets:** When reference is made to labor markets, these are to be understood in a *wide sense*, meaning not just the place where labor is bought, sold and exchanged but also the institutional and cultural traits that characterize labor decisions and exchanges.
- **Labor market structure:** References to the structure of the labor market encompass the composition of the labor force, employment by sectors, and the degree to which sectors are segmented.
- **Segmentation labor markets are segmented** if otherwise identical individuals have different earning rates depending on the sector in which they work and such differences cannot be explained by other attributes of the job, giving rise to queuing phenomena.
- **Institutions:** May refer to role of unions, the public sector, labor regulation and gender/family structures, in so far as they set the rules for labor market exchanges.
- **Returns to labor/labor earnings/labor income:** Refers to all income derived from work, in kind or in cash, whether as profits from self-employment or as wages from hired labor. This means that output for self-consumption is considered a return from labor.
- **Employment:** According to the ILO definition, a person is employed if (s)he has worked at least one hour in the reference week. But since a number of countries follow different definitions, in these guides the definition of employment is adaptable according to available data.
- **Underemployment:** A person is defined to be underemployed if (s)he was willing and able to undertake additional employment in the reference week of the survey.

Notation

National level variables:

P- Poverty measure

N – Total population

U – Total number of unemployed in the economy

L – Total number of economically active (employed + unemployed)

E – Total number of employed individuals in the economy

A- Total number of working age individuals in the economy

I – Total survey income

I^L – Total survey labor income

I^{NL} - Total survey non-labor income

Y – Total output

Y_s – Total output in sector S

Y_m – Total output in region m

Household variables:

N_j – Size of household j

U_j – Total number of unemployed in household j

L_j – Total number of economically active individuals in household j

H_j – Total number of hours worked by all members of household j

E_j – Total number of employed individuals in household j

A_j - Total number of working age individuals in household j y

I_j – Total survey income of household j

I_j^L – Total survey labor income of household j

I_j^{NL} - Total survey non-labor income of household j

i_j - Total per capita survey income of household j. $i_j = I_j / N_j$

i_j^L – Per capita survey labor income of household j. $i_j^L = I_j^L / N_j$

i_j^{NL} - Per capita survey non-labor income of household j. $i_j^{NL} = I_j^{NL} / N_j$

u_j – Unemployment rate within household j; $u_j = U_j / L_j$

l_j – Participation rate within household j; $l_j = L_j / A_j$

a_j – Dependency rate $a_j = A_j / N_j$