

A guide to labor market indicators
PREM Learning Week 2008 presentation

Gary Fields (Cornell)

Dhushyanth Raju (World Bank)

April 21, 2008

Motivation

- Widely-perceived inadequacy of standard indicators (e.g., ILO's KILM) in depicting labor market conditions in low-income settings.
- Salient LM characteristics in low-income settings: low labor productivity, segmentation, subsistence or survival employment, low regulation, low unemployment, self-employment and household labor activities, multiple jobs.

Objective

- Arrive at a set of indicators that are more appropriate for assessing LM conditions in low-income settings, and develop a guide for undertaking a systematic descriptive analysis of the LM.
- Specifically, arrive at indicators that describe the “quality of employment”. Primary focus: labor earnings.

Questions of interest

Static questions

1. What are the current overall conditions in the LM with respect to employment and unemployment, earnings levels, and other key indicators?
2. Which groups among the relevant population are relatively disadvantaged as measured by LM status, earnings, and other job attributes?
3. What share of workers hold “bad” jobs as measured by their LM earnings and other job attributes, and what share of workers who hold “bad” jobs reside in poor households.

Questions (cont.)

Dynamic questions

4. How have conditions in the LM changed over time, and which groups of workers have experienced the largest changes?
5. How have the incidence of “bad” jobs and the extent of overlap between “bad” jobs and poor households evolved over time?

Data requirements

- Nationally-representative household survey repeated over time with a labor market module and an income/consumption expenditure module.
- Key: individual level earnings data; greatest coverage of workers possible.
- Primary: cross-time comparability within a country. Secondary: cross-country comparability.
- Panel data if available.

Proposed labor market indicators

- Two levels of indicators: Level-1 and Level-2
- Level-1: Merit greatest attention from an analytical and policy perspective
- Level-1 and level-2 indicators can be shifted based on relative importance given country specifics
- Unless specified, all indicators are for the 15-64 population

Proposed Level-1 labor market indicators

Whether individuals are working and in what status:

1. Standard unemployment rate
2. Employment-to-population ratio
3. Child labor or work rate (5-14 years of age)
4. Distribution of workers by employment status: wage and salaried workers, employers, and household enterprise workers

If working, how much are they earning:

4. Median earnings, all workers, wage and salaried workers, and household enterprise workers
5. Low earnings rate, all workers, wage and salaried workers, and household enterprise workers

Proposed Level-1 indicators (cont.)

6. Share of low earners who work long hours (*i.e.*, more than full-time hours)
7. Share of low earners who have low earnings due to short hours
8. Share of *non*-low earners who escape low earnings due to long hours (more than full-time work)

Proposed Level-2 labor market indicators

- Supplementary; of lesser importance than level-1 indicators

Unemployment:

1. Broad unemployment rate (includes discouraged workers)
2. Share of long-term unemployed (jobless for 6+ months)
3. Poverty rate among unemployed workers (share of unemployed workers that reside in poor households)

Level-2 labor market indicators (cont.)

Earnings:

4. Earnings inequality: Gini coefficient for wage and salaried workers and household enterprise workers
5. Poverty rate among low earners, wage and salaried workers and household enterprise workers

Other quality of jobs/employment indicators:

6. Distribution of employment by sector
7. Distribution of employment by skill-based occupational classes
8. Distribution of employment by formal schooling levels

Level-2 labor market indicators (cont.)

9. Distribution of wage and salaried workers by type of employment (public sector, formal private sector, informal private sector)
10. Distribution of wage and salaried workers by employment contract type
11. Share of workers holding 2+ jobs concurrently
12. Share of workers participating in social security
13. Share of workers who are registered

Proposed sample disaggregations

1. Location (urban/rural and region)
2. Gender
3. Race/ethnicity
4. Age groups (15-24, 25-54, 55-64)
5. Formal schooling levels (e.g., none, primary, secondary, tertiary)
6. Household poverty status (poor/non-poor)

Panel data labor market indicators

1. Proportion of workers who experience a negative change in earnings from base to final year
2. 3x3 transition matrix of out-of-labor force/unemployed/employed for base and final year
3. 3x3 transition matrix of formally-employed/informally-employed/unemployed in base and final years
4. 3x3 transition matrix of non-low earners/low-earners/non-earners in base and final years

Earnings

- Earnings considered primary measure of job quality
- Issues in developing countries: (1) Earnings data collected from wage and salaried workers only and (2) Significant share of unpaid workers
- Development of a simple algorithm for incorporating unpaid workers into the earnings analysis based on status of employment and household identification information

Incorporating unpaid workers into the earnings analysis

- Typically-found employment status categories: (1) Wage and salaried, (2) Self-employed with paid employees (employer), (3) Self-employed without paid employees (own-account), and (4) Unpaid worker (contributing family worker)

Constructed employment statuses

1. *Wage and salaried worker*: self-reported category
 2. *Employers* (self-employed with employees): self-reported category.
 3. *Household enterprise worker*: own-account worker or an unpaid worker residing with at least one own-account worker.
- *Unclassified*: unpaid workers not residing with at least one own-account worker

Distribution of earnings

Wage and salaried workers: self-reported earnings in reference period (e.g., last month)

Household enterprise workers: total household enterprise earnings in reference period (sum of reported earnings of own-account workers) distributed to own-account and unpaid workers in proportion to hours worked.

Example: 1 own-account worker and 1 unpaid worker in household enterprise. Own-account worker earned \$100 last month and worked 40 hours last week, and unpaid worker worked 20 hours last week.

Own-account worker earnings: $\$100 \times 40/60 = \66.6

Unpaid worker earnings: $\$100 \times 20/60 = \33.3

Low earnings line

- *Low earnings lone 1* = individual poverty line
- *Low earnings line 2* = individual poverty line x scaling factor for household dependency on individual earnings
- Why individual poverty line? To see if the worker earnings enough to individually escape poverty
- Why scale up? Earnings of worker also typically used to support other members of the household
- ***Proposed country-specific low earnings line:*** national individual poverty line x the median ratio of household members to working-age employed household members