Jobs and Sustainable Development: How do Labor Policies and Institutions fit in?

Gordon Betcherman[1]

May 2015

Introduction

The intended contribution of this paper is to discuss how jobs policies can create employment that contributes to sustainable development, at least in its social and economic dimensions. The paper is organized in three parts. The first sets the stage by making two fundamental points: one, that employment is a key ingredient – if not *the* key ingredient – in achieving many development goals; and, two, that jobs challenges are formidable throughout much of the world. The second part revisits the importance of public actions in the realm of employment. It emphasizes that the vast majority of jobs are generated by the private sector but that public policy needs to play a major role in shaping the job creation process to meet individual and societal needs. The third part then considers how public policy can do this. It makes two points. First, what we refer to as "labor policies" and "labor institutions" are obviously very important, especially in providing security and achieving redistribution goals but they are only a part of the solution. Policies to encourage jobs that will support sustainable development goals must include interventions that address the particular jobs challenges a country faces. Often these interventions will lie well outside what we traditionally consider employment policy.

Two starting points

1. Jobs and development

Jobs[2] traditionally have been seen (at least among economists) as an outcome of development: as societies develop, more and better jobs are created. However, there seems to be more currency now to the notion that the jobs-development relationship may work in both directions. In other words, societies that invest in the creation of good jobs will enjoy positive development spillovers as a result. This is captured in the title of the ILO's *World of Work Report 2014: Developing with Jobs* (ILO 2014). As Guy Ryder put it in the Preface of the report, "good quality jobs matter for development" (p. v).

It may not be surprising to find this argument coming from the ILO but it is undoubtedly more unexpected to discover it in a World Bank flagship publication. But the centrality of jobs to development was the core message of the *World Development Report 2013: Jobs* (World Bank 2012).

---

[1] Professor, School of International Development and Global Studies, University of Ottawa. Author e-mail is Gordon.Betcherman@uottawa.ca. This paper was prepared for the Expert Group Meeting on Strengthening Social Development in the Contemporary World organized by the Division for Social Policy and Development, UN-DESA in New York on May 19-20, 2015.

[2] I use the term "jobs" to capture the wide range of employment and livelihood forms that are part of the world of work. In high-income and, to a lesser extent, upper-middle-income countries, this predominantly involves wage and salary jobs, usually in the formal sector. In the rest of the world, however, the majority work on farms, in very small family enterprises, or in some form of self-employment, often in the informal sector.

> Indeed, development happens through jobs. People work their way out of poverty and hardship through better livelihoods. Economies grow as people get better at what they do, as they move from farms to firms, and as more productive jobs are created and less productive ones disappear. Societies flourish as jobs bring together people from different ethnic and social backgrounds and nurture a sense of opportunity. (p. 2)

Sustainable development can create better employment opportunities for more people. But jobs can actually drive sustainable development by raising living standards, enhancing productivity, and strengthening social cohesion. The question is how to encourage this virtuous circle. From our current vantage point, the challenges are formidable.

2. Employment trends and challenges

Because of space, I will be very brief in reviewing employment trends and challenges. There are a number of sources that cover this in great detail, such as two of the ILO's annual reports – the World Employment and Social Outlook, formerly Global Employment Trends (latest, ILO 2015), and the World of Work (latest, ILO 2014). These reports not only review global trends but also provide overviews of regional trends, which can diverge considerably.

The sluggish economic growth that much of the world has experienced since the global financial crisis continues to affect labor markets. According to the ILO (2015), just over 200 million are unemployed. Unemployment rates vary significantly by region but in most regions they are no better than they were in 2007, at the time of the crisis (Table 1). Of course, some types of workers are disproportionately affected by joblessness. For example, the global youth unemployment rate stood at 13.0% in 2014, more than double the overall rate. In some regions like the Middle East and Southeast Asia, young people can be 4 or 5 times as likely to be unemployed as adults.

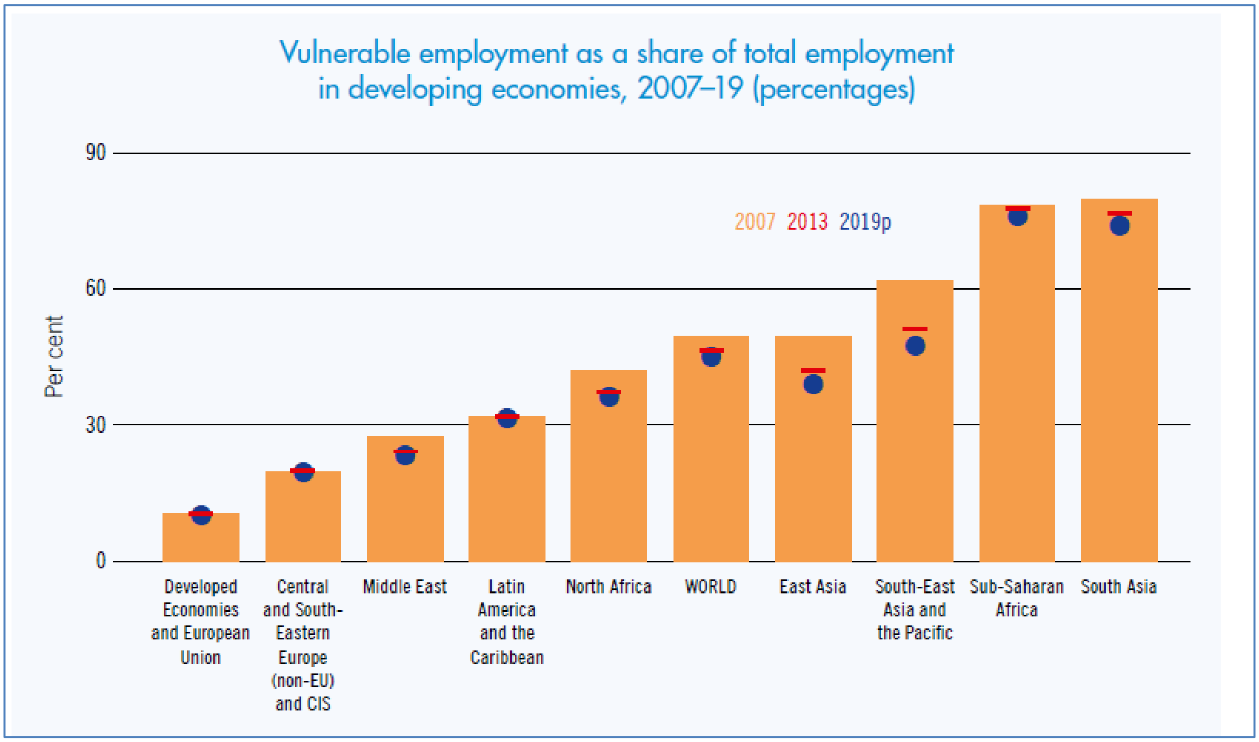
Table 1: Unemployment rates by region, 2007 and 2014

	Unemployment rate (%)	
	2007	2014
World	5.5	5.9
Developed economies	5.8	7.8
Central/SE Europe and CIS	8.2	7.7
Middle East	10.2	11.0
North Africa	11.4	12.5
Sub-Saharan Africa	7.8	7.7
Latin America	6.9	6.6
East Asia	3.8	4.6
SE Asia and Pacific	5.5	4.3
South Asia	4.0	3.9

Source: ILO (2015)

In much of the developing world, of course, unemployment rates vastly understate the employment challenges workers face. Where household incomes are low and safety nets are very limited or nonexistent, underemployment, low earnings, precariousness, and poor working conditions are more indicative. About one-third of workers in developing countries live in households that fall below the $US2 per day poverty threshold (ILO 2014). Most of these workers, and millions of others, are in what is often categorized as "vulnerable" employment – essentially non-wage forms of work, such as self-employment and family work. It is estimated that about one-half of the global workforce is engaged in vulnerable work (Figure 1). For women, the share is certainly much higher.

Figure 1: Trends in vulnerable employment by region



Source: ILO (2015)

There are some optimistic trends. Vulnerable employment and working poverty levels have declined modestly. In some regions, most notably East Asia and Southeast Asia, the quality of jobs has benefited from economic growth and structural "upgrading" (i.e., from lower- to higher-productivity sectors). Labor productivity (output per worker) is only slowly converging to industrialized-country levels, but the gap did narrow for all developing regions between 2004 and 2014 (ILO 2014). Increases in educational attainment are improving the human capital of workforces everywhere.

However, these favorable developments have been modest and much more evident in some regions than others. And, within countries, widening inequalities in earnings and incomes seem pervasive. Moreover, future prospects will be determined significantly by how demography, technology, and globalization affect employment. The global demographic divide has created the conditions for labor-surplus and labor-deficit regions and it remains to be seen how well this can be managed through domestic job creation and social protection policies, as well as through international migration. Both technological change and globalization continue to be “disruptive” processes with the potential for generating productivity and income gains, but with considerable distributional risks both within and between countries. This, of course, is a topic with a vast literature that cannot be covered here.

The role of public policy

It is important to start with the observation that well-functioning markets are essential. In almost every country, the vast majority of jobs are created in the private sector. According to the World Bank (2012), it is the source of about 9 out of 10 new jobs worldwide. The dynamics of the market can also lead to the efficient allocation of resources and the innovation that can result in better jobs in the sense of higher incomes, more security, and better working conditions.

So, much of the contribution jobs can make to sustainable development goals can be achieved by markets and the activities of the private sector. Governments have an important role, of course, in enabling markets to function well – ensuring macroeconomic stability, supporting a business climate that is fair, efficient, and predictable, providing necessary public goods, and so on.

But markets fail in various ways as well, which can impede a society’s ability to create jobs, including jobs that will have positive development spillovers. Even in countries that have achieved high levels of GDP growth, unemployment and/or vulnerable employment are surprisingly persistent. The formal wage sector has not expanded as development experts from earlier generations would have predicted. Certain groups face barriers either acquiring needed human capital or getting good jobs even if they have. In many countries, earnings distributions are becoming increasingly unequal. And workers and firms are vulnerable to shocks that they have no control over. So public policy in support of jobs has to address many issues beyond simply ensuring markets are functioning well. This brings us to policies and institutions that are more directly relevant to a jobs agenda.

Labor policies and beyond

For the purposes of this paper, I consider labor policies to include labor regulations, unions and other forms of collective representation, active labor market programs, and unemployment and other forms of social insurance. Views on these policies tend to be very divergent. On the one hand, proponents contend that they are effective in addressing so-called “imperfections” in the labor market – for example, power imbalances between employers and workers, difficulties in enforcing long-term contracts, excessive turnover, and underinvestment in training. According to this view, these policies and institutions can not only make employment outcomes more equitable and jobs more secure, but they can raise employment and productivity levels. On the other hand, there is an equally committed but skeptical viewpoint that may acknowledge the existence of imperfections but believes that labor policies and institutions tend to intrude too much on market processes and hurt job creation and productivity, while doing little (and maybe hurting) those workers they are meant to protect.

In many country situations, the debate between these two sides has been heated and, too often, policy outcomes are determined by a political contest. But good policy should be defined by its impacts and this is especially important in ideologically-contested contexts. It can be difficult to empirically assess the impacts of labor policies, especially in countries where labor market information can be scarce and where large informal sectors and limited administrative capacity can be complicating factors. However, there is a growing body of research based on developing countries that offers new insights into the effects of these policies and institutions (e.g., World Bank 2012).[3]

The impact of labor policies can be complicated and country-specific and this obviously cannot be fully captured in my very brief and stylized summary here.[4]

- Regulations like minimum wages and job security rules can offer protection and higher incomes to covered workers, though they may have negative consequences for those who are not covered. Any effects on employment and productivity levels tend to be modest.
- Unions and collective bargaining typically raise wages but if this comes at a cost of lower employment, the magnitude is small and it is not clear what the effect of these institutions is on productivity.
- Active labor market programs, like employment services, training, wage subsidies, and public works, have a mixed record when it comes to their impact on employability, earnings, and the functioning of the labor market. When they are well designed and implemented, they can improve job matching, fill skills gaps, and help disadvantaged groups but many program evaluations conclude these benefits are not always realized.
- Unemployment insurance can clearly protect covered workers against the risk of job loss and while it can raise labor costs and hinder job search efforts, the magnitude of these effects has usually been found to be modest.

On balance, I think Freeman (2000) had it roughly right in concluding that labor market regulations and institutions have clear distributional effects but that significant efficiency effects are hard to find. Overall, the analysis of their impacts suggests that, when well designed for the country context, they can achieve some of the benefits proponents assert they can, without the costs presumed by detractors. However, they are not the magic bullet for solving a country's jobs challenges.

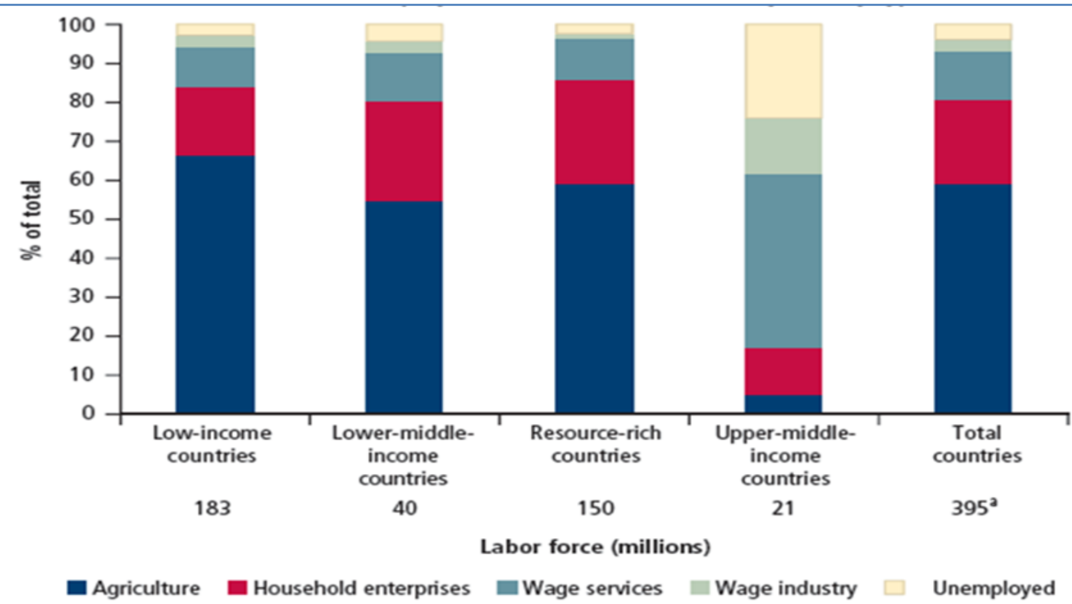
Why is their impact not more substantial, either positively or negatively? One possibility may be that policy-makers understand that moderation makes sense in setting labor policies and that extreme positions should be avoided (or maybe it is the normal outcome of political arbitration between divergent views). At any rate, there seems to be a range of labor policies and institutional arrangements that can permit countries to at least partly support equity and security objectives without major effects on employment, productivity, and growth. The World Development Report introduced the metaphor of the "plateau" to represent this concept, and the "cliffs" to represent the undesirable extremes of under-regulation and over-regulation (World Bank 2012).

[3] This is also true for developed countries. It is interesting that in its reassessment of the deregulation-oriented Jobs Strategy 12 years after that Strategy was proposed, the OECD (2006) was considerably more equivocal about the benefits on labor market policy focused on flexibility.

[4] For a detailed review of the literature on impacts in developing countries, see Betcherman (2012, 2015).

In the context of developing countries, however, this is not the whole story. The regulations, institutions, and programs we have been talking about were largely designed for labor markets where formal wage employment predominates. Yet this condition applies only partially to middle-income countries and only very little to lower-income ones. For example, Figure 2 shows the employment structure in different types of Sub-Saharan African countries. It is dominated by work in agriculture and household enterprises in all but the region's few upper-middle-income countries (which account for only about 5% of SSA's total labor force). The policies and institutions we have been discussing -- at least as they are traditionally conceived -- are not relevant for much of the workforce in Sub-Saharan Africa and, to a lesser degree, in other developing regions. (This may also help to explain their modest impacts found in many studies.) It may be a hope and, indeed, a goal to expand the segment of the workforce for whom these policies and institutions might apply. But, to take Sub-Saharan Africa as an example again, it seems unlikely that the employment structure will change dramatically over the next decade so that a modern wage sector accounts for a significantly larger share of the region's jobs (Fox et al. 2013).

Figure 2: Employment structure in Sub-Saharan Africa by country type, 2010



Source: Fox et al. 2013.
Note: On the horizontal axis, numbers show size of the labor force, ages 15–64, in each group. Resource-rich countries included are Angola, Chad, the Democratic Republic of Congo, Guinea, Nigeria, the Republic of Congo, Sudan and Republic of South Sudan, and Zambia.
a. Numbers do not add to total because of rounding.

So if labor policies and institutions are to have a larger impact on employment and development outcomes in developing countries, they need to be adapted more to the circumstances of those countries. Some of this innovation is already taking place. There are examples of self-employed workers, such as street vendors, exercising voice through various forms of unions and other associations (Chen et al. 2012). Skills development opportunities are not widespread in the informal sector but, in some countries in Sub-Saharan Africa for example, training strategies are being reoriented to better target this very large group (Adams et al. 2013). A number of countries are using technology to make social insurance more accessible and cost-efficient for workers who normally have not participated in these systems (World Bank 2012).

But we need to think more broadly about policy when it comes to jobs. Depending on the country context, sometimes the binding constraints can be addressed by the labor policies and programs that we have been discussing in this section but in many cases, they cannot. For example, in countries where the majority of economic opportunities are in agriculture, meaningful improvements in livelihoods require actions that encourage productivity and innovation in farming. Where large numbers are self-employed or in household enterprises, access to credit and a friendly business environment may be the decisive factors. In countries where social and economic progress depends on successful urbanization, land-use policies and comprehensive urban planning may be the most important actions. The creation of good jobs is indeed a key to achieving sustainable development goals and the important interventions will often lie well outside what we traditionally consider employment policy.

References

Adams, A.V., S. Johansson de Silva, and S. Razmara. 2013. *Improving Skills Development in the Informal Sector: Strategies for Sub-Saharan Africa*. Washington, DC: World Bank.

Betcherman, G. 2012. *Labor Market Institutions: A Review of the Literature*. Policy Research Working Paper 6276. Development Economics. World Bank.

Betcherman, G. 2015. "Labor Market Regulations: What do we know about their Impacts in Developing Countries?" *World Bank Research Observer*. 30(1):124-153.

Chen, M., C. Bonner, M. Chetty, L. Fernandez, K. Pape, F. Parra, A. Singh, and C. Skinner. 2012. *Urban Informal Workers: Representative Voice & Economic Rights*. Background Paper for the World Development Report 2013.

Fox, L., C. Haines, J. Huerta Muñoz, and A. Thomas. 2013. *Africa's Got Work to Do: Employment Prospects in the New Century*. IMF Working Paper WP/13/201. Washington, DC.

Freeman, Richard B. 2000. "Single-Peaked vs. Diversified Capitalism: The Relations between Economic Institutions and Outcomes." NBER Working Paper Series No. 7556. Cambridge, MA.

ILO. 2014. *World of Work Report 2014: Developing with Jobs*. Geneva: ILO.

ILO. 2015. *World Employment and Social Outlook: Trends 2015*. Geneva: ILO.

OECD. 2006. *Employment Outlook 2006: Boosting Jobs and Incomes*. Paris: OECD.

World Bank. 2012. *World Development Report 2013: Jobs*. Washington, DC: World Bank.