« The Labour Market in Developing Countries »
what is old and what is new?

DUNCAN CAMPBELL
DIRECTOR, GLOBAL MEGA-TRENDS
RESEARCH DEPARTMENT
INTERNATIONAL LABOUR ORGANIZATION

PRESENTATION FOR SARNET, 2 DECEMBER 2014
first topic:

« developing country? »
« emerging economy? »
• using World Bank groupings based on GNI per capita, i.e. low income, middle-low income, middle-high income, high income. A labour market discussion of each is warranted!

• « emerging », as defined by Antoine van Agtmael (IFC)
  ○ Embarked on economic development and reforms
  ○ Have begun to open their markets and « emerge »
  ○ Fast-growing economies, in relative terms
Divergence in trend growth

Source: World Bank
second topic:

the stylized components of « dualism »
a first distinction between « employment-led » and « growth-led » demand for labour

much economic activity in developing countries is the search for demand creation rather than demand derived from product markets
The “Dual Economy” is divided into a “traditional” and a “modern” economy

<table>
<thead>
<tr>
<th>The “traditional” Economy</th>
<th>The “Modern” Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>formal</td>
<td>Access to credit</td>
</tr>
<tr>
<td>Vulnerable in employment status</td>
<td>Likely to have a higher share of wage-earners</td>
</tr>
<tr>
<td>Rural</td>
<td>Urban</td>
</tr>
<tr>
<td>Likely to be less productive</td>
<td>Likely to more productive</td>
</tr>
<tr>
<td>Credit-insufficient</td>
<td>Likely to have a higher capital-to-labour ratio</td>
</tr>
<tr>
<td>Oriented to domestic, even local markets</td>
<td>Oriented to domestic and international markets</td>
</tr>
<tr>
<td>Sheltered from the impact of macroeconomic policies</td>
<td>Exposed to macroeconomic policies</td>
</tr>
<tr>
<td>Deficient in the quality of jobs</td>
<td>Deficient in the quantity of jobs</td>
</tr>
<tr>
<td>Likely to be less or un-protected</td>
<td>Likely to have at least de jure protection</td>
</tr>
<tr>
<td>Prone to greater earnings instability</td>
<td>Stable and predictable in earnings and income</td>
</tr>
</tbody>
</table>

is relatively more ...
third topic:
demographics in relation to labour surplus and poverty
fourth topic: informality
A discussion of informality has its own chapter. That said:

- ILO (2002) definition of informality
- An (OECD) « informal is normal » stance
- Africa: 80% of non-agricultural work is informal – 90% of all new jobs over the past decade
- In the last decade, the informal share of employment increased in all of the seven most populous developing countries
fifth topic:

Agriculture
beyond the income-related definition, a developing country is also defined by the significance of agriculture.

- it is also where poverty is concentrated.

- the implication is that, to understand labour markets in developing countries, one needs to understand agriculturally based labour markets.
In agriculturally based economies, the weather and growth are more firmly bound, so are commodity prices and macroeconomic stability.
For the last three decades, Ethiopia has been hit by droughts in every 5–7 years.

Terms of trade shocks are also frequent, often caused by high international commodity prices.
sixth topic:

status in employment varies greatly between developed and developing countries
a typology of status in employment

- paid employment is a developed-country phenomenon, except at its lowest end (casual wage labour by the rural landless)

- self-employment, with a significant share being «survivalist» is a developing-country phenomenon

- various forms of unpaid work, and non-market work, are developing-country characteristics
Share (in %) of contributing family members in total employment of youths, 15-24
seventh topic: the Lewisian view of development and structural transformation
some basic assumptions

- declining share of agriculture in employment and output. largely true, but hardly linear
- growth of the industrial sector with development. largely true, but not everywhere, e.g. deindustrialization in LDCs, the as yet unfulfilled China export-labour bonus foreseen by the World Bank
- a large service sector is for the wealthy countries. true and false.
Relation between change in shares of agriculture in employment and vulnerability, 1998-2009

Share of agriculture in employment in 2009 (1998=100)

Share of vulnerable in total employment in 2009 (1998=100)

Source: Global Employment Trends 2011, ILO
The economic weight of the service sector is not always a matter of level of economic development.
eighth topic:

human capital and development
human capital is a subject in its own right in this volume

- praiseworthy gains in the breadth and depth of school enrolment
- the disparity between the quantity and the quality of education
- economic diversification and HK go hand-in-hand, and are « dually causal »
$y = -8.92\ln(x) + 43.876$

$R^2 = 0.457$
What’s new?
The first is, structural change is not happening fast enough, and it has stalled with the Great Recession.
This means that the share of those in « vulnerable » employment has not diminished enough – still a majority of the world’s workforce.

« Vulnerability » captures those least likely to have social protection

Social protection, since the UN Declaration of the 1940s, is defined as a human right
A lot of culprits, but investment shortfall is a major one
That is the downside of structural change on human rights.

There is an upside as well – the growth of the global middle class.
The middle class ($4-$13 ppp) per day is growing in the developing world.
What do we know about the middle class and human rights?

- The middle class likes to assert rights – think of it as human rights as conservation of economic gain.

- Inequality is an enemy. A quick look at this
Inequality will matter, but no time to discuss today.

Health and Social Problems are Worse in More Unequal Countries

Index of:
- Life expectancy
- Math & Literacy
- Infant mortality
- Homicides
- Imprisonment
- Teenage births
- Trust
- Obesity
- Mental illness – incl. drug & alcohol addiction
- Social mobility

Middle class means assertion, ultimately, of rights and of the right to maintain them: these concluding points are empirical

- For government accountability, the larger the size of the middle class, the greater is the demand for democratic accountability and participation, transparency, and for curbing corruption.

- For labour markets, depending on its relative rate of growth, a rising middle class augurs well for a greater share of paid employment and a decline in the work that ILO defines as “vulnerable”.

- Finally, for social values, a rising middle class implies a shift in these toward stability and criteria of fairness
many thanks
campbell@ilo.org