CONCEPTUAL FRAMEWORK
JOBS AND ECONOMIC TRANSFORMATION FINDINGS
AND THE JOBS DIAGNOSTICS APPROACH

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CONCEPTUAL FRAMEWORK
OUR CONCEPTUAL FRAMEWORK: PEOPLE BENEFIT FROM ECONOMIC GROWTH

More people join the labor force & find work (accumulation)
- In self-employment, in start-ups, through firm entry and growth
- Though transitions: into employment, school to work, from care-giving to labor force

People get better at doing their existing job:
- Labor productivity rises within occupations, locations, employment types;
  - Learning on-the-job (Paul Roemer)
- Returns to labor assets improve (incl. thru’ farming, self-employment)

Workers move from less to more productive jobs:
- Structural change: sector / occupational shift (can require skills, doesn’t always)
- Migration / Urbanization: location shift (earnings gaps & prob., moving costs, amenities)
  - Agglomeration externalities
- Formalization: jobs move from capital-thin self-employment, to capital deep waged employment in firms
  - Division of labor, Economies of scale
- Selection between businesses (requires factor market flexibility, entry and exit, competition)

This Economic Transformation Results in:
- Higher labor productivity: raises earnings and creates demand for more goods and services.
- Externalities from good jobs which support development – and so are worth pursuing in policy
These transitions can be different for different groups
The diagnostic should investigate who gets what jobs and earnings

They can take a long time
  • Anecdotal evidence from two panel survey analyses in Paraguay and Uganda suggests only a small proportion of people transition in their work;
    • Very few people move from informality to formality

Those with higher education may be more mobile
  • Between occupations
  • Into higher paid jobs
  • From private to public sectors

Women may face constrained choices
  • For cultural reasons
  • For safety reasons
  • Through discrimination

Those without children and especially school-age children may be more mobile
  • Young people may be freer to move
  • But young people may not have the financial means nor the social capital nor work experience

Those from wealthy families may be more able to afford search
  • Young people from higher income deciles tend to be more likely to be NEETs
CONCEPTUAL FRAMEWORK: JOBS IN THE PROCESS OF GROWTH

Economic Growth

More Jobs

Productivity Enhancing Transitions

Accumulate

Structural Change Productivity Across

Better Jobs

Technical Change Productivity *Within*

Invest

Innovate

Diffusion of Technology

Human Capital

Capital deepening

Labor mobility

Increase Skilled Workforce

Human Development

Working Age Population

Labor Force Participation Employment

More Jobs

More Jobs
CONCEPTUAL FRAMEWORK: JOBS AND STRUCTURAL CHANGE

Structural dualism holds (Lewis model)
• Low productivity coexists with high
• Law of one price does not hold

Neoclassical Model holds
• Incentives to innovate
• Incentives to invest

Better Jobs
- Rapid growth
- Capital deep
- Economies of scale
- Drives savings
- Higher productivity
- Better hours
- Better working conditions
- Skills training, on-the-job learning

Traditional Sector
- Slow growth
- Capital thin
- Low savings
- Low productivity
- Low hours worked
- Poor working conditions

Modern Sector
- Labor mobility
- Capital accumulation
- Innovation
- Productivity
- Growth
- Generates
- Savings

Poor Quality Jobs
WORKERS RESPOND TO THE DEMAND FOR LABOR
FIRM DYNAMICS AFFECT THE DEMAND FOR LABOR

- Investment climate
- Price signals
- + Competition
- + Trade openness
- - Disruption costs

motivation/channels
- Spillovers (copy, adapt)
- Selection (survival fittest)

Firms Enter

Entry: New firms bring new products and innovations
Create Jobs

Efficient firms Grow
Inefficient firms shrink

Selection: Incumbant firms adapt to new products and new innovations. Workers move to new occupations and more productive firms

Productivity and Output Rises
Prices Fall

Transformation: Productivity rises (employment creation may slow, wages may rise), prices should fall through competition

Employment rises with output, may rise (or fall) with productivity, should increase wages
THE JOBS DIAGNOSTICS APPROACH

Identify the right Jobs-related question from standardized data symptoms and global benchmarks

- Standard Data Tools
- Guided Enquiry
- Country Context and Benchmarking to check outcomes are within normal ranges

Identify the key Jobs problem as a constraint or syndrome

- Interpret the symptoms using other evidence
- Is it a demand or supply problem?
- What’s the likely cause?

Identify the right solutions to treat the constraint or syndrome (taking account the labor market model that best fits)

- What is the market or policy failure?
- Can the constraint be directly removed?
- Review research for solutions (solutions notes)
- Consider political economy
FINDINGS

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There is a positive association between economic growth and employment growth. But for LICs, employment grows with the Labor Force more closely than with GDP. Unemployment with growth isn’t the main issue in LICs — it is the quality of jobs that is the problem.
EMPLOYMENT ISN’T REALLY THE ISSUE IN LICs: MOST PEOPLE WORK: LABOR FORCE PARTICIPATION FOLLOWS A U-SHAPE

In many LICs, employment rates are high.
THIS U-SHAPED RESULT IS DRIVEN BY WOMEN AND YOUTH...
…ESPECIALLY IN LMICS, BY YOUNG WOMEN WITHDRAWING FROM THE LABOR MARKET
UNDER-EMPLOYMENT IN LOW PRODUCTIVITY JOBS IS THE MAIN CHALLENGE IN LICS

People in LICs work short hours in low-quality, low-productivity jobs.

This is related to low productivity in agriculture coupled with high rates of self employment in low productivity services.
WOMEN TEND TO WORK SHORTER HOURS

Working hours by GDP per capita and gender, age 15-64
THE IMPROVEMENT IN WORKING HOURS HAPPENS OUTSIDE AGRICULTURE

Working hours by GDP per capita and sector, age 15-64

- Worker in Agriculture
- Worker in Non-Agricultural activity

83 countries included covering the years 1999-2016
TRANSFORMATION IN JOBS SEEMS TO START AT LOW INCOME LEVELS AND IT INVOLVES AN INCREASE IN NON-AGRIC WAGED WORK

- The share of Ag workers is lower in UMICs and LMICs than in LICs.
- The share of waged work is higher.

Source: I2D2
YOUTH ARE IMPORTANT TO THE TRANSITION INTO WAGED WORK FROM FARMS AND UNPAID HOUSEHOLD WORK
WOMEN ARE MUCH LESS LIKELY TO BE IN WAGED WORK IN LIC S BUT ARE ALSO IMPORTANT IN THE TRANSITION TO WAGED WORK IN LMICS
THE POOR ARE MORE LIKELY TO BE IN AGRICULTURE AND THE RICHER ARE MORE LIKELY TO BE WAGED

Low Income Countries

Upper Middle Income Countries
MORE EDUCATED PEOPLE ARE MORE LIKELY TO BE IN WAGED JOBS

Low Income Countries

Upper Middle Income Countries

Distribution over Income Deciles in Low income countries, age 15-64

Distribution over Income Deciles in Upper middle income countries, age 15-64
COMPLETING EDUCATION MAKES A BIG DIFFERENCE FOR EARNINGS IN LOW- AND MIDDLE-INCOME COUNTRIES

- **Share of Education in Working Age Population, 15-64**
- **Avg. Earnings Growth relative to Workers with No (completed) Education**

Source: Household Survey Data
Note: The figure covers 115 low, lower middle and upper middle income countries.
THE GROWING WAGE SHARE IN EMPLOYMENT INCLUDES BOTH INFORMAL AND FORMAL WAGED JOBS

59 countries included covering the years 1995-2015
Public sector employment accounts for a relatively large share of formal waged employment in low income countries.
The increase in waged employment arises out of three processes:

1. People move out of agriculture
2. Of those remaining in agriculture, (unpaid falls but 40% of farmers are self-employed)
3. Those outside agriculture stop working for themselves and work for someone else (in towns).
The share of agricultural employment falls from around 85 percent in the poorest countries to an average of around 30 percent for countries on the cusp of UMIC status.
The share of manufacturing employment in total employment seldom exceeds 25% and at higher levels of income, it levels out—though the spread of shares remains broad.

The share of employment in services is much higher, even around the LMIC per capita threshold.
MANUFACTURING JOBS APPEAR TO BE DECREASING IN SHARE GLOBALLY

112 Countries using household data 1991-2017 (unweighted)
THIS IS TRUE IN AFRICA

Africa Manufacturing Employment % of Total
10 year moving average

43 Countries using household data 1991-2017 (unweighted, unbalanced panel hence 10 year average)
IT IS TRUE IN LAC

Latin America and the Caribbean % Share Manufacturing Employment
(10 year moving average)

19 Countries using household data 1991-2017
IN SOUTH ASIA TO A LESSER EXTENT

South Asia Manufacturing % Share of Employment
(10 year moving average)

8 Countries using household data 1991-2017 (unweighted, unbalanced panel hence 10 year average)
BUT NOT SO MUCH IN EAST ASIA

[Graph showing East Asia and the Pacific Manufacturing % Employment (10 year moving average)]

14 Countries using household data 1991-2017 (unweighted, unbalanced panel hence 10 year average)
REALLOCATION (STRUCTURAL CHANGE) IS MORE IMPORTANT IN LICS AND MICS, AND TENDS TO BE DRIVEN BY A SHIFT OF JOBS INTO SERVICES
RELATED TO THIS STORY OF LABOR LEAVING AGRICULTURE, URBANIZATION IS CLOSELY ASSOCIATED WITH DEVELOPMENT.

In LICs it seems to occur outside the largest city.

Source: WDI

FASTER GROWING ECONOMIES SAW MORE ECONOMIC TRANSFORMATION

Decomposition of per capita GDP Growth
(Y axis percentage annualized contribution to GDP per capita growth)
THE CHANNELS: AGRICULTURAL PRODUCTIVITY, URBANIZATION, WAGED WORK ARE CORRELATED WITH HIGHER GDP GROWTH IN LICs

Agricultural Productivity

GDP Growth When Labor Productivity In Agriculture Grows and Falls

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Agric Prod Fell</th>
<th>Agric Prod Rose</th>
</tr>
</thead>
<tbody>
<tr>
<td>High income</td>
<td>3.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Upper middle income</td>
<td>4.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Lower middle income</td>
<td>3.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Low income</td>
<td>5.1</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Urbanization

GDP growth by Income Group and Change in Urban Share of Population

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Falling</th>
<th>Rising</th>
</tr>
</thead>
<tbody>
<tr>
<td>High income</td>
<td>3.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Upper middle income</td>
<td>3.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Lower middle income</td>
<td>4.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Low income</td>
<td>2.2</td>
<td>4.3</td>
</tr>
</tbody>
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Waged Share

GDP Growth by Income Growth Depending on Waged Share Rising or Falling

<table>
<thead>
<tr>
<th>Income Level</th>
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<th>Rising</th>
</tr>
</thead>
<tbody>
<tr>
<td>High income</td>
<td>2.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Upper middle income</td>
<td>3.4</td>
<td>4.1</td>
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<tr>
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</tr>
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<td>2.5</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Source: Merotto et al. (2019) using WDI data – 5 year overlapping growth episodes

Source: WDI
PATHWAYS TO BETTER JOBS IN IDA COUNTRIES

what are the Pathways to Better Jobs?

CREATING ECONOMIC TRANSFORMATION

- **Increase Productivity**
  - Improved Agricultural Productivity
  - Total Productivity Growth
  - 3x increase

- **Move from Rural to Urban Regions**
  - Per Capita Income Growth in Countries Urbanizing Faster Than Average
  - 4x growth

- **Change Sectors and Occupations**
  - Reallocation Accounts for 62% of Productivity Growth in Real GDP Growth Episodes

- **Transition to Waged Jobs**
  - Share of Waged Work: 20%, 60%