Globalisation, Labor Market Developments and Poverty

Francis Teal
Centre for the Study of African Economies
University of Oxford

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How do Labor Markets Impact on Poverty

- It is far from obvious that if you want to reduce poverty you should focus on labor markets.
- I am going to take a primarily African perspective on the question posed for this panel. If asked why Africa is poor I think very few people would answer:
  - because its labor markets are insufficiently flexible to create jobs.
- In fact I think you would be thought more than a little mad if you said that.
- Far more obvious would be answers along the lines:
  - It has a very poor investment climate.
  - Governance (for which read corruption) renders states dysfunctional and policy ineffective.
  - Its firms lack the technological capabilities which make success possible in international markets.

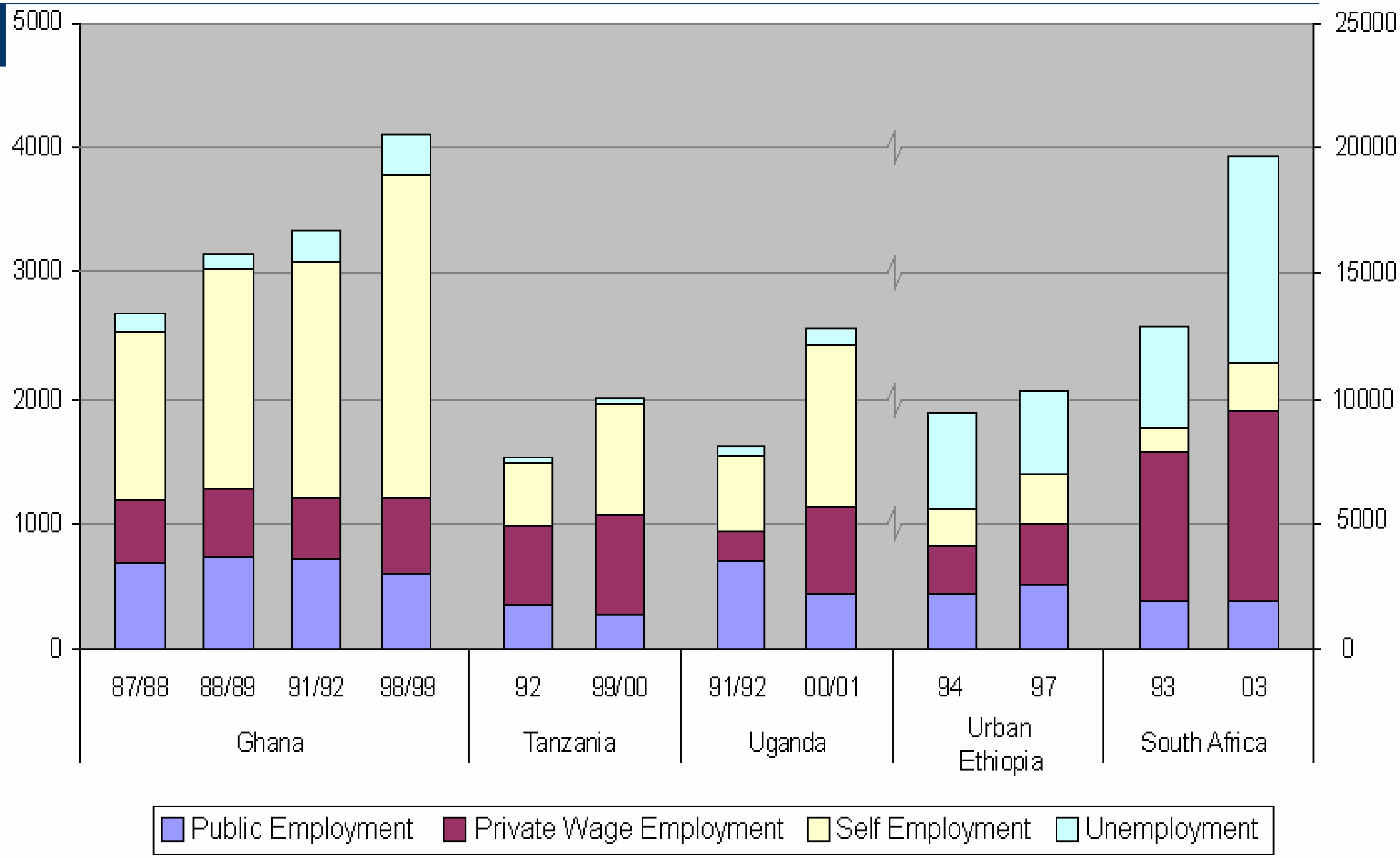
What are the links between economic growth, employment, unemployment and labor mobility?

- However I do want to argue that in understanding the links between growth and poverty it is important to understand the extent of flexibility in labor markets.
- There are (at least) three possible meanings to the word "flexible" in respect of wages
  - Do real wages adjust over time?
  - Are wages responsive to unemployment?
  - Are wage differentials across sectors and across firm size due to skills or due to constraints on flexibility?
- Answering those questions is going to provide us with insights into how the operation of labor markets links to poverty reduction.

Employment, unemployment and informality

- The problem is often formulated as to how “employment growth links to economic growth”.
- I think a more useful way of thinking about the issue is to ask how economic growth links to wage employment and self-employment.
  - In some of the poorest economies in SSA self-employment has sped ahead while wage employment has not.
- We need to be concerned not simply with whether people are employed but what type of jobs they have.

Trends in Non-Agricultural Employment by Sector (Absolute No. of Workers in Thousands)



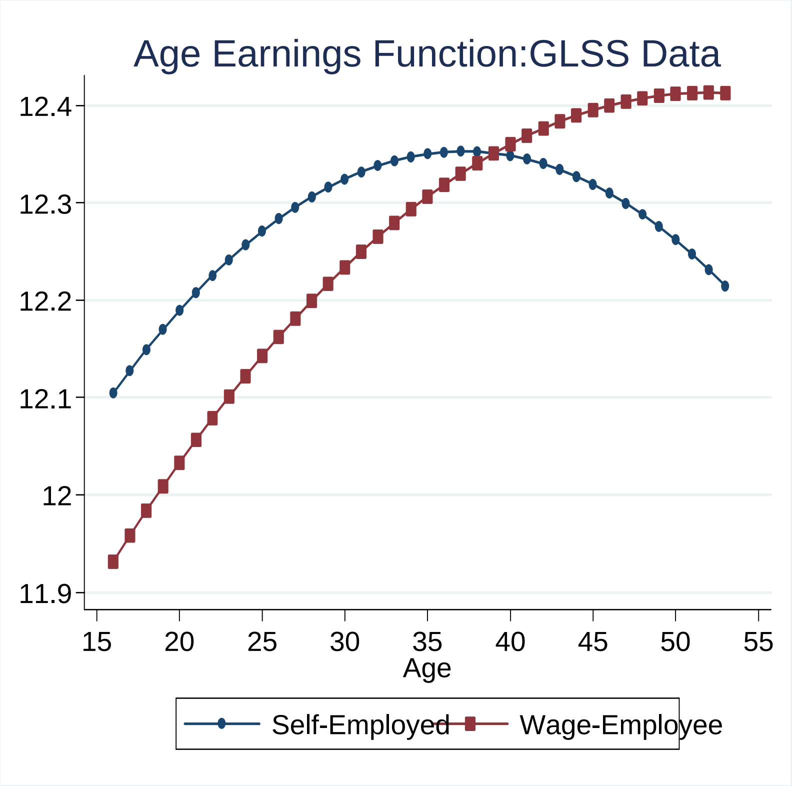
Poverty reduction and job creation

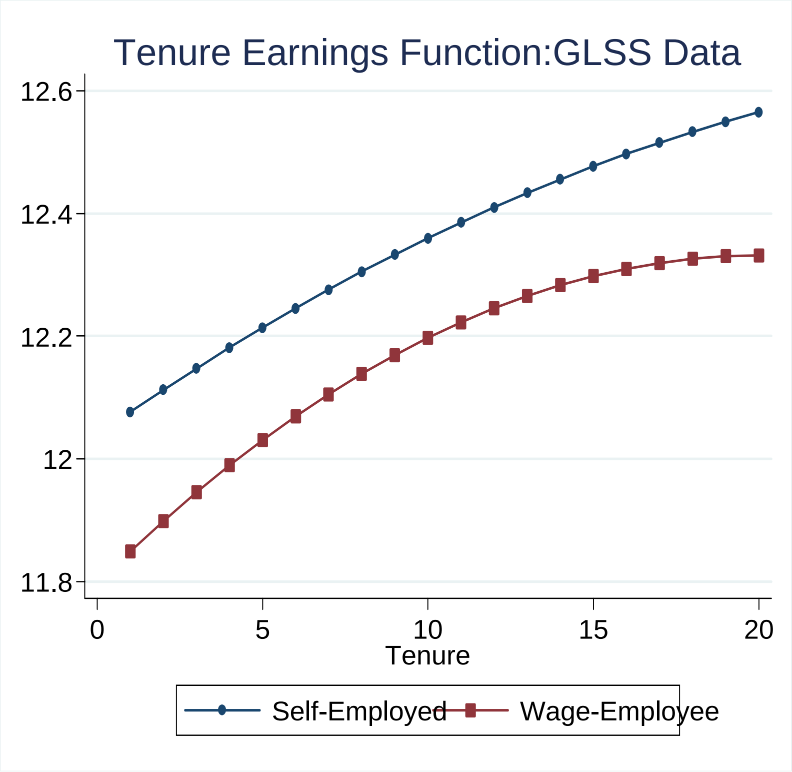
- So what are the links from this pattern of job creation to poverty reduction?
- The answer is very clear:
  - It will depend on the incomes available in the two sectors.
- To put it more informally.
  - We know that self- employment is exploding: are people jumping or are they being pushed?

Are people being pushed into self-employment or are they jumping?

- I am now going to use data from Ghana to investigate how the incomes of the self-employed can be measured and compared to incomes from wage employment.
- In the GLSS surveys which have been conducted over a long period from 1987/88 to 1998/99, questions were asked which sought to elicit the incomes of the self employed.
- There are two quite different methods for seeking to measure self-employment incomes.
  - to directly seek information on net income,
  - to impute income from a knowledge of the outputs from self-employment.

Self-Employed and Wage Employees





Incomes from wage and self-employment in Ghana

- These profile are evaluated at the means for tenure/age and education for each occupational group.
- What do the GLSS data imply for differences between wage and urban self-employment incomes using this direct method of measurement?
- Notice wages are lower than the incomes of the self-employed.
- If incomes are measured in US$ the Figure implies that incomes for those aged 20 incomes are about US$245 per year (USS$ 20 per month).
- The figure also shows that the earnings profile is steeper for the wage earner than the self-employed so that by age 45, the wage earner has an income nearly 30 per cent higher than the self employed.

Self-employment and poverty reduction

- The figure brings out two important points.
  - Incomes appear to vary very substantially over the life-cycle for both wage earners and the self-employed.
  - While this gives rise to a substantial difference, possibly the most striking aspect of the result is how close are measured incomes for the self-employed and wage employees over the age range from 20 to 30.
- How does this link to the unemployment issue?

Poverty reduction and unemployment

- One of the key findings from the comparative data presented is the link between informal sector opportunities and unemployment.
  - Where informal (self-) employment is low unemployment is high.
- The two economies on which I presented comparative data were Ethiopia and South Africa.
- It is very likely the source (and consequences) of unemployment are very different in these two instances.
  - Unemployment in South Africa is undoubtedly the most important single cause of poverty.
  - In Ethiopia unemployment is part of the process of waiting for a formal (public sector) job.

Earnings and enterprise size

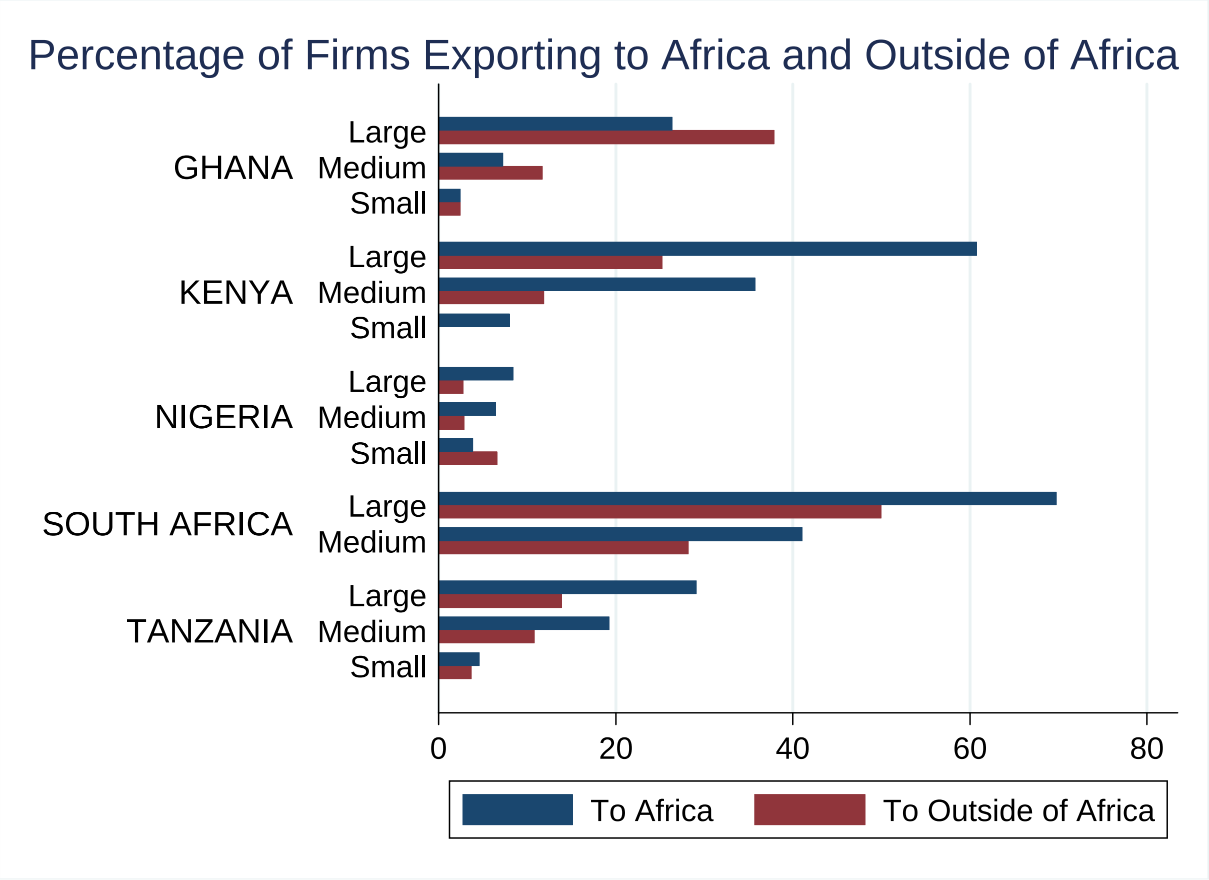
- The key to understanding the pattern that links employment, informality and unemployment is the role of enterprise size in earnings.
- We have a highly flexible small scale firm market and a highly inflexible large firm sector.
- If we rely on macro data we will miss this important link between different parts of the labor market at least within SSA.
- The Figure showed self-employment and wage incomes in small firms. In large firms there are very substantial premia.
- Labor market flexibility can create (self-employment) jobs. It does not necessarily result in higher incomes within the urban sector.

From flexibility to growth to poverty reduction

- How can flexibility in labor markets get linked to growth and poverty reduction?

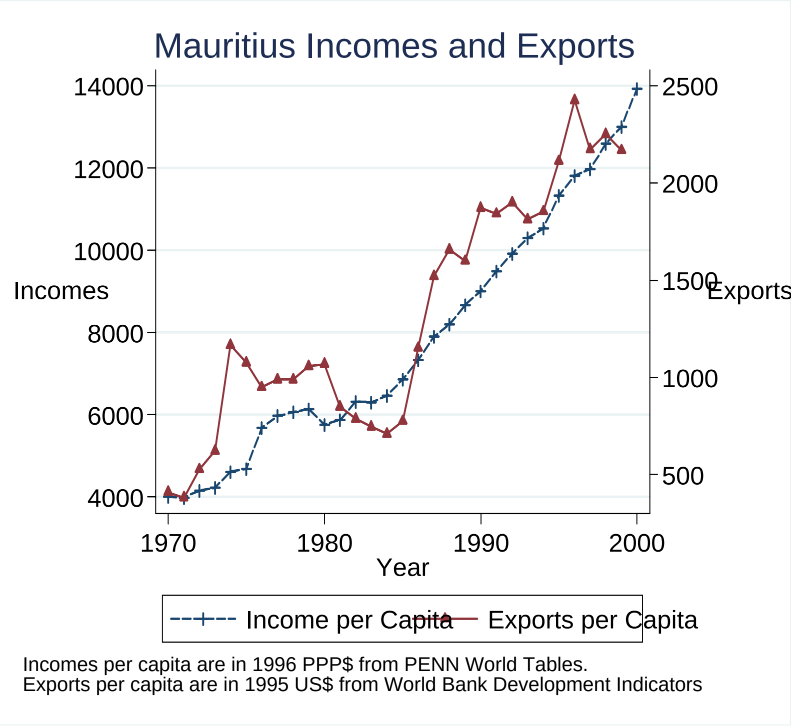
- The steps:
  - Wages vary by firm size and this is not (all) explained by skills.
  - Many (in some countries most) large firms in Africa export.
  - Where firm growth can be linked to exports very rapid growth rates are possible in labor intensive manufactures which directly links employment growth to poverty reduction.

Exporting and firm size



How rapid can growth be?

- How closely related the links are between the rise in incomes and exports in Mauritius is demonstrated in the Figure.
- For a continent that has become notorious for economic failure, this success is worth highlighting.
- Unfortunately Mauritius is an exception within Africa.



Why exports?

- It is only with very large increases in exports that the poverty problem is soluble. Why?
- Only in export markets can countries grow rapidly enough to address the poverty problem.
- This is particularly true in Africa
  - Unless these exports use a lot of labor (and land) they will not lead to poverty reduction (contrast Mauritius with Nigeria).

The global context

- It is useful to put regions into a global context.
- The Figure shows that China in the 1990s grew by nearly 8 per cent per annum and trade as a proportion of income expanded by a similar amount.
- In contrast African growth was virtually zero and trade growth while positive very low relative to the successes in South Asia and China.