Lacunae in Labour Market Research for Low Income Countries

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For many years I have been among those who argue that labour markets are a now an absolutely critical challenge for development but who for a variety of reasons have failed to stimulate sufficient research on the topic. For this reason the GLM-LIC programme is a most welcome addition to our armory. Because I am not a mainstream labour economist, it is possible that my list of priorities reflects my ignorance more than the profession's needs – and if this is true, I'd be pleased to have it pointed out. It is basically a list of questions/topics which I feel intuitively are important but to which I do not know the answer, moderated by a view about their intrinsic interest and researchability.

Labour markets in LICs play two main roles – as a key input into the expansion of production and income, and as the transmitters of aggregate income changes and shocks to individual households. The key normative requirement is to generate a large number of jobs (activities, perhaps) which provide reasonably secure incomes for the people of poor countries at levels somewhat above current levels. There is nothing surprising about the *'large number'* element of this – it is mandated by both a view of LICs as members of a world trading system and by the wish to see the benefits of improvements spread relatively widely. The rest of this statement does, however, start to restrict the 'appropriate' set in material ways.

> *'reasonably secure'*: volatility is a major problem for poor people and there is at least some reason to believe that reducing it is central to getting them to invest successfully in their own futures e.g. through training. However, a quest for complete security in the form of rigidity seems quite misplaced in LICs that have to adjust to shocks (poor countries as well as poor people are beset by more and worse shocks than richer ones) and that hope to grow. Thus the objective is job security based on the long-term competitiveness of and demand for firms' and individual producers' outputs rather than on binding labour market regulations. Clearly some minimal level of regulation is required – and what that is may be a researchable topic – but the basic thrust of this phrase is that we must focus on successful production not only on distribution:labour markets entail much more than just labour policy.

> *'people of poor countries'*: the principal import of this formulation is 'people' not 'places' – providing incomes for people from poor countries in other countries is important and may be an appropriate target of policy. Exporting labour is not a development strategy on its own – it is basically a potentially infinitely-lived treadmill, since it sets up more or less no equilibrating mechanism to eliminate its causes. However, as a means to generating incomes, extending skills and building up

capital it offers perhaps the quickest returns of all available approaches (if it is indeed available).

The term 'poor people' raises another hare on which I have views. It is implicit that we want labour markets to contribute to the elimination of poverty but I would not make that the sole area of focus. Thus while we obviously need to pay a good deal of attention to how growth is disseminated through an economy, I have not found an exclusive focus on 'inclusive growth' or 'pro-poor growth' a particularly helpful approach to solving the important problems of income and growth. Clearly some forms of growth (e.g. based on oil extraction) do not meet the needs of populations and societies at large, but, these cases aside, my menu of growth-generating policies would be pretty broad so long as we accompany it with a conscious analysis of the distributional challenges that may be thrown up. Paul Collier's aphorism that 'Africa's problem has not been the lack of the right sort of growth, just a lack of growth' seems still an important benchmark for policy effort.

'somewhat above current levels': is just a warning that any growth of incomes in LICs is desirable even if it does not immediately lift people to middle-income levels of earnings or wages. In other words, we need to be quite realistic about what can be achieved – and what has been achieved - over the short and medium term. I suspect that current participants are not guilty of this sort of fallacy, but I have spent long enough on the edges of the development policy community to know that the best can sometimes be the enemy of the good in these sorts of areas.

It is not part of the definition of a successful labour market, but I believe that LICs will have to rely heavily on the international economy if they are to achieve the rates of growth to which they (and we) aspire. When increased demand for manufactures had to be generated by the same country and at the same time as increased supply, the co-ordination challenges were formidable. As the first industrial power, it took the UK 155 years to double its income from $1300 to $2600 at current PPP; in the 1980s, it took China 13 years relying on international markets to absorb the huge increases in output and to some extent on international investment to provide, if not cash, then market links and know-how. Chinese rates of growth may not be realistic everywhere, but the basic truth is that over the last 50 years, international trade has provided the scope and space for unprecedentedly rapid growth for those countries that wished to take advantage of it.

I now appeal to this normative view to help to define the important lacunae.

Labour-intensive production

First, we require labour-intensive production in labour-abundant counties. This sounds an obvious piece of Heckscher-Ohlin trade theory, but there is more to it than thatbecause although we nearly all accept the broad logic of Heckscher-Ohlin, that theory has not proved to be a very reliable guide to the details of international trade. For example, over the last three decades trade liberalization in developing countries has generally been associated with widening skills premia. The goods that can be successfully exported by developing countries seem to require quite significant inputs of skills and also of capital so that rather little value added is provided by raw labour. I am not sure that we understand why this is – e.g. skills may be needed to manage the act of exporting, to operate and adapt modern equipment, to meet various compliance hurdles, etc. Alternatively, it may be that skills are not actually needed, but that workers with skills are able to appropriate the jobs created either via geographical advantages (the new jobs are in urban areas where labour is already favoured by better endowments) or via failures in labour markets.

Understanding the processes that are at play here seems to me an important analytical step, then to be followed by trying to identify how low-income country exports can be managed in a way that makes more use of their abundant resource. This may involve internal measures such as training and education, but I suspect that it also requires a much deeper understanding of how to manage western demands for conformity with residuals standards, traceability, uniformity of quality in a way that permits low-skilled labour in LICs to participate in production. These days trade theory focuses quite heavily on trade in tasks, out-sourcing, off-shoring etc and I believe that development and labour economists need to engage with this literature to address the use of low-skilled labour. The questions of how to become a member of a global production chain is being addressed, although for LICs I am not sure that we have really completely solved it. I believe that the subsequent issue of whether we can prevent the 'global firms' from becoming an enclave or how to induce positive spillovers to the rest of the economy also needs attention. This is not a new question, but both our intellectual base and the circumstances have changed since the interventionist approaches of the 1980s were fashionable.

Structural Change

Economists have recently come back to the idea of development as structural change – shifting people from low to higher productivity activities. This undoubtedly has an important role to play, although to view it as the essence of development and so to set about the latter via a series of market distortions designed to speed up the re-allocation of resources to 'modern' sectors, seems to me to ignore some very hard-learned lessons of the past. There is one area which does seem to me to warrant some effort, however: it is whether countries can leap out of their LIC status by focusing on services rather than manufactures. Of course, no economy can ignore manufacturing completely but the question is the extent to which services exports can displace manufactured exports as the engine of advance. The answer will differ between very small and very large countries, the former being able plausibly to rely on, say, tourism, but for the latter it seems to me to be a fascinating question. It is lodged firmly in the realms of labour market economics because the with/without manufactured exports question has implications or skills and possibly the location of labour.

Informality

For manufacturedgoods exporting tends to be associated with formal firms and this immediately starts to limit the extent of the benefits of integration. The formal/informal divide has spurred much interest over the years and I guess that this may be worth revisiting for low income countries which hope to generate a significant increase in manufactured exports. There may be policies around the margin that will facilitate expansion – including perhaps dedicated zones – and these warrant consideration. The fact that trade liberalization in the 1980s and 1990s was sometimes associated with increasing informality was, I suspect, more a function of sectoral composition and inappropriate firm and labour market regulation than an inevitability and I do not see it as a reason to abandon a strongly internationalist approach to growth.

The real prize in LICs, however, is to discover how informal firms and entrepreneurs can be encouraged to grow and improve their efficiency, so that they support higher incomes. (This is part of my 'realism' agenda: we will not have widespread improvements in income if we believe that all 'good' jobs have to be formal.) The tricks mayreside in any of the areas of regulation, finance, training or marketing. Many of them are not focused on labour markets at all but on urban management, corruption, utilities, etc. While a labour markets programme must have boundaries, I would draw these sufficiently broadly that all these areas would be acceptable provided that they consciously address the questions of employment and labour income.

Gender

In many economies – including some advanced ones – the big unexploited frontier is female labour (and in a few, male labour). Sometimes the problem is that women are prevented from entering the labour market and so are confined to work less, or often less efficiently because of a lack of capital, in the home. In others the restrictions are in the labour market in terms of the jobs they can do. Many of the restrictions arise from social mores and conventions not regulation or legal limits (and even these, of course, reflect mores and conventions) and so identifying them and tackling them is quite a subtle business, often relying on colleagues from social sciences other than economics. Given also that I suspect that circumstances vary very much between countries and regions within countries, there is a great deal of policy-focused research to be done here identifying causes and rigorously testing interventions. Clearly it would be nice to develop a series of general understandings of the issues of women's work, but I would not make that a condition for supporting research. Much is made of women and girls' education – correctly so – but it is not the only aspect that matters and I would urge our professions to be fairly broad in their approach to the question of enhancing women's role and contribution to the labour market.

Migration

The last decade has seen a blossoming of research into international migration,and internal migration has long been a topic within development economics. Both are important in the context of the LICs. The bulk of migration quantitatively is internal and it is a fundamental part of the way in which an economy creates and distributes jobs. Research into the ways in which migration enhances individuals' labour market performance and life chances, not necessarily just while they are migrants, but in the long term as well, seems likely to be fruitful. It will inform policy towards migrants as well as possibly making migration a less traumatic affair. As with several of the issues above, we need to keep a firm handle on reality – conditions for migrants in LICs will never be comfortable by western standards, but policy conditions may make it more tolerable and effective. A lot of this may well come back to urban management – a topic of the moment – but it will require some clear-headedness to demonstrate and promote the idea that migration is a key ingredient in a dynamic economy, not a nuisance to be managed and if possible suppressed.

International migration poses a somewhat different set of issues. The returns to international migration are generally much larger, but it is in general much harder and more costly to achieve. With migration biased towards skilled workers – both by the costs and by policy among recipient countries – the numbers of migrants from LICs are rather small. However, in terms of boosting the opportunities available to the migrants nothing offers the 'bang for your buck' that migration does; hence asking what the constraints are and what might be done about them is likely to have a high pay-off. Even more fruitful, because with luck it will stimulate fewer political anti-bodies in the west (especially in Europe) is to map the costs and benefits of temporary migration from LICs to the advanced countries. To what extent do returned temporary migrants have labour market skills, networks, capital, etc. to boost their productivity on return? It is also probably worth asking about brain-drain issues in the LICs in the sense of broader skills of returnees (political, social, etc.) vs the possible loss of individuals from the top of the talent distribution. There is plenty of work going on on most of these issues, but not a high proportion of it is in the LICs and LICs may well be different. Thus in terms of growth and labour markets, I would argue that migration, internal and international, is an important component.