

Moving jobs center stage

Main Messages

JOBS CHALLENGES ARE HUGE

And open unemployment is only one of them

Jobs are center stage across the globe—in developed and developing countries alike. Worldwide, 200 million people, a disproportionate share of them youth, are unemployed and actively looking for work. An estimated 620 million youth, the majority of them women, are neither working nor looking for work. Just to keep employment rates constant, around 600 million new jobs will have to be created over a 15-year period.

However, in many developing countries, unemployment rates can be low. Safety nets are modest at best, and only a minority of workers are wage earners. More than 3 billion people are working worldwide, but almost half of them are farmers or self-employed. Most of the poor work long hours but simply cannot make ends meet. The violation of basic rights at work is not uncommon.

Demographic transitions, urbanization, technological progress, and the migration of people and jobs across countries are rapidly changing the world of work. Yet a majority of jobs in developing countries remain in very small firms and farms, often of low productivity and modest potential for growth. Their success matters not only for their impact on livelihoods. In countries where large firms are born large due to connections and state support, the success of microenterprises can break cycles of privilege. And success is possible: in industrial countries, many innovating firms started in garages.

JOBS DRIVE DEVELOPMENT

They are not just a by-product of economic growth

Jobs—even informal jobs—can be transformational along three dimensions:

- *Living standards.* Poverty falls as people work their way out of hardship, especially in countries where the scope for redistribution is limited.
- *Productivity.* Efficiency increases as workers get better at what they do, as more productive jobs appear, and less productive ones disappear.
- *Social cohesion.* Societies flourish as jobs bring together people from different ethnic and social backgrounds and create a sense of opportunity.

Jobs are thus what we earn, what we do, and even who we are. The *World Development Report 2013* looks at jobs as drivers of development—not as derived labor demand—and considers all types of jobs—not just formal wage employment.

IT IS NOT ONLY THE NUMBER OF JOBS THAT MATTERS

Some do more for development than others

Individuals value jobs for the earnings and benefits they provide, along with their contributions

to self-esteem and happiness. But some jobs have broader impacts on society. Jobs for women can change the way households invest in the education and health of children. Jobs in cities support greater specialization and the exchange of ideas, making other jobs more productive. And in turbulent environments, jobs for young men can contribute to peace.

Often individual and social perspectives on jobs coincide, but not always. Jobs with high pay and benefits may be coveted by individuals, but they may be less valuable to society if they are supported through government transfers or restrictive regulations, undermining the earnings or job opportunities of others. Because of gaps like these, jobs that look equivalent to an individual may have different impacts on society.

Good jobs for development are those with the highest value for society, taking into account the value they have to the people who hold them, but also the potential spillovers on others—positive or negative. Jobs that reduce poverty, connect the economy to global markets, or foster trust and civic engagement can do more for development than others.

Conversely, some forms of work are unequivocally bad. Activities that exploit workers, or threaten their physical and mental well-being, are bad for individuals and societies alike. An estimated 21 million people globally are victims of slavery, forced prostitution and other forms of involuntary work; 115 million children between the ages of 5 and 17 are involved in hazardous work. International norms of human rights and

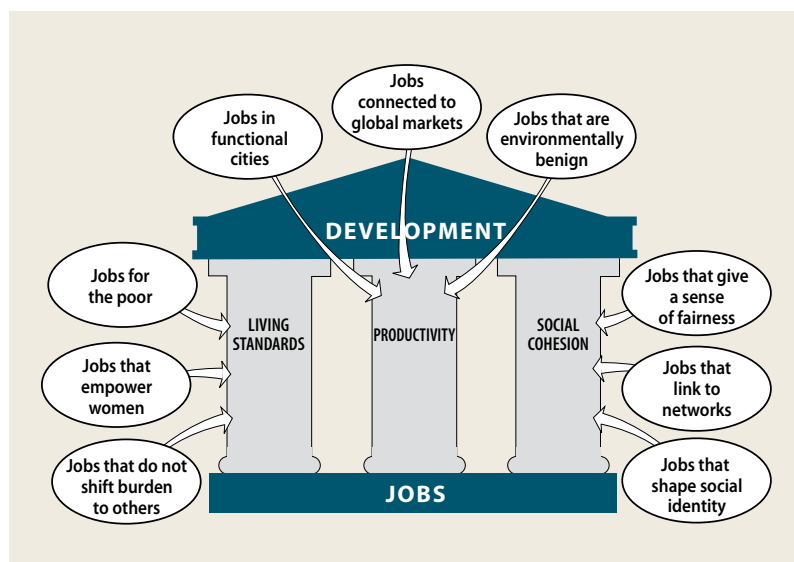
labor standards reject forced labor, harmful forms of child labor, discrimination, and the suppression of voice among workers.

JOBS CHALLENGES VARY ACROSS COUNTRIES

The jobs with the highest development payoffs are not the same everywhere

The ways in which jobs contribute to living standards, productivity, and social cohesion vary with a country's level of development, demography, endowments, and institutions. A typology of jobs challenges across countries can be constructed by combining the various features of an economy:

- *Agrarian countries.* Most people still work in agriculture and live in rural areas. Making smallholder farming viable matters because of high poverty rates. Higher agricultural productivity also allows the development of off-farm employment. At the same time, urban jobs connected to world markets set the foundation for cities to become dynamic.
- *Conflict-affected countries.* The most immediate challenge is to support social cohesion. Employment for ex-combatants or young men vulnerable to participation in violence has particular importance. Construction can help, as it is labor-intensive and can thrive even in poor business environments.
- *Urbanizing countries.* Productivity growth in agriculture frees people to work in cities. Jobs for women, typically in light manufacturing, can have positive impacts for households. Avoiding urban congestion and allowing the country to move up the value added ladder are top priorities.
- *Resource-rich countries.* These countries may have substantial foreign exchange earnings, but the abundance may undermine the competitiveness of other activities and encourage the creation of jobs supported through transfers. Jobs that lead to a diversification of exports can have large development payoffs.
- *Small island nations.* Because of their size and remoteness, they cannot reap the benefits from agglomeration and global integration except through tourism. But outmigration can improve living standards, while return



Source: World Development Report 2013 team.

migration and overseas communities can boost business opportunities among locals.

- *Formalizing countries.* Countries where a large fraction of employment is already in the formal sector can aspire to broader social protection coverage. This requires making formal social protection affordable and reducing the divide between the workers who benefit from formal institutions and those outside.
- *Countries with high youth unemployment.* Young people often lack the skills needed by the private sector. However, the problem can be more on the demand than the supply side of the labor market. In these settings, removing privilege in business entry and access to jobs is likely to have large development payoffs.
- *Aging societies.* These societies face a shrinking working-age population and increasing costs of providing and caring for a growing number of elderly. Policies for active aging, especially for the most productive members of society, can keep participation rates high. Jobs making long-term care for the elderly more affordable can help as well.

A THREE-LAYERED APPROACH TO POLICY IS NEEDED

... and there is scope for global coordination on jobs

The private sector is the source of nearly 90 percent of jobs in the world. This is not to say that public sector jobs do not matter, whether it is teachers building skills, agricultural extension agents improving farm yields, or urban planners designing functional cities. But countries that relied systematically on public sector employment have generally faced serious difficulties, from queuing for jobs by educated youth to insufficient dynamism in state-owned enterprises.

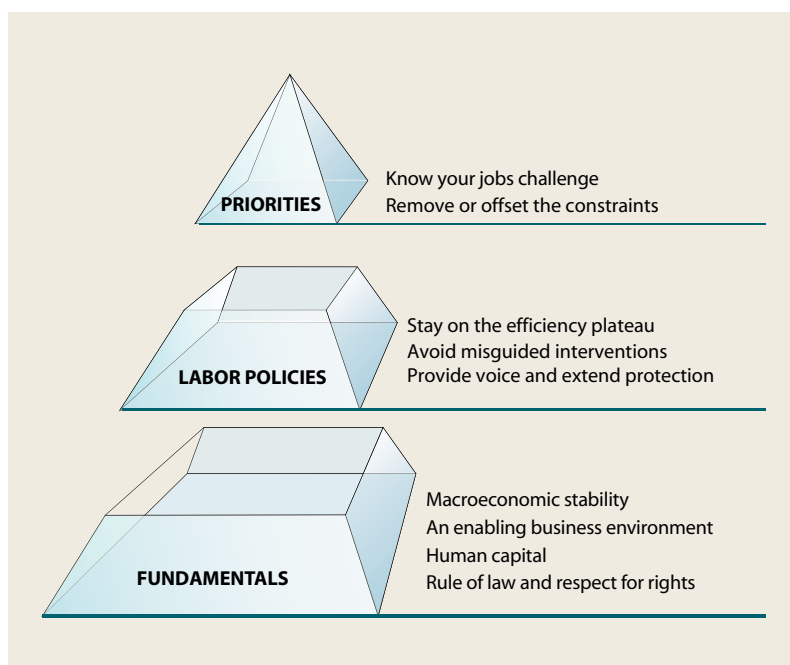
The role of government is to ensure that the conditions are in place for strong private-sector-led growth, to understand why there are not more good jobs for development in a particular country, and to remove or mitigate the constraints that prevent the creation of more of these jobs. This implies a three-layered policy approach.

- *Fundamentals.* Because jobs improve with development, it is necessary to create a policy

framework that is conducive to growth. That requires attending to macroeconomic stability, an enabling business environment, human capital accumulation, and the rule of law—including respect for rights.

- *Labor policies.* Labor policy should avoid the distortionary interventions that clog the creation of jobs in cities and in global value chains, and the lack of mechanisms for voice and protection for the most vulnerable workers regardless of whether they are wage earners.
- *Priorities.* Because some jobs do more for development than others, it is necessary to understand where good jobs for development lie, given the country context. Policies should remove or offset the market imperfections and institutional failures that prevent the private sector from creating more good jobs for development.

In addition to national policies, there is a global agenda for jobs. Compliance with rights and standards remains partial, and international pressure only goes so far. But corporate social responsibility can have an impact when it also builds the management capacity of local firms. The liberalization of trade in services has been slow, making developing countries miss out on opportunities to connect to world markets. But international collaboration can help design adequate domestic regulatory reforms



Source: World Development Report 2013 team.

to address the concerns of those who fear further liberalization. Illegal flows and abuses plague the international migration of workers. But bilateral agreements can enhance the gains to both sending and receiving countries through the formalization of flows and the enforcement of provisions by institutions at both ends.

Setting policy priorities for jobs also requires understanding which jobs have the greatest payoffs for development, which economic units create more jobs, or how the composition of employment affects trust and willingness to participate in society. International collaboration to generate and disseminate reliable data on all jobs—salaried or not—and all economic units—formal or informal—is needed to move jobs center stage.

THE CONVENTIONAL WISDOM IS NOT ALWAYS RIGHT

The jobs lens sheds new light on difficult questions

Given the urgency of the jobs challenge across countries, policy makers are asking difficult questions. The jobs lens in development leads to a qualification of when the conventional wisdom holds and when it does not:

- *Growth strategies or jobs strategies?* The conventional wisdom is to focus on growth as a precondition for continued increases in living standards and strengthened social cohesion. But lags and gaps are not uncommon. For instance, the impact of growth on poverty reduction varies considerably across countries. When potentially important spillovers from jobs are not realized, a jobs strategy may be warranted.
- *Can entrepreneurship be fostered?* The conventional wisdom is that most micro-enterprises in developing countries are just forms of survivorship. But management practices are important in explaining firm productivity, even in very small units, and the potential to absorb management practices differs greatly among small business owners. Targeted management training programs can thus make a difference.
- *Can policies contribute to social cohesion?* The conventional wisdom is that a lack of jobs is detrimental to social cohesion, yet other than ensuring full employment, there is little that governments can or should do. But measures

to support inclusion, extend access to voice and rights, and improve transparency and accountability in the labor market can contribute to social cohesion.

- *Skills or jobs—which comes first?* The conventional wisdom often attributes high unemployment and skills mismatches to shortcomings in education and training systems. Basic skills, both cognitive and social, are necessary for productive employment. Skills are also critical for countries to move up the value-added ladder. But in between, much learning can happen through work.
- *A targeted investment climate?* The conventional wisdom is that a level playing field is preferable because governments do not have enough information to pick winners and targeting can be captured by interest groups. However, targeting may not necessarily be aimed at industrial sectors. For example, supporting job creation in sectors with high rates of female employment may have high development payoffs depending on the context.
- *Competing for jobs?* The conventional wisdom is that, in the medium- to long-term, the level of employment is roughly determined by the size of the labor force, not by policies abroad. But jobs with high development payoffs may migrate. Whether this happens depends on the type of policy. Improving compliance with rights or poverty reduction should benefit everybody, but industrial policy may not.
- *Protecting workers or protecting jobs?* The conventional wisdom is that policies that protect people are preferable, because they support the process of creative destruction. However, there are times when many jobs are lost or threatened at once and few are created. There are also viable jobs whose disappearance may affect entire regions. Protecting jobs may be justifiable in those cases—if credible sunset clauses are in place.
- *How to accelerate the reallocation of workers?* The conventional wisdom is to focus policy on removing the labor market rigidities that keep workers in firms or areas with low productivity. But when reforms are not politically feasible, policies that actively take advantage of productivity spillovers from jobs in industrial clusters, dynamic cities, or global value chains can make the regulations less binding.