

**SUMMARY**



International  
Labour  
Organization

# World of Work Report

2014

## Developing with Jobs



# World of Work Report 2014

## Developing with jobs

### **Executive Summary**

INTERNATIONAL LABOUR ORGANIZATION  
RESEARCH DEPARTMENT



# Developing with jobs

## **Developing countries are catching up with advanced economies ...**

The process of economic convergence between developing countries and advanced economies has gathered momentum. Between 1980 and 2011, per capita income in developing countries grew, on average, by 3.3 per cent per year – much faster than the 1.8 per cent per capita income growth recorded in advanced economies. This process of convergence has accelerated since the early 2000s, especially since the start of the global crisis in 2007–08 (Chapter 1).

There are, however, significant cross-country differences. The report identifies a group of emerging economies which have grown particularly fast (Chapter 2). In recent years, most low- and medium-income countries and least developed countries have also made significant progress in terms of economic growth.

## **... with those countries that are investing in quality jobs making most progress**

The extent to which countries have made efforts to improve job quality plays a part in explaining the observed growth patterns (Chapter 3). This is particularly the case over the past decade. In countries that have made the greatest investment in quality jobs from the early 2000s, living standards (as measured by the growth in average annual per capita income) improved more than in developing and emerging economies that paid less attention to quality jobs.

Among those countries where working poverty – including workers earning less than US\$2 a day – declined most steeply from the early 2000s, overall per capita income grew by 3.5 per cent, on average, over the 2007–12 period. For those countries that made least progress in cutting working poverty since the early 2000s the figure is only 2.4 per cent.

Likewise, countries that were particularly successful in reducing the incidence of vulnerable employment during the early 2000s enjoyed significant economic growth after 2007. In these countries, per capita growth was almost 3 per

cent per year between 2007 and 2012, practically 1 percentage point higher than in countries making least progress in reducing the incidence of vulnerable employment – which includes own-account employment as well as unpaid family work.

### **However, the disparity in quality jobs remains significant ...**

Despite these positive trends, employment and social challenges remain acute in most emerging and developing countries. More than half of the developing world's workers (i.e., nearly 1.5 billion people) are in vulnerable employment. These workers are less likely than wage earners to have formal working arrangements, be covered by social protection such as pensions and health care or have regular earnings. They tend to be trapped in a vicious circle of low-productivity occupations, poor remuneration and limited ability to invest in their families' health and education, which in turn dampens overall development and growth prospects – not only for themselves but for generations to follow. In South Asia and sub-Saharan Africa, more than three out of four workers are in vulnerable forms of employment, with women disproportionately affected compared to men.

### **... levels of working poverty remain elevated despite the considerable progress already made ...**

The reduction in the incidence of working poverty in many countries of the developing world has been impressive. Still, 839 million workers in developing countries are unable to earn enough to lift themselves and their families above the US\$2 a day poverty threshold. This represents around one-third of total employment, compared with over half in the early 2000s.

### **... and around 200 million new jobs are needed over the next five years to keep pace with the growing working-age population in emerging and developing countries ...**

Over the next five years there will be an estimated 213 million new labour market entrants – 200 million in developing countries alone. This raises the issue of youth unemployment. Already, the youth unemployment rate exceeds 12 per cent in developing countries – more than three times the unemployment rate for adults. Regionally, the highest youth unemployment rates are found in the Middle East and North Africa regions, where nearly one in three young people in the labour force are unable to find work. Young women, in particular, are struggling to find work in these regions, with unemployment rates approaching 45 per cent.

The job challenge is also qualitative. Indeed, educational attainment is improving fast in most developing countries (Chapter 4). There is therefore a growing gap between the skills acquired in education and the nature of jobs available.

### **... pushing many educated youth to emigrate**

The lack of quality jobs is a central determinant of emigration, especially among educated youth in developing countries (Chapter 9). The gap in wages between receiving and sending countries tends to be as high as 10 to 1. In 2013, over 230 million people were living in a country other than the one in which they were born – a rise of some 57 million since 2000 – with South Asia accounting for roughly half of this increase.

## **To meet these challenges, it is essential, first and foremost, to boost a diversified productive capacity rather than just liberalizing trade ...**

The evidence presented in Chapter 5, including the case studies of countries that have successfully upgraded their productive capacity, shows that development requires a strategy to diversify the economic base and enhance the ability of sustainable enterprises to create quality jobs.

While manufacturing tends to be associated with faster economic growth and quality job creation, the report highlights successful experiences based on agricultural and rural development, efficient and equitable use of natural resources and services that connect with the rest of the economy. There is no single development path and the report documents success stories for countries at all levels of development. The natural resource constraints and environmental limits faced by all countries can be turned into an advantage by developing and emerging economies which seize the opportunity for technological “leapfrogging”. In this respect, the green economy offers new prospects for developing countries, which face fewer adjustment challenges than advanced economies with mature, carbon-intensive production structures.

In all cases, however, it is crucial to avoid a concentration of economic growth in a few export-oriented sectors with limited links to the rest of the economy. Economic diversification policies, measures to facilitate formalization and expansion of enterprises, and the enforcement of labour standards can all contribute to broad-based development and promotion of decent work.

Productive transformation needs to be underpinned by an enabling environment for enterprises, including supportive macroeconomic policies. The experiences of several Asian and Latin American countries underline the potential of development strategies to foster production diversification in collaboration with the private sector and strengthen the environment for enterprises, while at the same time ensuring that there is sufficient aggregate demand, notably through countercyclical macroeconomic policies. They have also demonstrated success with well-calibrated capital controls to manage volatile capital flows and keep exchange rates both predictable and competitive.

These findings shed new light on the role of government in developing countries. According to conventional wisdom, selective interventions and targeted support would be a source of distortions and economic inefficiency. In reality, success depends on careful diversification strategies in the context of gradual trade liberalization consistent with multilateral commitments.

## **... second, strengthen labour market institutions rather than neglecting labour standards ...**

Labour and social protection institutions are important ingredients of economic growth, quality jobs and human development (Chapter 6). It is not possible to achieve economic diversification without active measures to tackle low productivity in agriculture and small and medium-sized enterprise, poor working conditions and high rates of informality. Sustained, strong growth is at risk if social inequality grows, or rent-seeking behaviour by owners of natural resources or land is allowed to continue unchecked.

Making such institutions more effective remains a serious challenge for many developing countries. Wage-setting mechanisms and labour regulations need to be properly designed and attention must be given to implementation capacity.

Despite these difficulties, there are many interesting recent innovations in this area. There is growing awareness of the role of minimum wages in fighting working poverty and inequalities, while promoting labour market participation. The report gives examples of how some developing countries have found innovative ways of setting and implementing minimum wages, including through social dialogue. Likewise, well-designed collective bargaining can have positive impacts on income distribution while also tackling informality and low-productivity traps. One major challenge is the decline in the coverage of collective bargaining – a trend also evident in advanced economies.

The issue of employment protection, which has been the subject of lively debate but often without a systematic review of current practices, is carefully examined in the report. Contrary to predictions, weaker regulations on employment have not facilitated transitions to formal employment. Instead, the report provides examples of countries, such as Argentina, that have tackled informality through pragmatic approaches, combining tax reform, social protection, faster registration processes for enterprises and better enforcement.

**... third, extend well-designed social protection floors as drivers of inclusive development, not just as a narrowly targeted safety net for the poor ...**

There is evidence that social protection helps to reduce the incidence of poverty, inequalities and vulnerable employment (Chapter 7). Well-designed social protection enhances individual capabilities to access better jobs. For instance, Bolsa Família in Brazil, the Mahatma Gandhi National Rural Employment Guarantee Act in India and similar programmes in Cabo Verde have been successful in providing supplementary incomes to households, allowing families to invest in productive activities as well as to improve their health and educational outcomes.

In addition, social protection can boost economic growth and quality job creation. Much depends on the responsiveness of social protection to changing economic conditions. Countercyclical programmes in China and South Africa are interesting cases in point in this respect. In some countries, such as Ethiopia and Namibia, employment is an explicit target of social protection schemes.

Establishing an efficient funding base for social protection is crucial. The creation of a tax on oil and gas exports in Bolivia was instrumental in ensuring sustainable financing of the non-contributory old-age pension.

Finally, it is important to combine social protection with a set of policies that promote a supportive environment for enterprises and job creation. This includes simplifying administrative procedures for the self-employed in order to facilitate formal entrepreneurship. Another successful measure has been the provision of additional incentives for benefits recipients, including jobseekers, to receive training and take on work, as illustrated by Brazil's vocational training programmes offered to beneficiaries of income transfer programmes.

### **... and, finally, ensure balanced income developments to avoid harmful inequalities**

The widening of income inequalities within countries is now a well-established fact. Analysis suggests that this trend is associated with a change in the distribution of income, to the detriment of labour.

Developing countries have not been immune to these patterns (Chapter 8). Evidence suggests widening inequalities can be detrimental to economic growth, to the extent that the negative consumption effect associated with growing inequalities outweighs any positive impacts in terms of higher returns from investment and improved cost-competitiveness. Such a negative outcome is all the more likely because the competitiveness effects are dampened by the fact that the share of labour incomes falls in many countries – leading to a deficit of global aggregate demand and a race to the bottom in wages and standards. In addition to impacts on the economy, widening income inequalities may erode social cohesion and intensify social unrest, as has happened in some Arab and Asian countries.

The ability of developing countries to offset falling labour income shares through progressive taxation is more limited than in the case of advanced economies. It is therefore essential to reinforce labour market institutions, which can improve the market distribution of incomes between labour and capital. This can be done by facilitating dialogue between employers and workers, enforcing labour laws and standards as well as implementing well-designed social protection in order to ensure more balanced income distribution in developing countries. There are important experiences in this area, such as in Argentina, Brazil and – recently – Tunisia.

### **Finally, decent work should be a central goal in the post-2015 development agenda**

The findings of the Report suggest that sustained development is not possible without making progress on the employment and decent work agenda. By putting in place policies and institutions that help create more and better jobs, the process of development will be facilitated. Conversely, economic growth is not sustainable when it is based on poor and unsafe working conditions, suppressed wages and rising working poverty and inequalities. In addition to their impact on economic growth, jobs, rights, social protection and dialogue are integral components of development.

Employment and decent work should therefore be a central goal in the post-2015 development agenda. The ILO has adopted a range of important initiatives which, as part of a new development agenda carried out under the aegis of the UN, could provide a significant contribution to improving the living standards of all women and men around the world.





