

What works and why?

Francis Teal

Centre for the Study of African Economies
Department of Economics
University of Oxford

IZA, Bonn February 2009



Surveys and experiments

- The two papers provide us with the range of techniques that have been applied to answer the questions as to which labour market interventions work.
- The first provides a comprehensive survey of training programmes in Latin America.
 - They appear to have produced a wide range of results.
 - This is rather common.
- The second looks at employment subsidies in Turkey using a quasi-experiment.

Why are so many young people without jobs?

- This question is common not only to these papers but to the experience in the Middle-East and Africa
- Governments want to know how to create jobs.
- These two papers investigate what are by far the most common response to this governmental demand – train and subsidise.
- One reason for that response is that that is what governments *can* do with donor funds.

Is it jobs or is it incomes?

- Is the question that is being asked – how do we create jobs? – the right question?
- May the right question not be – Why are the income opportunities available for young people so low?
- Because in most of the countries we are concerned with informal sectors dominate getting a job is really never a problem. It is getting a job which pays enough to make it worth taking the job.
- What electorates (where they matter) mean by jobs is better paying and more secure ones.

Is it the labour market?

- If you want to provide more jobs for young people it might seem obvious that intervening in the labour market is the way to go.
- But is it?
- Why do firms not have an incentive to employ these young people who would readily work for US\$50 per month (twice what the few who do have a job earn in Africa).
- Either it's a problem with the productivity of the firms or the productivity of the workers.

I think we know how to create jobs (that workers want)

- The key is exporting and one kind of exports
 - Labour intensive ones.
- So the problem may not be in the labour market it may be in the capital market: why do firms not invest in labour intensive activities?
- We know that in the manufacturing sectors firms do not invest, do not grow and the vast majority do not export.
- Why do they not invest in exporting when the labour costs are less than US\$30 at the margin?
- Is it that exporting firms do not have access to labour at its marginal cost?
- If not, why not?
- These are not labour market policies but they are central to labour market outcomes.

I think we know how to create jobs workers do not want (its what we are doing)

- Expand the non-traded small scale self-employment and small firm sector.
- It is what virtually all labour market programs are designed to do.
- For some these will be high return activities but at the margin the returns to labour (as distinct from capital) will be too low for the jobs to be worth having.
- So if the returns to capital are so high why is the key not to relax the capital constraint?
- I think it is.
- But the result would not be the expansion of the small scale sector it would be its contraction as wage employment took over.
- Self employment can be a dynamic growth sector when linked to export growth, in Africa is part of a race to the bottom.

Trend in much of urban Africa toward self-employment

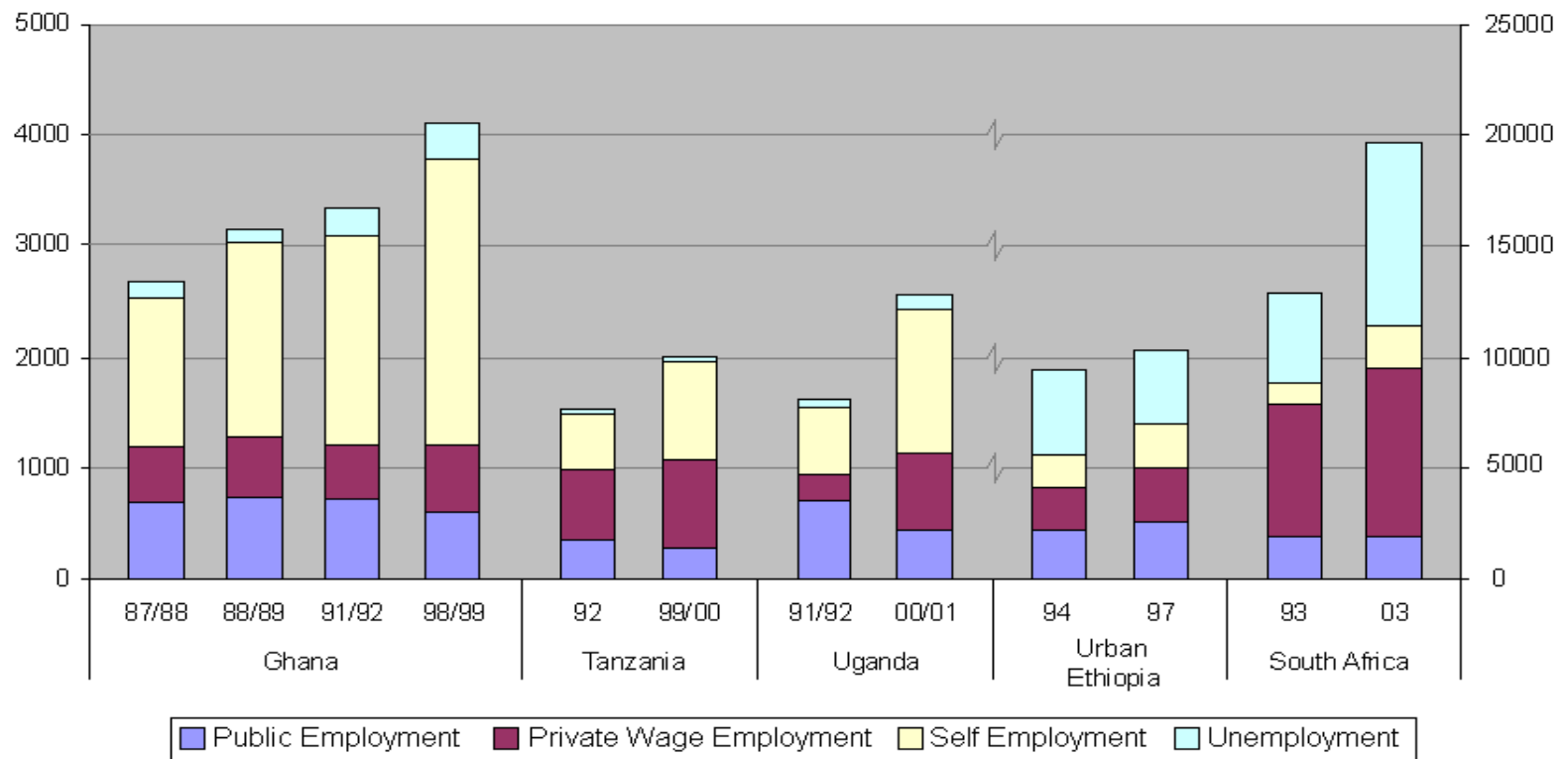


Table 7: Full sample - dependent variable: $\ln(\text{earnings})$

	Model 2a				
	(1)	(2)	(3)	(4)	(5)
$\ln(\text{hrs worked per week})$.186 (.064)***	.166 (.065)**	.168 (.066)**	.177 (.066)***
Male		.429 (.058)***	.381 (.059)***	.362 (.065)***	.363 (.066)***
Experience (years)		.028 (.010)***	.031 (.010)***	.028 (.011)**	.027 (.011)**
Experience ² (years ² /100)		-.030 (.021)	-.034 (.021)	-.019 (.030)	-.018 (.030)
Education (years)		-.066 (.024)***	-.071 (.024)***	-.028 (.061)	-.025 (.060)
Education ² (years ² /100)		.917 (.159)***	.843 (.165)***	.839 (.168)***	.795 (.167)***
Educ Control				-.044 (.058)	-.031 (.057)
Past apprentice	-.107 (.065)	-.002 (.063)	.028 (.064)	.025 (.062)	.037 (.062)
App x (Ed-Ed)					-.052 (.020)***
Raven's score			.020 (.008)**	.018 (.008)**	.019 (.009)**
App Control					
Obs.	931	931	931	931	931
R^2	.007	.167	.182	.182	.188
Education Control Function	no	no	no	yes	yes
Apprentice Treatment Effect	no	no	no	no	no
Apprentice Control Function	no	no	no	no	no
Method	OLS	OLS	OLS	IV	IV

The implications of convex returns to education

- The fact that the rewards to education rise with its level is a fact of central importance for explaining the labour market outcomes we observe.
- It can explain why low quality individuals take up training.
- It can explain why inactivity is so widespread – the returns to the job on the off-chance are higher than the regular self-employment incomes.
 - Education makes it less likely you have a job.
- It can explain the poor quality of labour to firms at the secondary level.

The ingredients for labour market programmes that will work

- They need to increase the return to education at the lower level. This may be partly a supply side issue but in my view is mainly a demand side issue.
- They need to make access to export markets possible.
- They need to enable larger scale businesses to form and ensure the informal sector contracts by ensuring lower capital costs.
- In short they need to do the opposite of all they are currently doing.

Back to the future: How could we learn more?

- These two papers provide us with good examples.
- In training we need to know more about the quality of matches in firms both formal and informal.
- That is not normally thought of as part of the training agenda but the “need” to train essentially arises as the value of the individual to the firm fails to match with their reservation income opportunity.
- In understanding the demand for labour we need to know (a) what shifts that demand by skill type and (b) does investing in skills create more jobs or drive down the price of skills.
 - We have evidence in some places it does one, in some it does the other.
- We need to know which and when for which we need models and structural estimates:
 - There is more to life than randomised evaluation.