

## **Panel Session 1: Globalization, Labor Market Developments, and Poverty**

**Robert Holzmann (Chair)** (World Bank, USA and IZA)

Robert Holzmann opened the session by discussing the economic impact of globalization. While potentially contributing to strong and sustained economic growth, and hence greater employment and poverty reduction, globalization also creates new uncertainties and vulnerabilities. Moreover, the benefits and costs of globalization are not equitably distributed. In many cases, losses are falling disproportionately on the already economically disadvantaged. It is thus important to understand better how globalization affects the quality of jobs in developing countries as well as the dynamics of firm/job creation and destruction, given that these processes are key to employment creation. Against this background, job creation should be viewed as a multisectoral issue. Researchers should look at both labor demand and labor supply with a view to identifying impediments to job creation. Furthermore, researchers should analyze the macroeconomic environment (and, in particular, the investment climate) and how weaknesses in the policy framework can impair job creation.

**Duncan Campbell** (ILO, Switzerland)

The major labor market issue in developing countries is not unemployment but rather underemployment, where underemployment is defined as employment that does not provide the worker with "sufficient" earnings. Moreover, there appears to be a serious disconnect between economic growth and employment, the manifestations of which are as follows: (i) despite satisfactory output growth, there is no evidence of job creation in many countries (jobless growth/anemic job growth); (ii) youth unemployment rates are on the rise in all regions; (iii) jobs in developed countries are becoming increasingly contestable across the entire skill distribution and not just at the bottom as previously thought; (iv) there has been a dampening of wage growth across the world; and (v) globalization is leading to increased employment insecurity. Notwithstanding these preoccupying findings, globalization has generated benefits – the challenge is turn these into a participatory growth trajectory. For the labor market more specifically, issues may be caused by inefficient regulations or institutions, or could reflect problems outside the labor market itself (such as a weak macroeconomic environment, impediments to investment, or deficiencies in the educational system). Researchers and practitioners need to identify carefully where the source of the problem lies instead of automatically attributing the problem to labor market institutions or regulations.

**Eric Thorbecke** (Cornell University, USA)

The manifestations of globalization are as follows: 1) international flow of goods and services (trade); 2) international flow of financial capital; 3) international flow of information; and 4) international transfer of technology. Policymakers need to be concerned about the distribution of the benefits of globalization and the negative impact the opening of markets could have on vulnerable groups. To understand the impact of globalization on poverty, we need to look at the openness-growth-inequality-poverty nexus. The preponderance of evidence appears to show that greater openness is

associated with better growth performance. The link between growth and inequality is theoretically ambiguous. Greater inequality could lead to higher growth through the rich (with higher savings rates) investing their savings in productive endeavors. But greater inequality could also inhibit growth through several channels including through an increase in social tensions. Available empirical evidence suggests that higher inequality is associated with lower growth. Hence, there appears to exist a challenge for policymakers: while openness is a necessary condition for poverty reduction, it is not a sufficient condition. What matters is the pattern of growth produced by increased openness rather than the rate of growth.

**Francis Teal** (Oxford University, UK)

It is important not to generalize about the performance of labor markets across developing countries and, in particular, among African countries. The issue is not the magnitude of the employment-output elasticity. In Africa, there has been a massive increase in employment despite the absence of strong and sustained growth. It is also important to note that employment in Africa is highly heterogeneous across various dimensions. In terms of earnings, there are self-employed workers who earn very little and others that earn a lot. The same applies to wage and salaried workers. One implication for labor market analysis is to shift the focus from job creation per se to an analysis of the *types* of jobs. A key component of this new framework should be enterprise formation. In selected African countries, the skill endowments of workers explain very little of the variation in earnings. What explains most of the variation in earnings is the size of enterprises. Thus, enterprise size will be a key variable in reducing poverty in Africa. Consequently, seeking out ways to increase the size of firms and ways to promote the participation of large firms in globalization is crucial.

**Timo Voipio** (Ministry for Foreign Affairs, Finland)

The pattern of growth matters for employment and poverty reduction. Job creation is important but so is the respect for human and basic workers rights. Labor market policies and programs should be decided by consensus within a tripartite framework. The Decent Work agenda of the ILO should be promoted, particularly universal risk-pooling (national social insurance), social rights, and constant skills upgrading. Countries should promote labor market flexi-security - striking the right balance between the labor market flexibility needed by firms to manage their workforces in response to market changes and security for workers to manage the various employment-related risks they face. The prevailing assumption is that liberalization is good for countries. However, liberalization has in many cases led to jobless growth, increasing earnings inequality, and increasing gender and regional disparities. Solutions to these problems should be context-specific. Efforts should be made to raise the human capital of workers by investing in health, nutrition, and skills. Any analysis of the labor market should incorporate people's own perceptions of their labor market circumstances. Thus, the research agenda should be broadened to incorporate both quantitative and qualitative data.

**Floor**

A number of speakers highlighted important areas for future research in this area:

1. Structural adjustment policies and their impact on labor market functioning. In particular, it could be worthwhile to study the economic and social costs and benefits of labor market reforms in a cross-country framework.
2. Economic competition and the labor market. Does increased economic competition improve labor market performance? If so, which type of measures could lead to more competition in both product and factor markets in developing countries?
3. How could the labor market be enhanced to provide better opportunities for workers in the informal sector? Should we deregulate the labor market (loosen labor and enterprise laws)? Or should we provide social safety nets and other assistive services to workers who work in low-quality/low-pay jobs? Is the latter a second-best solution?
4. Putting globalization aside, how do domestic policies impact labor market performance?
5. In the long-run, globalization benefits all. In the short-run, globalization produces some costs. The question is how to design programs and policies to mitigate some of these costs without interfering with the globalization process.
6. Understanding non-farm enterprises and their impact on raising incomes of rural households and reducing their variance.

### **Stage**

Global social and economic policies should accompany globalization in order to distribute the benefits of globalization more widely and to limit the extent of losses suffered by those adversely hit.

Deregulation may be a key factor to improve the environment for large firms.

Reduce the extent of labor market fragmentation.

Set up social safety nets to reduce the effects of negative shocks from structural adjustment.

Examine what is needed in terms of general education and vocational education in order for workers to supply the skills needed for success in a dynamic, globalizing world.

### **Panel Session II: Assessing Informality and Vulnerability in Labor Markets of Developing Countries**

**Boris Najman (Chair)** (University of Paris I, France)

Informality is a pervasive issue in most developing countries. In order to assess its implication for the functioning of the economy and the well being of all of those involved, we have to go through a number of interrelated issues. First, we have to clarify what we mean by informality. There are different possible definitions of the informal economy, which encompass different strata of the population of firms and workers. Second, we have to assess the causality nexus: what drives firms and workers into the informal economy? Third, we have to assess the role of the State in influencing the decision of firms and workers to remain (or move) to the informal sector: are certain policy and regulatory settings promoting the informalization of the economy? Finally, we have to assess whether specific policy reforms have the potential to promote the formalization of the economy.

**Gary Fields** (Cornell University, USA)

It is important to revisit our modeling of the labor market to take into account the observed heterogeneity of labor market conditions of different workers. We should probably think about a three sector-model with a formal developed sector and an informal sector which is composed of two sub-sectors: a free entry (subsistence) sector; and an upper tier informal sector that is more closely related to the formal one. The first segment of the informal sector is easily accessible and involves those workers who are precluded from obtaining better jobs, because such jobs are scarce and because the prospective productivity of these workers is too low. In the upper tier informal sector there is not free entry – workers have to have certain skills and/or certain minimal capital to start a self-employment activity – and earnings may be relatively higher and more comparable with those in the formal sector. Some workers may prefer to work in this upper tier informal sector compared to an occupation in the formal sector with a view to enjoy greater independence and possibly high wages. We need theoretical models that account for these features of the formal/informal economy. And we need empirical analysis that sheds light on the characteristics of those involved in the different parts of the economy. Panel data – available for a growing number of countries – are really the way to go to assess how working conditions and earnings change as workers move from one type of job to the next.

**Jean-Paul Azam** (IDEI, France)

When we think about the informal/formal divide and how this affects the exposure of individuals to labor market related risks we have to factor in the presence of often powerful social networks and collective institutions that often substitute for the lack of public social insurance. There are a number of examples of how social networks provide insurance against risks to its members, but also tie their members to certain activities and behavior. Younger members of the households pay dues to the older members in a number of African countries, even if they do not live in the household to maintain their “name” without which their reputation and connection with the network is lost. In our analysis of the informal economy we have to study more the role of these social networks and how they influence behavior, and, more specifically, protection against risks.

**Ragui Assaad** (Population Council for West Asia and North Africa, Egypt)

There is a growing pressure to increase labor market flexibility in both developed and developing countries. In the latter, flexibilization of the labor market is partially occurring through an increase in the informal economy. This process can be driven either through the increase in non-standard forms of employment in which labor regulations do not fully apply, or through tacit agreements on the parts of governments to erode – or at least not promote – enforcement of regulations. Informalization is also occurring at the margin, with the newcomers in the labor market not having access to legal and social protection. In this context, there are a number of questions that future research should address. Is there evidence that informal employment increases precariousness and job insecurity? Is informality associated with greater exposure to foreign competition? Do countries that have introduced more flexible labor codes experience a reversal in the informalization trend? And finally, how can the need for greater flexibility in the labor market be reconciled with the need to provide income security and social protection to workers?

**Rachel Phillipson** (DFID, UK)

The distinction between formal and informal employment may be over-emphasized. In many developing countries, the real policy issue is that not enough jobs are created because of poor growth. Promoting job creation can go a long way in improving economic conditions of the poor, especially in low income countries. Many factors influence the vulnerability of households and individuals. Reducing vulnerability to shocks requires a multisectorial approach that also includes intervention in the labor market.

### **Floor/stage**

Several speakers emphasized the importance of properly defining informality. There are different definitions in the literature and it is not always clear how relevant they are to assess labor market vulnerability and thus design appropriate policy interventions. There was also general support for the need to make better use of micro data to study informality, and to use mobility analyzes to track individuals as they move across jobs. More generally, the heterogeneity within the informal sector cannot be captured by studies relying exclusively on aggregate data. Moreover, it is important to assess the factors that make firms unwilling to be formal or expand their activities.

### **Panel Session III: Regulatory and Labor Market Policy Reforms: What is feasible?**

**Stefano Scarpetta** (World Bank, USA and IZA)

We need to focus on studying the dynamic effects of labor market regulations and policies. Recent evidence points to sizeable labor reallocation in all countries, developed and developing alike. For example, 10-15% of firms in developed economies are created or destroyed each year. Existing firms also go through continuous transformations: some of them expand and create more jobs, other contract and destroy jobs. This pattern is also observable for developing economies, where the entry and exit of firms as well as the adaptation of existing business cause 25-30% of jobs to be created or destroyed every year. This implies considerable income risk for the workers affected, and partially explains why developing countries tend to heavily regulate labor markets to protect workers against the risk of job loss. However, given that regulations are only partially enforced, firms tend to complain less about labor market regulations in developing countries compared to their peers in developed economies. Importantly, labor regulations are particularly binding for medium and innovating firms—the firms with more growth and job creation potentials. At the same time, many developing countries do not protect workers affected by labor mobility – through income support mechanisms and active programs to facilitate their search for a new job. In implementing reforms it is necessary to consider labor market regulations and labor market policies as a package and shift the emphasis from protecting jobs to protect workers.

It is important to move beyond cross country studies to study these issues. New data make it possible now for a growing set of developing countries to explore reform episodes or variations in the impact of regulations across sectors or types of firms with a view to exploit differences in regulatory and policy frameworks across the different states

of federal countries (e.g. Brazil and India), as well as to develop and use more micro panel data.

**Ernest Aryeetey** (ISSER, Ghana)

African labor markets are some of the most rigid in the world, but they have been very difficult to reform. Part of the problem is that regulations only cover the formal sector, which implies that about 90 percent of the labor force is not affected. In addition, most regulations cannot be enforced and in fact they appear to be circumvented on many occasions. In fact, employers do not find regulations to be a big obstacle for their operations. This context of low coverage and low enforcement can explain a good part of the poor track record of reforms, as incentives for change are very modest. However, change is needed to allow movement and modernization and help to move workers from agriculture to manufacturing. In the same context, we need to understand better why so little FDI is directed to the manufacturing sector in Africa. In particular, how could we strengthen the regulatory environment that would favor FDI? And how could firms be given incentives to train labor to enhance productivity levels? And finally, how can we use networks within the informal sector to bring about regulation/standards? Finding good answers to these questions requires better data. Therefore, it would be very useful to link firm and household data. This is difficult, but important.

**Jan Svenjar** (University of Michigan, USA and IZA)

A key issue for us is to develop a labor market model that fits the reality of developing countries better than the ones available today. Is it a model in which marginal productivity is equated across equal workers (i.e. a spot market)? Is it a model in which wages are the result of collective bargaining? Or is it a model of efficiency wages? Moreover, we need to explore is how much labor market reallocation is taking place and whether this reallocation is of the efficient kind, or instead is unproductive. In transition economies rapid reformers are suffering from high unemployment. The exception is Hungary, where low unemployment is the result of declining participation. On the other hand, we have observed a rapid convergence in returns to skills across firm ownership in Eastern Europe, while in Russia and China such convergence is occurring more slowly. To shed some light on these issues, we need to invest in developing panel data for employers, workers and employer-employee matched data.

**Thomas Haahr** (Directorate General Development of the European Commission, Belgium)

The EU is about to initiate a strategy on how to promote employment in developing countries. The priority is to achieve as much poverty reduction as possible. To do that, the EU is increasingly acknowledging the importance of employment. The EU is setting up a member states expert group on the subject and it would be important that this research feeds into this initiative. One of the questions we are addressing is whether the European Social model can be promoted in developing countries. At the same time, however, we realize that we need a different approach for low and middle income countries. Another question that arises is whether the EU should spend its limited resources on improving the Business climate or in promoting the ILO decent work agenda.

### **Floor/stage**

One participant emphasized that employment was at the core of the development agenda in the sixties, but such focus suddenly disappeared in the seventies while poverty emerged as the main theme. However, the distinction is important in the sense that employment may be an important goal in itself as it promotes self-esteem and the dignity of individuals. Other participants emphasized the importance of analyzing the effect of labor market institutions on technology adoption; distinguishing between unproductive churning and entrepreneurship activities; analyzing formalization procedures; and examining the labor market of illegal activities such as sex work or crime.

### **Panel Session IV: Skill Development for Better Labor Market Outcomes**

**Marco Vivarelli (Chair)** (Catholic University of Sacro Cuore, Italy and IZA)

There is a need to study the relationship between globalization and skills, with skills being endogenous within this framework. In particular, does FDI flow to countries with an existing stock of appropriate skill or does FDI (globalization broadly) create the demand for higher levels of skill in the receiving country? To study these issues, panel data on workers and firms is needed, which would allow to address the endogeneity problem and establish which way the causality runs. Analyzing this relationship will be useful for understanding the divergent patterns we see across countries: while certain countries benefit from a virtuous cycle of high skill-high growth-high technology, other countries are caught in a vicious cycle of low-skill-low growth-low technology.

**Robert Gregory**

Early schooling decisions are much more crucial for determining the trajectory of individuals than subsequent schooling and labor market decisions. Primary schooling has the largest impact on lifetime earnings. Hence, governments should allocate their education budgets to the establishment of primary schools. In determining where to introduce primary schools, researchers and practitioners should look at where switching decisions are most likely. Using this criterion, primary schools should be introduced in rural areas and should be made locally available as much as possible (thus, reducing the time costs of travel). Money for primary schooling should be provided to schools and teachers (supply side) rather than to households (demand side, for example, CCTs). Instead of building large secondary schools in a few selected locations (e.g., urban areas), governments should invest in smaller secondary schools scattered more widely across both urban and rural areas.

**Ira Gang** (Rutgers University, USA and IZA)

There is already a large literature on the labor market effects of skills training. Researchers and practitioners should return to this literature to see what is already known before embarking on new research. It is important to realize that the source of labor market problems may be located outside of the labor market. Researchers should establish whether a given labor market is malfunctioning because of problems emanating from within or problems emanating from outside before claiming that labor market

policies are the main culprit. Educational and training systems within countries should provide workers with skills that are adaptable and transferable given the rapidly changing nature of today's labor market. Manpower forecasts have limited usefulness as it is very difficult to predict job creation patterns in a changing economy.

**Sumon Bhaumik** (Brunel University, UK and IZA)

The skill stock of a country matters as it determines the extent of absorption of FDI. India has moved away from establishing job quotas (in the public sector) for disadvantaged sections of its society to quotas in the schooling system. Underinvesting in education is a rational response by households if the costs of schooling are largely linear (but vary across households given differing psychic, direct, and opportunity costs) but the returns to schooling are largely exponential with the largest returns appearing at the tertiary schooling level. Thus, a bimodal distribution of schooling may emerge, with high densities at certain low levels of schooling (no schooling/primary schooling) and high densities at certain high levels of schooling (tertiary schooling). The other aspect that could lead to a rational underinvestment in education is uncertainty in the returns to investment (uncertainty in securing a well-paying job in the future). Getting individuals to the point where the large returns to schooling emerge (i.e., tertiary education) should be a key policy priority. But it is important to be aware of potential adverse general equilibrium effects. A large cohort effect (large increase in the supply of tertiary-educated workers) may adversely affect the employment and earnings prospects of these workers if labor demand does not increase in order to meet this increased labor supply.

**Miriam Altman** (Human Sciences Research Council, South Africa)

Though largely considered outmoded, human resource planning exercises are still being carried out. Getting the right supply of skills when countries expect the economy to grow at a certain pace or would like the economy to grow at a faster pace is very tricky. If you undersupply workers with the required set of skills (undershoot), it could forestall growth. If you oversupply workers of the required set of skills (overshoot), you may achieve your growth targets but with waste. This implies a need to build strong direct links between academic institutions and employers to make curricula more relevant and ensure a better match in skills supplied and demanded. Moreover, out-migration represents a huge loss of human capital for some countries. This loss of human capital should be regarded as an export and needs to be recognized in human resource planning for the country.

### **Floor/Stage**

A number of participants emphasized the importance of assessing how the labor market would respond to further investment in education. The social benefits and costs of education need to be examined along with the private benefits and costs of education. Net social benefits might be higher than net private benefits in many countries, leading to socially sub-optimal allocation decisions. There is a need to understand better the nature of barriers to information flows with a view to remove them. If market signals are received clearly, the extent of skill mismatches can be reduced. Costs of schooling are certain but the benefits of schooling are uncertain. If the expected benefits of schooling



at a certain level are less than the expected costs of schooling at that level, the individual will not obtain that level of schooling. That is, the present discounted value (PDV) of expected net benefits is negative.

### **Panel Session V: International Migration and Labor Markets**

**Piarella Paci (Chair)** (World Bank, USA)

She opened by noting that it is important to look at managing the flows of labor migration and the impact of the labor markets on both sending and receiving countries. Gathering better data is critical, as are evaluations of policies in the source and destination countries.

**Klaus Zimmermann** (IZA and DIW Berlin, Germany)

The issue is not so different between sending and receiving countries: namely, missing jobs. Migrant workers can be good at creating greater flexibility in receiving countries, since they are different from local workers. There is no evidence that migration is bad for receiving countries. Sending countries have much to gain as well: remittances may make up for the brain drain and outward migration offers an option for rapidly rising populations of young unemployed people. The major challenge is that the current policies typically allow only for the legal migration of highly skilled workers and that pure international competition for labor is not feasible. Zimmerman formulated two research priorities:

1. Developing data and infrastructure for the analysis of migration, which should focus on those who have already migrated and those who are thinking about migrating from poor countries to richer ones.
2. More attention to evaluating migration policy, including the interaction between legal and illegal migration.

**Barry Chiswick** (University of Illinois at Chicago, USA and IZA)

He commended the IZA and the WB for supporting this research agenda. He noted that the first age of mass migration (1850s – WWI) was principally across the Atlantic and Pacific Oceans and that the current mass migration is from southern countries to northern countries. The fundamental differences with the current phase are (1) major legal restrictions in migration because of the changing structure of economies and obligations of governments to their citizens, e.g. protect some jobs for them and providing social assistance; and (2) the skill dimension - current migrants are either highly skilled or very lowly skilled. The popular debate is about low-skilled workers, but the important one may well be about the competition for high skill workers and its implications for poor countries. How can they possibly keep the high-skilled workers at home? He offered the following ideas and noted that all require further research: (i) make the environment more attractive for FDI that utilizes highly skilled workers; (ii) allow an increase in inequality in developing countries to create the savings and investment necessary for growth; (iii) rethink education policies, particularly related to school fees for primary school and tax higher education instead; and (iv) increase political freedoms, as educated workers are not interested in staying in authoritarian regimes. He cited the experience of Ireland in

which inward investment and growth stopped the flow of outward migration and even brought migrants back home.

**Amelie Constant** (IZA, Germany)

She emphasized the scale of the migration issue, citing a UN statistic that 1 in 35 people is an international migrant. Migration issues can be summarized as the 3 D's (Development, Democracy, and Demography) and the 3 Rs (Recruitment, Return, and Remittances). There is a gender dimension as well, with women half as likely to migrate. Research needs to be more multi-disciplinary involving political scientists, anthropologists, sociologists, and psychologists to help understand why migrants make the decisions they do and take into account issues around ethnicity including: (a) ethnic identity; (b) inter-ethnic marriage; and (c) ethnic entrepreneurship. Other interesting questions include how migrants decide to become citizens and in which social and economic conditions they do thrive. More generally, policy research ought to focus on how to make immigration successful.

**Irina Kausch**, (GTZ, Germany)

She spoke about sector projects sponsored by the German government on migration, including surveys of Diaspora communities from Serbia, Afghanistan, and Turkey. This work mainly explored the decision to migrate: the potential for higher wages versus the risks of crossing borders illegally. She cited the need for more cooperation in research to understand the economic reasons for migration and the role of ethnicity in migration outcomes. In particular, Kausch called for greater attention to the following:

1. Country-specific data that allow exploration of, among other things, the myths of migration such as forcing young people to migrate.
2. Policy evaluation and further development of workable options.

**Floor/stage**

Discussion following the presentations explored a number of additional issues and potential areas for further research:

- Migration as development tool. Can migration policy be used to promote development in the sending countries (e.g. remittances as substitution for aid). Aid should be seen as complement to migration policy, as is trade.
- South - south migration is important and severely under-examined.
- “Selective immigration policy” leads to better integration in receiving countries, but exacerbates brain drain in sending countries. Moreover, restrictive labor market policies increase migration, as migrants who used to come and go do not leave.
- How does the legal status of immigrants affect the way workers are dealt with in the labor market? What challenges does legality present in sending remittances?
- What is the role of “voice” within sending countries – to what extent is “exit” i.e. migration, the result of lack of voice (à la Hirshmann)? How can migrants influence governance in their home countries?
- How to reduce perversity of factor prices? The question is not why there is so much migration – but why there is so little when the wage gap is so huge.
- As donors (and IFIs) shift from project finance to general budget support in their aid policy, will there be an impact on local demand for skilled labor? The GTZ has also

experimented with programs to return migrants with development-related skills to their home countries.

- Would high skilled workers from the south need to be paid the world wage? Perhaps this is not necessary when people care about more than wages, including staying with their family, etc.
- Labor ministries in developing countries see migration as an employment strategy, but the focus ought to be on developing employment opportunities at home.