



World Bank and IZA: New Momentum to Poverty Reduction Strategies Through Creation of More and Better Jobs

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Over the past few decades, many developing and emerging economies have embarked on major economic and social transformations that have often put them on higher, and more sustainable, growth paths. In too many cases, however, these transformations have not led to major improvements in labor market outcomes: unemployment remains high or even increased, in particular among the youth, and many remain underemployed in low productivity jobs. Since labor is often the main – if not the sole – asset of the poor, a process of growth that is not associated with strong job creation will have only a limited impact in reducing poverty and exclusion.

Promoting the creation of more and better jobs has become a central feature of the development agenda and a pre-condition to maintain support for much needed further reforms. Achieving job creation and broader reforms is also crucial for progress on Millennium Development Goals (MDG) and for strengthening the social dimension of globalization.

The unfavorable employment outcome observed in many developing countries is the result of a number of interacting factors. First and foremost, growth, while improving in many countries, has not increased enough to generate enough jobs for a rapidly expanding working age population. The larger youth cohorts that have entered the labor market over the past few decades required sustained growth and job creation to absorb this increase in labor supply. Given demographic trends, by 2015 average economic growth worldwide would need to be double the forecasted rate simply to maintain the current rate of employment. Africa alone would need to grow at approximately 3 times its forecasted rate in order to absorb its expanding labor force.

The challenge for many developing countries is not only the creation of more jobs, but also the quality of these jobs. In many cases, the new jobs being created are of low productivity and low pay and do not meet the expectation of a more skilled labor force. These new jobs do not always ensure that those who get them will escape poverty. Over 500 million people (18% of the employed) in the world are estimated to be *working poor* – i.e., earn less than US\$2 per day – and this share is growing in many low income countries.

There are several key issues that require further research which may guide policy makers in developing countries for growth, job creation and poverty reduction strategies:

- First, improving the assessment of labor market conditions and policy challenges requires more and better information. In many low-income countries, standard labor market indicators are inappropriate. Most workers cannot afford to be unemployed and may well be engaged in full-time employment, while remaining in poverty. Better diagnosis is particularly needed to identify vulnerability in the labor market.

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- Second, globalization has increased uncertainty for workers in both developed and developing countries. While most economists agree that in the long term there will be gains for everyone, some workers will lose in the short run and must be protected. The need to better understand the effects of globalization on workers and what can be done to compensate those who lose is even more urgent in developing countries where workers are often poor and public social protection systems underdeveloped.
- Third, there is a need to design better labor market regulations that provide the required protection to workers while promoting economic efficiency. In many developing countries labor regulations appear to be ill-suited to facilitate this process. In particular, hiring and firing regulations are much stricter than in high-income countries, hindering the reallocation of labor across uses; on the other hand, few developing countries have adequate programs to support the unemployed. To move beyond this trade-off between labor market flexibility and workers' security, it is necessary to identify the benefits and costs of existing regulations/social protection mechanisms and identify potential alternatives.
- Fourth, there is an urgent need to increase the labor force quality in developing countries. There are still many positive benefits to be gained here. In many countries of South Asia and Sub-Saharan Africa, illiteracy rates are still very high, and enrollment in secondary education is still fairly low in many low and middle-income countries. Not surprisingly, many employers in these countries consider skill shortage as one of their main constraints in the operation of their business and potential for growth. While there are a myriad of interventions to stimulate workforce training and skills upgrading in developing countries, little is known about the impacts of such programs and which programs are more effective for different workers. A better understanding of school to work transition is also crucial to absorb productively the increasing number of youth into the labor market.
- Last, research is needed to guide policy makers around the world facing growing demographic disequilibria. While some developed countries and regions will experience significant declines in working age population other regions, such as MNA (Middle East, North Africa) or India, will have continued high growth. For the developed world, a constant or declining labor force implies lower GDP per capita growth, unless a declining labor supply is fully compensated by higher productivity growth. Labor force stagnation also implies a higher burden through social security programs such as pension and health, which is largely independent of how these programs are funded. On the other hand, the developing countries with continued strong labor force growth will be extremely hard pressed to create the millions of additional jobs needed to accommodate the new entrants. This disequilibrium calls for demographic arbitrage and ideas on how to structure capital as well as labor flows as a win-win-win situation (for sending country, receiving country, and migrants). This includes managed temporary or permanent migration, the better use of remittances in labor-sending countries, and appropriate social policy programs which make return migration individually attractive and fiscally sustainable for the sending country.

Addressing these issues requires action on a wide front, including: better coordination between the research efforts in the Global North and the Global South through: a sustained research program that addresses the knowledge gaps with good and relevant data that inform evidence-based policy reforms; a mechanism that helps determine research priorities and includes all key stake holders; and the financing in order to make all these efforts reality in a short period. To address these issues, the World Bank and IZA have launched a joint program of work to stimulate research and provide policy advice in the field.

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