Assessing Labor Markets in the Developing World

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Labor Market Core Course
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Labor Market Assessment

I. Indicators (10)
II. Data Sources (7)
III. Recent Trends (3)
IV. Implications for labor market assessment
I. Ten Labor Market Indicators

- **Primary activity (3)**
  - Employment ratio, Unemployment rate, Labor force participation

- **Type of job (3)**
  - **Status:**
    - Government worker, Private wage worker, self employed, family and unpaid workers
  - **Sector**
    - Agriculture, industry, service, etc.
    - Average productivity of sector

- **Compensation and hours (3)**
  - Earnings, benefits, hours of work

- **Subjective work satisfaction (1)**
  - Reflects respondent frame of reference / expectations
### Activity Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Definition</th>
<th>Strength</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment ratio</td>
<td>#employed/# working age pop.</td>
<td>Overall level of economic activity, simple &amp; clear</td>
<td>Whether good or bad depends on country context</td>
</tr>
<tr>
<td>Labor force participation rate</td>
<td># labor force/# working age pop.</td>
<td>Measures size of work force and willingness to work</td>
<td>Fuzzy definition, whether good or bad depends on context</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>#unemployed/# of labor force</td>
<td>A measure of lost potential</td>
<td>Fuzzy definition, whether good or bad depends on context</td>
</tr>
</tbody>
</table>

• But these activity indicators don’t measure job quality
Interpreting changes in employment and unemployment depends on country context.
Job quality indicators are more informative

Hypothetical example

Employment

- Pre crisis
- Post crisis

- Employment

Employment

- Pre crisis
- Post crisis

- Wage
- Self
- Family
# Job Quality Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Definition</th>
<th>Strength</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment Status and sector</td>
<td>Share of employment in different status or sector</td>
<td>Easy to measure and related to earnings and productivity</td>
<td>Coarse measure</td>
</tr>
<tr>
<td>Sectoral Productivity</td>
<td>Value added per worker in each sector</td>
<td>Well-defined and often measurable</td>
<td>Coarse and challenging to construct</td>
</tr>
<tr>
<td>Earnings</td>
<td>Reported profits or salary per month</td>
<td>What workers care about most. Good proxy for productivity. Continuous measure.</td>
<td>Very difficult to measure accurately, especially for self-employed.</td>
</tr>
<tr>
<td>Self-reported job Satisfaction</td>
<td>Reported Worker satisfaction with job</td>
<td>Easy to measure, including for unpaid family workers</td>
<td>Subjective -- definition varies greatly across people</td>
</tr>
</tbody>
</table>
Better jobs, not more jobs, drive development
II. Seven Sources of Data on Labor Markets

Where does information exist on labor market outcomes in developing countries?

Three publicly available sources:
1. National estimates (from ILO)
2. ILO Estimates (imputed by ILO)
   - These are the two sources for World Bank’s WDI
3. IMF World Economic Outlook
   - Unemployment only, about 60 developing countries

Four privately held sources:
1. Aggregate national indicators
   - IMF International Financial Statistics
   - CEIC/Haver
2. Disaggregated data
   - World Bank International Income Distribution Database (I2D2)
   - Gallup World Poll
ILO data is scarce

Years of available data, 2000-2008
Though ILO data availability is slowly improving.

Countries reporting labor force participation at in least one year

- 1988-1990
- 2006-2008
ILO National Estimates

• KILM and Short-term indicators
  – Derived from national labor force surveys, household surveys, or censuses

• Issues of timing...
  – KILM has a 2 year lag
  – Short term indicators start in 2004

• ... and limited coverage
  – Short-term indicators: 35 developing countries (2004-2011)
  – KILM
    • Roughly 20 developing countries (1990-2009)
    • 2010 information available for 13 developing countries
ILO estimates

- Seemingly precise, even in data-poor environments

<table>
<thead>
<tr>
<th>Country</th>
<th>Y</th>
<th>Sex</th>
<th>Age</th>
<th>Employment ('000)</th>
<th>Population ('000)</th>
<th>Employment-to-population ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congo, Democratic Republic of</td>
<td>2009</td>
<td>F</td>
<td>15-24</td>
<td>3176.3</td>
<td>6651.8</td>
<td>47.8</td>
</tr>
<tr>
<td>Korea, Democratic People's Republic</td>
<td>2009</td>
<td>F</td>
<td>15-24</td>
<td>661.2</td>
<td>1897.7</td>
<td>34.8</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>2009</td>
<td>F</td>
<td>15-24</td>
<td>688.6</td>
<td>1595.9</td>
<td>43.1</td>
</tr>
</tbody>
</table>

Where do these estimates come from?
A short rant about the ILO estimates

• ILO methodology: Apply regional employment elasticities to countries’ historical labor market data
  – Regress employment on GDP and country dummy variables, separately by age and gender group

• Issues:
  – Estimates based only on GDP
  – Assumes same employment elasticity for each country and across time
  – No indication of precision of estimates
    • And no validation against actual data

• Warning:
  – ILO estimates are not always documented as estimates
    • Participation statistics from WB World Development Indicators!

Bottom line: Be aware of the difference between *ILO estimates* and *national estimates*
Private sources of labor market data

Aggregate Information on LM indicators

1. IMF International Financial Statistics
   - Accessible to World Bank and IMF staff
   - Contains aggregate information on employment and labor force participation on about 37 developing countries

2. CEIC/Haver
   - Companies that collect and sell information published by national statistical offices
   - Contains employment, unemployment, and participation for about 35 developing countries
Private sources of labor market data

Household Survey Data

3. International Income Distribution Database (I2D2)
   - Large standardized database managed by DEC
     • Grew out of successive WDRs, starting with Equity (2007)
   - Latest version contains 533 standardized households surveys covering 126 countries
   - Indicators: Activity, sector, status, unemployment duration (when available)
     • Earnings and consumption not yet reliable
     • Employment indicators sometimes inconsistent over time
   - Future plans
     • Clean up inconsistencies
     • Merge with data on household consumption used for povcalnet
     • Enable online analysis from public
   - Data available to all Bank employees for any Bank work
Private sources of labor market data

Household Survey Data (cont.)

4. Gallup World Poll
   – Surveys of 1000 persons conducted annually in over 140 countries
   – Some labor market questions are non-standard and hard to interpret
     • Does your job always bring out your most creative ideas or not?
     • At work, do your opinions seem to count or not?
   – Microdata very expensive
III. Recent Trends

1. What do labor market outcomes look like around the developing world?
   
   – Use Gallup World Poll
     • We obtained aggregates by country
   
   – Group countries by income group and region
   
   – Population weighted
GWP coverage is high
...and significantly better than ILO national estimates for developing counties

<table>
<thead>
<tr>
<th>Data from 2009-2011</th>
<th>All countries</th>
<th>Low and Middle-Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of countries</td>
<td>Percent of Population</td>
</tr>
<tr>
<td><strong>Gallup World Poll</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All four Indicators</td>
<td>90</td>
<td>86%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ILO Short Term Indicators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>62</td>
<td>36%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>83</td>
<td>37%</td>
</tr>
<tr>
<td>Share in Employment in Agriculture</td>
<td>46</td>
<td>29%</td>
</tr>
<tr>
<td>Share of Employment in Wage or Salaried jobs</td>
<td>53</td>
<td>34%</td>
</tr>
</tbody>
</table>
Perceived job conditions bounced back rapidly

- Especially in LMICs

Source: Gallup World Poll
Strong LMIC performance most apparent in increasing wage employment for men
But ECA is still struggling

- So is MNA, following the Arab spring
- Everywhere else, 2011 was better than 2008
...while East and South Asia forge ahead

- Maybe job conditions in MNA weren’t as bad in 2011 as people think?
Does creating good jobs make governments more popular?

- Not immediately. Despite creating good jobs, MIC leaders much less popular in 2011
Decline in popularity driven by MNA and South Asia

- In MNA, consistent with perceived worsening of job prospects
- Government dissatisfaction rising in India, Pakistan, and Bangladesh for unrelated reasons?
Conclusions

Recent trends give reason for optimism

- Crisis could have been worse
  - Slow recovery continuing in Eastern Europe and Central Asia
  - Rapid recovery – or mild crisis effects -- in most other regions

Major challenges remain

- Most workers remain in low-productivity jobs
- Need to create more good jobs
  - By helping workers make transitions into higher-productivity jobs
  - By supporting entrepreneurship efforts when possible
- Key roles for state include:
  - Maintaining rule of law
  - Providing infrastructure and other public goods (like information)
  - Promoting human capital (skills, health)
A jobs lens is crucial for learning how to better reduce poverty and share prosperity

1. Jobs are politically important
2. Jobs are more closely related to poverty and shared prosperity than growth
3. Unlike poverty and growth, jobs are measured at the individual level
4. Relatively little is known about how government can create conditions conducive to the growth of good jobs.
Large long-run agenda on labor assessment

- Get a better picture of recent developments
  - Improve on ILO estimates if possible

- Investigate potential constraints to better employment outcomes:
  - Human capital
    - Early Childhood Development, Health, Non-cognitive skills
  - Population growth
  - Fiscal and monetary policy?
  - Infrastructure improvements?
  - Migration
    - Both internal and external
  - Search behavior
  - Training
    - Both on the job and through public programs
Continue to evaluating labor regulations and ALMPs

Effects on aggregate jobs are usually modest, but...
  - Debates on regulations can be heated
    - Not sure how much
  - ALMPs are a political fact of life in many UMICs

Evaluations can help learn about which types of training programs / regulations matter
  - How to better enforce existing regulations
Better Data can Help

- Regular labor force surveys
  - Important input into political debates about macroeconomic and other policy
  - Labor force surveys cheaper than poverty surveys
  - Urban surveys are particularly inexpensive
  - Offer unexploited potential to look at how policies and ALMPs are associated with outcomes

- Best if standardized across years and countries
  - WB should continue investments in I2D2 and regional standardization efforts.
Better Data can Help

- Well-designed long-term household panel surveys are particularly valuable
  - Potential to understand how interactions with public policies and institutions affect future outcomes
    - Can be used to track long-term effects of interventions for youth.
  - Common in OECD countries
  - Examples in developing countries are rare
    - Indonesian and Mexican Family Life Surveys, China Health and Nutrition Longitudinal Survey, National survey of Income Dynamics in South Africa, others?