AN OVERVIEW OF LABOR MARKETS WORLD-WIDE: KEY TRENDS AND MAJOR POLICY ISSUES*

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1. INTRODUCTION

The purpose of this paper is to provide an overview of key labor market trends world-wide. This is a daunting task. Most obviously, the sheer scope of the issues that deserve to be covered in any review of this type is immense. But there are two other complicating factors that, in effect, represent the central themes of this overview.

The first is the apparent pace of change. Globalization, the revolution in information and communication technologies, shifting macroeconomic orthodoxies, population patterns, and the changing role of women are just the most visible of a host of dramatic developments that have altered employment and work over the past quarter-century. Whether or not labor markets are actually changing more rapidly than was the case in the past is a complex (and largely unverified) proposition. But there is no doubt about the widespread perception of enormous change – including the accompanying risks and opportunities -- and the challenges this poses for policy-makers.

The second complicating factor is the diverging nature of labor market experiences. Developments such as those listed above are affecting different countries and different types of workers in very different ways. For example, a number of nations in the developed world in recent years have experienced very low unemployment rates and, within these countries (and in some developed countries), highly-skilled "knowledge" workers enjoy unprecedented earnings and employment opportunities. At the same time, many developing countries are witnessing a deterioration in their labor market situations with real wage declines, shrinking formal employment sectors, and

- What can countries do to mitigate the hardships workers experience in the wake of major financial market crises. As the examples of East Asia (1997), Russia (1998), and Brazil (1999) have shown, these crises can have serious and persisting consequences for labor markets.

- How can the competitive pressures of globalization be managed in order to avoid downward pressure on wages (especially in developing countries) and a “race to the bottom” in terms of human resource practices and social and labor policies?

- How can public policy most effectively address issues of gender and ethnic discrimination in the labor market?

- What are the best approaches to meet the massive labor adjustment required as a result of technological change, globalization, industrial restructuring, and the downsizing of public sectors?

- How can all countries, but especially developing countries, meet the challenge of educating and training their workforces to realize the potential productivity and income gains of new technology and international markets?

This is not an exhaustive list but is illustrative of the issues facing labor policy-makers around the world.

Countries everywhere are grappling with the question of how to encourage employment and earnings growth and how to provide social protection for workers. Strategies involve some mix of relying on market mechanisms, worker representation and collective bargaining, and government intervention. In recent years, developed countries seem to have agreed (to some extent) on the benefits of encouraging labor market flexibility, investing in human capital, and “making work pay.” These principles form the

These constraints and the difficult issues raised earlier have led to great interest in exploring new ideas about employment and labor markets. This includes innovations in public policy – private-public partnerships in service delivery, new instruments for funding unemployment benefits, lifelong learning accounts, and alternative dispute resolution mechanisms are just a few examples. But it also includes new ideas from business about social responsibility and voluntary self-regulation, from trade unions and NGOs about building networks that reach informal sector workers, and from international organizations about disseminating best practice across borders and integrating labor concerns into comprehensive development approaches.

The remainder of this paper is organized as follows. In Section 2, we provide a statistical review of recent labor market developments and key employment indicators by region. Section 3 reviews four key trends affecting global labor markets: the changing industrial structure; globalization; technological change; and the informalization of labor markets. In section 4, we turn to three key policy challenges that are relevant for all countries, regardless of stage of development: investing in human resources; providing social protection for workers; and regulation, including addressing working conditions in a globalizing world. Conclusions are briefly drawn in section 5.

2. LABOR MARKET DEVELOPMENTS AND INDICATORS

Various factors including natural endowments, comparative advantages, population, cultural factors, and long-run economic performance contribute to dramatic differences in labor market conditions across regions. These differences are reflected in labor supply, the structure of employment, unemployment, productivity and wages, and working conditions.[1]

With the exception of East Asia, the developing regions have not narrowed the gap over the past few decades (Figure 2). Between 1965 and 1999, GDP per capita in the high-income countries grew at an mean annual rate of 2.4%, above the world average of 1.6%. South Asia's per capita growth matched the OECD rate but the other four developing regions did not. Three of these -- the Middle East and North Africa, Sub-Saharan Africa, and Eastern Europe and Central Asia – either had virtually no per capita growth or even declines over this 35-year period. This does not mean the economies of these regions did not expand during these years but whatever growth there was did not match population expansions.[3]

Focusing on more recent trends, during the 1990s annual per capita GDP growth in low- and middle-income countries was 1.6% compared to 1.8% in high-income countries. East Asia (6.0%) and South Asia (3.3%) led the growth while Eastern Europe and Central Asia declined by 2.5% (World Bank 2002a).

Poverty

Economic growth and the distribution of income (discussed below) determine the incidence of poverty. As Table 1 indicates, there was been some decline in extreme poverty rates (living on less than $US1 per day) in the 1990s. This was largely accounted for by East Asia where poverty rates were reduced by almost half and, to a lesser degree, by South Asia where rates – though still very high -- were cut by 7 points. Sub-Saharan Africa, the region with the highest incidence of poverty, experienced virtually no progress during the 1990s.

Labor force

A number of dimensions are central to developments relating to labor supply: the

Table 1: Extreme poverty (living on less than $US1 per day) by region, 1990 and 1999

	Percentage of population		Number (millions)
	1990	1999	1999
East Asia and Pacific	27.6	14.2	260
Eastern Europe and Central Asia	1.6	3.6	17
Latin America and the Caribbean	16.8	15.1	77
Middle East and North Africa	2.4	2.3	7
South Asia	44.0	36.9	490
Sub-Saharan Africa	47.7	46.7	300
Total	29.0	22.7	1,151

Source: World Bank (2002a)

Compared to 1980, women now account for a slightly larger share of the global workforce (1.5 percentage points higher). As Table 2 indicates, increases in the female share have occurred in East Asia, Latin America, the Middle East, and the high-income countries. Note that a great deal of variation remains in terms of the quantitative importance of women in regional labor forces.

Labor force growth also has varied significantly across regions over the past two decades (Table 2). Population growth has been the principal factor. The developing regions, except Eastern Europe and Central Asia, have had annual labor force growth of 1.9% or greater. The transition and high-income countries, on the other hand, have had much lower growth rates.

Table 2: Labor supply trends by region, 1980-2015

	Working age (15-64) population (millions)		Average annual labor force growth (%)	Projected Annual Population Growth Rate (%), 1999-2015 (age categories)			Female %
	1980	1999	1980-1999	0-14	15-64	65+	1980
East Asia & Pacific	820	1220	1.9	-0.6	1.2	2.5	42.5
Eastern Europe & Central Asia	274	318	0.5	-1.2	0.4	0.7	46.7
Latin America & Caribbean	201	319	2.7	-0.1	1.7	2.8	27.8
Middle East & North Africa	92	172	3.0	0.5	2.5	2.8	23.8
South Asia	508	797	2.2	0.1	2	2.5	33.8
Sub-Saharan Africa	195	340	2.6	1.6	2.7	1.8	42.3
High-income	505	595	1.0	-0.6	0.2	1.8	38.4
World	2595	3761	1.9	0.1	1.4	2.1	39.1

Source: World Development Indicators, 2001

<u>Unemployment</u>

insurance often do not exist or have very limited coverage. Under these conditions, workers must have very low reservation wages, with little choice but to search for alternate earning opportunities in informal activities, if needed. As well, while the probability of being unemployed tends to be negatively correlated with family income and education in developed countries, this is not always the case in developing countries where better-off and higher-educated workers often queue for good jobs.

Having noted these qualifications, Table 3 presents unemployment rates by region for the past decade. There is less variation than is the case with many other labor market indicators – in large part, for the reasons noted above. In the developed countries, the aggregate unemployment rate in 2000 was 6.2%, with Japan and the United States having much lower rates than Europe. Among high-income countries, unemployment generally rose in the early years of the 1990s, then declined later in the decade and, subsequently, have risen again in 2001 (not shown). This pattern corresponded to the timing of the recession and recovery in most countries. However, in a number of countries, the non-cyclical component – "structural" unemployment – appears to have declined since the beginning of the 1990s (OECD 1999b).

Table 3: Unemployment rates by region, 1990-2000

	1990	1995	2000
Developed countries	6.1	7.4	6.2
Europe	7.7	11.0	8.5
Japan	2.1	3.2	4.8
United States	5.6	5.6	4.1
Latin America & Caribbean	5.7	7.2	7.1[1]
Asia & Pacific	4.0	4.1	4.5[1]

Earnings and inequality

It is difficult to paint an accurate and complete international picture of earnings. There are data gaps in many developing countries, especially for workers employed outside manufacturing. Naturally, there is virtually nothing where these activities are carried out in the informal sector. Table 4 presents three labor compensation series for a selection of countries.[6] These series, compiled from World Bank and ILO sources, are fairly complete for manufacturing but, as is clear from the first column, wage data for agriculture are available for only a few countries. It is also not advisable to compare across earnings indicators (e.g., agricultural wages vs. labor costs in manufacturing) since these series have been obtained from different sources using different methodologies.

That most international profiles of wages and labor compensation are limited to manufacturing is problematic: this sector covers only a minority of employees in most countries and its wages are often unrepresentative of the overall labor market. Even where data are available, there are methodological issues associated with comparing earnings across countries and over time. Different approaches to handling exchange rates and inflation rates can lead to different figures.

The second column of Table 4 shows average labor compensation (wages/salaries, other benefits, and employer contributions to social security programs) in manufacturing. The strength of this indicator is that it measures all payroll costs to the employer. However, since some of its components may not offer direct benefits to workers (e.g., some social security benefits, insurance program contributions), comparisons based on labor compensation are not necessarily the best way to capture earnings. The third column of the table shows the trend in real wages in manufacturing during the 1990s. The consumer price index has been used as the standard deflator.

Table 4: Selected wage indicators for selected countries, 1990s

	Annual agricultural wage ($US) 1990-94[1]	Annual labor cost per worker ($US) in manufacturing 1990-94[1]	Real manufacturing wage index (1990=10
Sub-Saharan Africa			
Botswana	1,223	2,884	76 (199
Kenya	568	94	50 (199
South Africa	N/A	8,475	102 (199
Zambia	N/A	4,292	104 (199
Zimbabwe	N/A	3,422	71 (199
East Asia			
China	325	729[2]	130 (199
Indonesia	N/A	1,008	131 (199
Malaysia	N/A	3,429	125 (199
Thailand	N/A	2,705	125 (199
Eastern Europe & Central Asia			
Belarus	410[2]	754[2]	72 (199
Hungary	1,776	2,777	96 (199
Kyrgyz Rep.	168[2]	687[2]	44 (199
Poland	1,301	1,714	135 (199
Russia	659[2]	1,528[2]	60 (199
Latin America & Caribbean			
Argentina	N/A	7,338	100 (199
Bolivia	N/A	2,343	112 (199
Brazil	N/A	14,134	110 (199
Chile	N/A	5,822	67 (199
Colombia	N/A	2,507	109 (199
Jamaica	N/A	3,655	74 (199
Mexico	908	7,607[2]	99 (199
Middle East & North Africa			

The distribution of earnings within countries is an important feature of labor markets. In all countries, wage differentials exist by gender, ethnicity, age, and other variables. These reflect both market forces and discrimination. Unfortunately, lack of data make it difficult to provide a comprehensive picture of these differentials. Even in the aggregate, earnings dispersion data are not available in most developing countries. As a result, evidence on income distributions provides the best insight into the question of wage inequality. Fortunately, labor market earnings represent the primary source of income in all countries. There are many different measures of income distribution – each with relative strengths and weaknesses in terms of the aspects of inequality it captures. But all measures essentially tell the same story: inequality varies dramatically across countries; developing countries tend to have (much) higher levels of inequality than developed countries; and, while the time trends are far from uniform, inequality appears to be increasing in many developing countries.

Figure 4 presents inequality levels in the mid-to-late 1990s for a selection of countries at different stages of development. The measure used here is the Gini coefficient.[9] The highest levels of inequality are in Brazil and South Africa, followed by Mexico. At the regional level, Latin America has the most inequality. Developed countries have relatively low Gini coefficients although, as Figure 4 shows, the United States is in the middle of the distribution. Even though some developing countries have very high inequality levels, others do have relatively low levels (e.g., Egypt, Korea, Indonesia, transition countries in Figure 4).

The UNDP compared income distributions in 36 countries for the 1980s and 1990s. The measure used was the ratio of the income share held by the top quintile (i.e., highest 20% of all earners) to the share held by the bottom quintile. To appreciate the range, this ratio was 3.4 in Japan in the 1990s; in Brazil it was 25.5 (as cited in ILO 2001a). The UNDP's analysis over time found that the income distribution became more unequal in only one out of the eighteen developed countries in the sample. Developing

Changing economic structure

With development, the structure of economic output involves a progressive shift from agriculture to industry and, subsequently, to services. Urbanization is an accompanying process. Technological change and national comparative advantages in a liberalized global regime are closely linked with how countries can most efficiently allocate resources across different types of economic activities. This largely explains the observed patterns in sectoral output. The resulting structural changes in economies have important implications for labor demand, skill requirements, and other aspects of the employment.

GDP data shows how the structural composition of output differs dramatically, depending on a country 's level of development (Table 5). Moreover, it also shows that, for each income grouping, agriculture's share of GDP declined during the 1990s (except for high-income) while the share accounted for by services increased.

Table 5: Composition of GDP by economic sector by country income grouping, 1990-99

	Agriculture		Industry		Services	
	1990	1999	1990	1999	1990	1999
	% share of GDP					
Low income	29	26	31	30	40	
Lower-middle	21	14	39	39	40	
Upper-middle	8	6	40	33	52	
High income	3	3	33	30	64	
All countries	6	5	34	31	59	

Second, the magnitude of service sector employment shares largely reflect aggregate income levels; however, note that Latin America and the Caribbean and the Middle East and North Africa also have high shares, primarily reflecting the large public sectors in these regions.

As noted, urbanization accompanies these industrial shifts. The proportion of total population living in cities is highest in the high-income countries and declines as we move down the country income distribution (Figure 6). However, note the large jump in urbanization in upper-middle income countries (21 percentage points in three decades). This has been an important trend in all developing regions, except Eastern Europe and Central Asia. The pressure on urban labor markets in many developing countries is building rapidly, with huge inflows of young workers looking for employment. Box 1 highlights the enormous recent growth in large cities in developing countries and the expected acceleration of this trend over the upcoming two decades.

Box 1: Exploding urban labor markets in developing countries

A century ago, just 10% of the world's 1.6 billion inhabitants lived in cities. Now 50% of the 6 billion people on the planet do. By the middle of this century, two -thirds of a total population of 10 billion will be in cities. This urban growth is concentrated in developing countries. Seven of the world's 10 largest cities are now in developing countries and by 2020, nine will be. More than half of the urban inhabitants of Asia, Africa, and Latin America live in poverty.

The 10 largest urban areas

1980		2000		2020	
	mill.		mill.		mill.
Tokyo	21.9	Tokyo	26.4	**Bombay**	**28.5**
New York	15.6	**Bombay**	**18.6**	Tokyo	27.3

and technology. Increased global integration has important implications for labor markets and employment policy.

Evidence documenting globalization is typically based on increasing flows of international trade and foreign direct investment.

- As Figure 7 indicates, trade volumes during the past decade have generally outstripped aggregate economic growth, often by substantial amounts. Between 1990 and 1999, exports of goods and services as a share of world-wide GDP increased from 19% to 27%. Growth in trade volumes has generally been higher in low- and middle-income countries. However, flows between developed economies still account for most international trade. While the overall picture from Figure 7 is one of increasing trade, the volatility of flows evident from the figure reinforces the fact that ongoing liberalization is not a smooth (or even guaranteed) trend.

- Gross foreign direct investment as a share of world-wide GDP increased from 1.9% in 1989 to 4.6% in 1999. The increase in gross private capital flows over this period was from 8.5% to 18.3%. Again these flows are dominated by developed countries. Foreign investment into developing countries also suffered a setback with the financial crisis but started to grow again in 1999 and 2000.

Globalization provides opportunities for economic growth and, thus, the potential for employment and rising incomes. In a recent study, the World Bank (2002b) found that developing countries that had been "globalizers" since 1980 had experienced per capita growth rates in the 1990s of 5% annually compared to –1% for the others.[10] However, globalization also raises concerns about downside labor market risks in the form of unemployment, downward wage pressures, and a "race to the bottom" in working conditions and public policy. Despite all of the popular attention globalization has received, there is a need for more rigorous analysis of these sorts of impacts. One reason differentials between skilled and unskilled workers have widened in a number of developing countries (World Bank 2002b; Patrinos 2001). The fact that these changes occurred while the supply of skilled workers was growing in most countries (developed and developing) suggests that the demand for skilled labor has been increasing even faster. It is not clear, though, that globalization is primarily responsible for the shifting relative fortunes of skilled and unskilled workers. This trend – especially in the case of developing countries -- runs counter to what would be expected on the basis of international trade theory.[11] Moreover, the general view based on empirical studies is that international trade has accounted for about 10-20% of the increasing wage inequality (generally on the basis of U.S. studies). As we will discuss in the next sub-section, most economists attribute greater significance to the role of technological change.

There is no consensus, and little definitive research, on the impacts of globalization on aggregate employment and unemployment levels. There does appear to be a positive relationship between economic openness and variability of output and employment growth rates. As a consequence, it seems likely that globalization can increase both labor and job turnover.[12] To the extent that liberalization affects formerly protected sectors, then significant job destruction can occur. Policies to assist affected workers are a priority. On the other hand, by stimulating improvements in productivity and output, liberalization of trade and investment (including in export processing zones) can play an important role in job creation as well. The ability of countries to take advantage of these opportunities depends on many things including (among other factors) labor force skills.

While discussions of globalization tend to focus on flows of goods, services, and capital, the movement of workers is also part of the phenomenon. International migration, of course, is not new. In fact, the number of migrant workers as a percentage of total population is no higher than it was in some earlier decades. In absolute terms, however, it has increased – there are now about 120 million people living in a country in which they economic growth but there are also a host of policy issues including illegal trafficking, undocumented entry, "sweatshop" working conditions, and the social protection of these workers. The movement of skilled labor has been most visible recently with respect to efforts by developed countries to address shortages of high-tech workers by tapping into foreign supplies – often from developing or transition countries. This raises concerns about "brain drain" in the sending countries.

A more qualitative aspect of globalization relates to its effect on working conditions. This has attracted a great deal of attention in recent years with concerns that increased world-wide competition is leading to a "race to the bottom" in terms of a deterioration of working conditions in developing countries. These concerns are driven by the argument that rich-country multinational enterprises and domestic suppliers in developing countries are responding to competitive pressures by encouraging exploitative human resource practices that cut costs at the expense of decent working conditions. The use of child labor, unsafe workplaces, managerial harassment, and the abuse of basic worker rights are examples of practices cited. This also involves the concern that domestic governments are willing to accept such abuses in their pursuit of needed foreign investment. It is true that many developing countries are actively promoting export processing zones and other arrangements where foreign investors can benefit from special incentives, including relief in some cases from certain labor regulations. Counter to these concerns is empirical evidence that, on average, multinational enterprises have higher wages and better benefits than domestic firms. More needs to be known about the magnitude of the problem and the precise role that globalization is playing.

Technological change

Dramatic technological innovations, especially with respect to information and communication technologies (ICT), have occurred in the past two decades. These changes have included both "process innovations" – i.e., that alter how goods and enterprises and self-employment (in some countries), and more emphasis on “numerical” and “functional” flexibility in labor deployment (OECD 1996). Indeed, research is showing that these organizational factors play a key role in shaping the impacts of ICT on employment levels, skills, and productivity.

Economists and others may debate whether the advances in ICT constitute a “post-industrial” revolution, whether they are spurring a “new economy,” and whether they are creating a new development paradigm. But, there seems to be consensus that these and related technological changes are having – and will continue to have -- major impacts on labor markets around the world. This includes (but is not restricted to) where employment is located, in what industries and occupations, the nature of the employment relationship, skill requirements, wages and their distribution, the organization of work, and human resource and industrial relations practices. ICT offers considerable upside benefits to workers and labor markets but substantial risks as well.

From its earliest days in the 1960s when large-scale mainframes were introduced in a handful of major western corporations, microelectronic technology is now pervasive. In the 1980s and early 1990s, researchers often documented the diffusion of the technology by “counting computers.” Now, because key aspects of the most recent developments in ICT involve network applications, diffusion statistics tend to focus on internet usage and the relevant infrastructure in place, as well as the incidence of computers. Not unexpectedly, the data indicate that growth in ICT has been tremendous. In mid-2000, for example, traffic on the Internet was doubling every 100 days (ILO 2001a).

However, adoption of ICT and access to these technologies is very uneven. The gap between rich and poor countries is often called the “digital divide” (World Bank 2000b). This divide also exists within countries with some groups (generally already advantaged) enjoying much greater access and benefits than others. Moreover, empirical percent and, excluding South Africa, this figure is only one-fiftieth of one percent (World Bank 2000b).[13]

Figure 9 illustrates how Internet usage varies by region. As of mid-2000, North America had by far the highest rate, followed by Europe and Asia and the Pacific (including Japan). Note the very low usage figures for Latin America, Africa, and the Middle East.

While the gap between developed and developing countries is the most dramatic aspect of the digital divide, there are also major differences within countries in terms of ICT access and usage (at home or on the job). These are significantly correlated with income and education. They are also higher for men and urban residents. These findings are best documented in industrialized countries but they appear to be valid in developing economies as well (World Bank 2000b; ILO 2001a).

Much of the (popular) debate about technological change has focused on its implications for aggregate employment. On the one hand, a longstanding view has argued that the primary labor market effect of new technologies is to eliminate jobs, replacing people with machines. The potential of these disemployment effects with ICT has been seen as very large by some observers (e.g., Rifkin 1994) since these technologies can affect not only physical but also cognitive activities.[14] On the other hand, by creating new products and services and by making production more efficient (and thereby reducing prices and increasing consumer demand), technological change has been seen (especially by economists) as necessary for long-run employment growth (e.g., OECD 1996).

The ultimate employment effect depends on the relative weight of these two forces of technological change. It has been very difficult to measure this effect because of difficulties associated with measuring technological change and with isolating it from other factors (e.g., trade, market competition). Almost all of the empirical work has been employment gains in services were larger in countries that had the greatest investments in ICT.

While the evidence (at least from industrialized countries) offers more support for the net employment gains, ICT – like all technological change -- clearly alters the composition of employment through the processes of job creation and destruction. We have already seen how the industrial distribution of employment has been changing, at least in part because of technological change. Related to this, white-collar occupations have increased their share of total employment in both industrial and developing countries.

The OECD evidence cited above demonstrates how industrialized countries are increasingly involved in high-technology industries while shedding lower-technology ones. However, as the ILO (2001a) points out, developing countries – with their lower cost structure -- can accelerate up the value chain. Figure 10 shows how two developing countries (India and South Africa) with promising IT sectors can offer labor cost advantages compared to the U.S. in various ways. However, exploiting comparative advantages such as this requires a strong local skill base and infrastructure, and an appropriate regulatory framework.

The employment debates surrounding ICT also have considered its impacts on skills. Here, too, there are two dominant strains – that technological progress requires increasingly sophisticated workers and, thus, is “upskilling” and, alternatively, that technological change may create some very highly-skilled personnel but that, for the most part, it routinizes work and, on balance, is “deskilling.” Sorting out this debate has been very complicated and some researchers have emphasized that workplace organization is often the deciding factor. For example, Autor, Levy, and Murnane (2000) show how the same technological change introduced into two departments of a commercial bank had a labor substitution effect in one case and an upskilling effect in the investments are increasingly the most effective personal strategy for individuals and the best collective strategy for nations. Data on two key indicators, school enrollment and literacy, offer a mixed picture for developing countries – optimism because there is clear evidence of improvement but pessimism because they remain far behind developed nations.

Table 6 presents gross enrollment rates by region for 1980 and 1997.[16] Looking first at the primary level, it is clear that all regions (except Sub-Saharan Africa) now have nearly universal enrollment. Significant gains have been made regarding secondary enrollment but each of the developing regions remains far behind the high-income countries. Finally, there are huge gaps in tertiary enrollment.

Table 6: Gross enrollment rates by region, 1980-97

	Primary as % of relevant age group		Secondary as % of relevant age group		Tertiary as % of relevant age group	
	1980	1997	1980	1997	1980	1997
East Asia & Pacific	111	119	44	69	4	8
E. Europe and Central Asia	99	100	86		31	32
Latin America and Caribbean	105	113	42	60	14	17
Middle East and N. Africa	87	95	42	64	11	16
South Asia	77	100	27	49	5	7
Sub-Saharan Africa	81	78	15	27	1	
High income	102	103	87	106	36	62

although the sample is small for developing/transition countries, all but the Czech Republic were at the bottom of the distribution in terms of aggregate literacy scores (OECD and Government of Canada 2000).

The links between literacy and employment performance have not been explored as fully in developing countries. However, all of the evidence suggests that a labor force with a solid basic skills foundation will be essential for these countries to exploit the opportunities of technological change. Future prospects are bound to be difficult for individual workers who are not literate. Figure 11 summarizes trends in illiteracy for the six developing regions.[17] It presents youth rates (15-24 years of age) because these offer insight into how well labor forces will be prepared for the future. The trends reflect the gains in primary education documented in Table 6. All regions have shown improvements over the 1990s, with some impressive gains occurring for young women, in particular. Illiteracy remains a major problem, however, in the Middle East, Africa, and South Asia. Clearly, this poses formidable challenges for basic education in order to ensure that subsequent generations have better prospects in a world increasingly shaped by information and communication technology.

Expanding informal sector[18]

The informal sector has become a pervasive phenomena in the developing world. This trend is complicated, challenges many traditional notions of development and social protection, and is difficult in many ways to fully capture: What is the actual size of informal sectors? What factors are behind its apparent growth? What are the social and economic contributions of the informal sector and what are the problems? How should governments respond to informal labor markets?

The traditional development perspective has been a dual-labor market view of the informal sector as the disadvantaged low-paying and unprotected sector where workers

Policy-makers and economists initially assumed that the informal sector in developing countries would diminish over time as countries became industrialized. However, this has not happened. Some alternative hypothesis that have been put forward to explain this include: (a) The “no-growth” hypothesis – the modern industrial/formal sector has not grown fast enough to absorb the growing labor force and hence the informal sector has continued to expand. (b) The “jobless growth” hypothesis – the technology used in the formal sector has not been conducive to the absorption of labor in the formal sector. (c) The “growth from below” hypothesis – small and micro-enterprises themselves represent a vibrant sector and some entrepreneurs may choose to operate in this sector. (d) The “regulatory disincentive” hypothesis – employers and, in some cases, workers choose the informal sector because it is too costly to operate in the formal sector.

The concept of the “informal labor market” relates to the notion of non-participation in tax systems, in social security systems, and meeting regulatory requirements. This non-participation can be the result of legitimate exclusion (e.g., by size of firm) or from non-compliance. The informal sector is typically seen to include three types of people: microentrepreneurs, self-employed, and employees operating in informal-sector firms or in informal employment arrangements within registered firms.

Measuring informal employment is difficult, due to different definitions and data limitations. As a consequence, it is often not possible to get a good handle on the size and the growth of the informal sector. Many establishment surveys also often overlook small informal sector operators leading to a downward bias in the measurement of the sector. Furthermore, more reliable indicators are often available only on the urban informal sector – the rural informal sector is more difficult to capture. Data on the size of the urban informal sector is presented for several countries in Table 7. It should be noted that due to different definitions used, cross-country comparisons should be drawn with caution. In most of these countries, the informal sector constitutes a significant proportion of total urban employment. Furthermore, consistent with the disadvantaged position of women

Table 7: Share of urban employment in the informal sector, selected countries, 1990s*

ountry	Year of most recent data	Urban Informal Sector % of urban employment		
		Total	Male	Female
ub-Saharan Africa				
ote d' Ivoire	1996	52.7	37.3	73.
hana	1997	78.5	Na	N
ganda	1993	83.7	67.6	80.
anzania	1995	67.0	59.7	85.
sia				
ndia	1993	44.2	Na	N
akistan	1992	67.1	65.9	80.
ndonesia	1995	20.6	19.1	22.
hailand	1994	47.6	46.1	49.
atin America and aribbean				
rgentina	1995	45.7	Na	N
razil	1995	48.2	Na	N
cuador	1997	40.0	39.0	41.
amaica	1996	23.5	26.2	20.
eru	1997	51.9	47.7	57.
astern Europe and entral Asia				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

4. KEY POLICY ISSUES[19]

An effective policy framework supports well-functioning labor markets and helps workers manage risks of unemployment and low income. The details of such a framework depend on the country's stage of development and its history and culture. However, there are policy areas that are universally applicable including human resource development, social protection for workers, and labor market regulation.

Investing in human resources

Human capital is a crucial factor in taking advantage of the opportunities of globalization and technological change as well as minimizing social costs associated with adjustment. The growing importance of skills can be linked to the following factors: (a) rapid technological change calls for a richer cognitive content in education and training and the continued enhancement of workforce skills; (b) education and skills generation are crucial in ensuring that economies remain competitive and productive in an era of globalization; (c) education and skills development play a major role in mitigating social and economic vulnerability; and (d) reducing skill bottlenecks has a significant impact on enhancing the efficiency of the labor market (ILO 1998). For these reasons, there is increasing emphasis on lifelong learning.

Effective skills training requires a solid education system. Basic competencies are necessary in order for workers to develop further through advanced education, job experience, and skills training. The results of the International Adult Literacy Survey have highlighted the virtuous cycle that is triggered by strong basic skills (OECD and Government of Canada 2000). The most cost-effective use of public resources to improve the productivity and flexibility of the labor force is thus investment in general education at the primary and secondary level.

establishing links with employers/industry to improve responsiveness; and developing innovative financing mechanisms to ensure sustainability through greater cost-recovery and industrial participation in the financing of training. A prerequisite for all this is building capacity in government for policy-making and implementation of training programs.

- *Increasing the role of government in provision of information.* A preoccupation with delivering, regulating, or financing training has often resulted in governments neglecting their role as providers of information about the availability and effectiveness of vocational training programs. Good information about programs helps policy-makers design interventions to effectively reach target groups and wide access to information on the availability and quality of training supply can inform prospective trainees about their choices. An expansion of this role may be one of the most effective ways for governments to foster the development of a relevant and cost-effective training system.

- *Increasing possibilities for private training delivery.* International experience shows that when public policies are designed to encourage rather than replace private sector delivery (through private providers, NGOs, or public-private partnerships), a vigorous supply response that is attuned to labor demand can be forthcoming. Fostering competition can lead to better performance of both public and private training institutions. Issues that need to be addressed in this regard include developing clear and balanced legislation that encourages private provision by reducing barriers to entry into the training market; designing funding mechanisms that require public providers to compete on approximately equal terms with private trainers; and ensuring information and standards are in place to ensure that consumers make informed choices. Employer-based, in-service training should be encouraged by policy-makers through ensuring strong basic education, good labor market information, and, in some cases, credit tools for workers. However, with a few

1. Active programs

Active labor market programs (ALMPs) include a wide range of activities intended to increase the quality of labor supply (e.g., retraining); to increase labor demand (e.g., direct job creation); or to improve the matching of workers and jobs (e.g., job search assistance). The primary objective of these measures is to increase the probability that the unemployed will find jobs or that the underemployed will increase their productivity and earnings. In many countries, ALMPs are targeted at vulnerable groups such as the long-term unemployed and the working poor. Scientific evaluations of these programs (involving control groups) often show that they have had modest or no impact on increasing employability and earnings (Dar and Tzannatos 1999).

However there are several reasons why policy-makers should not necessarily avoid this area in the future (Betcherman, Dar, Luinstra, and Ogawa 2001). First, active labor market programs can serve social objectives, as well as economic. Second, workforce development, social and economic integration of marginalized and at-risk groups, and the situation of unemployed workers are inevitable concerns for policy-makers and ALMPs are obvious instruments to address these. Third, the disappointing performance of these programs in the aggregate masks the fact that some program designs do seem to lead to positive outcomes for some types of workers. Policy-makers must learn from existing experiences and innovations and direct future programming along lines that appear to work – while being realistic about what ALMPs can do.

A number of issues need to be considered in the design and implementation of active labor market programs:

- *Priority setting.* It is important to identify the main objectives of these programs, since these should determine program choices and program design.
- *The roles of the public and private sectors.* In many countries, possibilities have

failures exist with respect to human capital investments and there is a public good element to ALMPs. However, there are also private gains afforded to employers and governments need to think about how this can be reflected in financing.

- *Monitoring and evaluation.* This is a key part of capacity and deserves special mention. Policy-makers should ensure that the capacity to monitor and evaluate programs is developed at the same time as these programs are being designed.

2. Passive programs

While active programs are designed to reintegrate workers back into employment, passive programs provide income support for the unemployed. There are overlaps between these two policies and some interventions fall under both (e.g., public works). Family- or community-based support for unemployed workers (private transfers) is important in some countries. However, such informal mechanisms incompletely address problems faced by the unemployed, especially when shocks are of a "covariate" or widespread nature. Government income support programs, then, are key interventions, especially in developed countries.

There is a range of passive instruments sponsored by governments: most prominent are public works, severance pay, and various systems for providing payments contingent on the state of being unemployed (which includes being available/searching for work). These include unemployment insurance (UI), unemployment assistance (UA), and individual savings accounts (ISA). The main differences among these relate to eligibility, funding, and risk-pooling.[22]

Many countries, both developed and developing, have some form of severance payment arrangement. The existence of unemployment insurance, on the other hand, depends a great deal on the level of development and region (Vodopivec 2002). Virtually all developed countries have UI plans as do most transition countries in Eastern Europe currently do not have a UI system in place. Concerns in the industrialized countries (especially in Europe) exist about the effects of UI systems, particularly with respect to their job search disincentives. In developing countries where informal sectors are large, added questions are raised about all unemployment benefit systems (including UI, UA, and ISAs) in terms of covering the labor force and identifying and verifying benefit eligibility.

It is important to carefully evaluate the strengths and weakness of all options for providing income support to unemployed workers. Vodopivec (2002) identifies two main classes of performance criteria: distributive effects and efficiency effects.[23] The former includes coverage, adequacy of support, and income redistribution. In terms of efficiency effects, the following are included: job-search efforts; post-unemployment wages; equilibrium labor market outcomes (employment, unemployment, labor force participation); restructuring and overall economic adjustment; labor supply of other family members; taking jobs in the regular vs. informal sector; and aggregate output and growth.

For any given country, an assessment of options along these lines must be made according to various considerations. First, the objectives of policy-makers are key. Is the priority to temporarily replace the lost income of formal-sector workers and thus support consumption smoothing and their job search? Or is it primarily to alleviate poverty for the most vulnerable workers? Second, the particular national context matters. How is the labor market regulated and how strong is the employment protection regime? Is the country susceptible to major economic shocks? How large is the informal sector? What is the administrative capacity? What are the cultural attitudes regarding income redistribution and social insurance? What programs are already in place?

Table 8 presents summary assessments made by two recent World Bank studies. Neither attempts to rank options according to their universal appropriateness because of in the region were hampered by their lack of preparedness, a weak social policy infrastructure, and poor information and a lack of coordination.

Table 8: Two World Bank assessments of the strengths and weaknesses of different passive options

	Vodopivec (2002)	De Ferranti *et al*. (2000)
Unemployment insurance	Performs well where labor market institutions encourage flexibility; informal sector small; strong administrative and political capacity	Good option where labor market reforms have been made; disincentives minimized by keeping benefits frugal; politically popular; strong administrative capacity
Unemployment assistance	Anti-poverty incidence; disincentive effects similar to UI; strong administrative requirements	
Individual savings accounts	Avoids search disincentives; good self-monitoring features; poor distributional features; largely untested	Option for countries where labor market functions poorly; low efficiency costs; welfare reduction for poorer workers
Severance payments	Limited coverage; reduces labor market dynamism	Little risk pooling; entails labor market inefficiencies; contentious:

- *Responding to mass layoffs.* Formal sector layoffs will be an inevitable result of slackening labor demand. In many cases, these will be mass layoffs of a magnitude that makes them major economic, political, and social events. Some of these are likely to involve government or state-sector employees. The layoffs themselves may be unavoidable, but their consequences can vary depending on factors such as advance notice and consultation, resettlement opportunities, and severance arrangements. While various forms of support can assist downsized workers, it is important to consider affordability and to avoid special treatment.
- *Delivering labor market programs.* Naturally, there will considerable demand for new labor market programs or the ramping up of existing ones. This applies to both passive programs that provide income and active programs, such as retraining and job creation, that are intended to support reemployment. While governments should be responsive to these demands, they also need to make considered assessments of the available financial and institutional capacity in order to ensure the integrity of design, targeting, and delivery. Some of these issues have been highlighted in the previous discussion on ALMPs.
- *Better information, institutions, and coordination.* Effective social and labor policies in general and crisis management in particular require better information systems, more responsive institutions, and better coordination across agencies and programs. Ongoing monitoring of labor market and social developments and interventions is a crucial element in this whole process. Priorities in terms of policy interventions can change as a crisis and its impacts evolve. Tracking take-up rates, expenditures, operations, and outcomes will help to ensure that policy responses are in the right direction. Furthermore, qualitative monitoring at the community level will offer important information about informal risk management mechanisms and how they are bearing up under the demands of the crisis.

Labor market regulation[24]

What is critical is the link between labor market regulation and economic and social outcomes. How the labor market is regulated (in reality rather than simply "on paper") can affect the rate of job creation and destruction; levels of employment and unemployment; productivity, wages, and profits; and the degree of social protection afforded workers.

How do differences in labor market regulation affect employment outcomes? This is a controversial question with two very different perspectives – what Freeman (1993) has called the "institutionalist" and "distortionist" views. The "institutionalist" view sees job security arrangements, minimum wages, and collective bargaining as providing important social protection for workers, as instruments for encouraging productivity growth (through training and the accumulation of firm-specific skills), and as means of moderating the effects of downswings in aggregate demand. The "distortionist" perspective emphasizes the advantage of market processes and is concerned that these institutional forms of regulation impede adjustments to economic shocks, discourage hiring, and favor "insiders" (i.e., regular workers).

It is difficult to draw a complete picture of the employment impacts of differences in labor market regulation. National contexts (history, culture, institutions) vary a great deal and labor market impacts of a given law or practice in one country may be quite different from another.

It is generally true that statutory forms of regulation have become less interventionist, although there clearly are exceptions. Much of the international evidence has focused on the labor market impacts of employment protection rules and minimum wages. The actual research, itself, requires complicated methodologies and has often led to uncertain conclusions. Nonetheless, keeping these caveats in mind, the international evidence – largely based on the experience of OECD countries -- does lead to some conclusions in these two areas:

resolution.[25] At the same time that many countries have moved towards reducing statutory regulation, collective bargaining appears to have weakened somewhat as well. This is evident in the general trend of declining union memberships. The ILO (2000) has analyzed unionization data from the mid-1980s to the mid-1990s for a sample of 58 countries. In 42 of these, union membership rates fell, while increasing in just 12.[26] There are many hypotheses for this declining trend; however, it is generally agreed that technology and globalization are important factors. These forces have reduced employment in occupations and industries that have traditionally had high unionization rates; they have been associated with the expansion of "non-traditional" employment forms (e.g., part-time and contingent work, home-work) that are difficult to unionize; and they have sparked changes in organizational and human resource strategies that either discourage unions or make them less attractive for workers.

Globalization has added an international dimension to labor market regulation. It has led to questioning regarding the effective reach of traditional national policy and the possible need to consider new approaches. There are various factors driving this. First, traditional national-level regulatory instruments such as laws or collective agreements do not always match the realities of global production and commerce. Second, there are concerns that globalization is intensifying competition and pushing producers in a "race to the bottom." Third, various groups (including workers) in industrialized countries are experiencing dislocations as a result of trade and foreign investment and are lobbying not to be "undercut" by low labor standards. Finally, consumers in these countries are becoming more aware of and, in some cases, feeling more responsible for the conditions under which goods they consume are produced.

The result of these forces is that various proposals are being put forward to assure some international regulation of labor market conditions. Most prominent are the international core labor standards. As defined in the ILO Declaration on Fundamental Principles and Rights at Work, these include the freedom of association and the right to these changes. Rapidly evolving technological changes and globalization present opportunities for employment and improvements in incomes and working standards. However, our review of the evidence underlines the gaps on almost all dimensions between the labor market situations in developed and developing countries. This is evident in the quantitative data on earnings and poverty, and more qualitative information on working conditions. Moreover, various indicators suggest that further divergence is likely in the absence of significant reversals.

Labor market policies have been undergoing changes as well. Traditional forms of regulation and intervention have been questioned. This has resulted in some notable policy developments in industrialized nations. Many OECD countries have increased the flexibility of their labor markets. Longstanding approaches to training and active employment programs are being reformed, with greater emphasis on responsiveness to labor demand, on flexible delivery methods often involving private partners, on opportunities for life-long learning, and on a results-based orientation. Innovations in financial instruments (e.g., for human capital investment) and labor market information have been introduced to improve the functioning of markets. Incentives to participate in employment have been strengthened. While aggregate labor market indicators have been relatively favorable in many developed countries, policy-makers must now focus on the situation of the less-skilled whose position has been deteriorating in terms of employment and/or earnings.

The challenges facing developing countries are much more formidable. While some success stories can be told, many underlying trends are troublesome – for example, slow technology adoption, continued low educational attainment and high illiteracy rates, and growing informal sectors. Moreover, labor force growth concentrated in very large urban areas will place great pressure on job creation. Many key responses will need to be taken outside the labor policy envelope. However, policy-makers in the labor must address the core questions of how to develop human resources, how to offer effective

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