





# *Jobs*

## *About the cover*

In almost every language there is a range of words related to jobs, each emphasizing a different angle. Some words hint at the nature of the activity being performed, evoking the skill or expertise that is required. Others refer to the volume of human inputs used in production, bringing images of effort and conveying a sense of physical exertion. There are also words associated with the sheer numbers of people engaged in economic activity, which are more easily associated with aggregate statistics. In other cases, what seems to be at stake is a contractual relationship, involving mutual obligations and a degree of stability. In some languages, there are even words to designate the place where the person works, or at least a slot in a production process. This multiplicity of words clearly shows that jobs are multi-dimensional and cannot be characterized by a single term or measured by a single indicator.

Words related to jobs do not always translate well from one language to another, as the range of options available in each case can be different. If languages shape thinking, there are times when the ways in which people refer to jobs seem to be at odds. Gaps probably arise from the different characteristics of jobs being emphasized in different societies. They also suggest that jobs' agendas can differ across countries.

In many languages, words related to jobs serve not only as common nouns but also as proper nouns. Throughout history family names have been associated with specific skills or trades: Vankar in Hindi, Hattori in Japanese, Herrero in Spanish, or Mfundisi in Zulu, just to mention a few. The use of job-related words as household identifiers shows that people associated themselves with what they did. Nowadays, people aspire to choose their jobs based on what motivates them and on what could make their lives more meaningful. In almost every language there are also several words to express the lack of a job. Almost invariably these words have a negative connotation, close in spirit to deprivation; at times they even carry an element of stigma. In all these ways, language conveys the idea that jobs are more than what people earn, or what they do at work: they are also part of who they are.



world development report **2013**



# *Jobs*

**OVERVIEW**



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# *Foreword*

Today, jobs are a critical concern across the globe—for policy makers, the business community, and the billions of men and women striving to provide for their families.

As the world struggles to emerge from the global crisis, some 200 million people—including 75 million under the age of 25—are unemployed. Many millions more, most of them women, find themselves shut out of the labor force altogether. Looking forward, over the next 15 years an additional 600 million new jobs will be needed to absorb burgeoning working-age populations, mainly in Asia and Sub-Saharan Africa.

Meanwhile, almost half of all workers in developing countries are engaged in small-scale farming or self-employment, jobs that typically do not come with a steady paycheck and benefits. The problem for most poor people in these countries is not the lack of a job or too few hours of work; many hold more than one job and work long hours. Yet, too often, they are not earning enough to secure a better future for themselves and their children, and at times they are working in unsafe conditions and without the protection of their basic rights.

Jobs are instrumental to achieving economic and social development. Beyond their critical importance for individual well-being, they lie at the heart of many broader societal objectives, such as poverty reduction, economy-wide productivity growth, and social cohesion. The development payoffs from jobs include acquiring skills, empowering women, and stabilizing post-conflict societies. Jobs that contribute to these broader goals are valuable not only for those who hold them but for society as a whole: they are good jobs for development.

The *World Development Report 2013* takes the centrality of jobs in the development process as its starting point and challenges and re-frames how we think about work. Adopting a cross-sectoral and multi-disciplinary approach, the Report looks at why some jobs do more for development than others. The Report finds that the jobs with the greatest development payoffs are those that make cities function better, connect the economy to global markets, protect the environment, foster trust and civic engagement, or reduce poverty. Critically, these jobs are not only found in the formal sector; depending on the country context, informal jobs can also be transformational.

Building on this framework, the Report tackles some of the most pressing questions policy makers are asking right now: Should countries design their development strategies around growth or focus on jobs? Are there situations where the focus should be on protecting jobs as opposed to protecting workers? Which needs to come first in the development process—creating jobs or building skills?

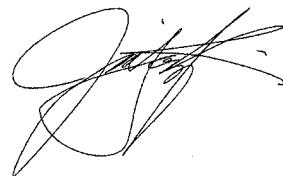
The private sector is the key engine of job creation, accounting for 90 percent of all jobs in the developing world. But governments play a vital role by ensuring that the conditions are in place for strong private-sector led growth, and by alleviating the constraints that hinder the private sector from creating good jobs for development.

The Report advances a three-stage approach to help governments meet these objectives. First, policy fundamentals—including macroeconomic stability, an enabling business environment, investments in human capital, and the rule of law—are essential for both growth and job creation. Second, well-designed labor policies can help ensure that growth translates into employment opportunities, but they need to be complemented by a broader approach to job creation that looks beyond the labor market. Third, governments should strategically identify

which jobs would do the most for development given their specific country context, and remove or offset the obstacles that prevent the private sector from creating more of those jobs.

In today's global economy, the world of work is rapidly evolving. Demographic shifts, technological progress, and the lasting effects of the international financial crisis are reshaping the employment landscape in countries around the world. Countries that successfully adapt to these changes and meet their jobs challenges can achieve dramatic gains in living standards, productivity growth, and more cohesive societies. Those that do not will miss out on the transformational effects of economic and social development.

The *World Development Report 2013* is an important contribution to our collective understanding of the role of jobs in development. Its insights will provide valuable guidance for the World Bank Group as we collaborate with partners and clients to advance their jobs agendas. Working together, we can foster job creation and maximize the development impact of jobs.

A handwritten signature in black ink, appearing to read "Jim Yong Kim".

Jim Yong Kim  
President  
The World Bank Group

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## Moving jobs center stage

**J**obs are the cornerstone of economic and social development. Indeed, development happens through jobs. People work their way out of poverty and hardship through better livelihoods. Economies grow as people get better at what they do, as they move from farms to firms, and as more productive jobs are created and less productive ones disappear. Societies flourish as jobs bring together people from different ethnic and social backgrounds and nurture a sense of opportunity. Jobs are thus transformational—they can transform what we earn, what we do, and even who we are.

No surprise, then, that jobs are atop the development agenda everywhere—for everyone from policy makers to the populace, from business leaders to union representatives, from activists to academics. Looking to seize opportunities for job creation presented by massive demographic shifts, technological innovations, global migrations of people and tasks, and deep changes in the nature of work, policy makers ask difficult questions:

- Should countries build their development strategies around growth or should they rather focus on jobs?
- Can entrepreneurship be fostered, especially among the many microenterprises in developing countries, or are entrepreneurs born?

- While jobs can contribute to social cohesion, is there anything governments can do about it, apart from trying to support job creation?
  - Are greater investments in education and training a prerequisite for employability, or can skills be built through jobs?
  - Should efforts to improve the investment climate target the areas, activities, or firms with greater potential for job creation?
  - What is the risk that policies to foster job creation in one country will come at the expense of jobs in other countries?
  - When confronted with large shocks and major restructuring, is it advisable to protect jobs and not just people?
  - How can the reallocation of workers be accelerated from areas and activities with low productivity to those with greater potential?
- Individuals value jobs for the earnings and benefits they provide, as well as for their contributions to self-esteem and happiness. But some jobs have broader impacts on society. Jobs for women can change the way households spend money and invest in the education and health of children. Jobs in cities support greater specialization and the exchange of ideas, making other jobs more productive. Jobs connected to global markets bring home new technologi-

cal and managerial knowledge. And in turbulent environments, jobs for young men can provide alternatives to violence and help restore peace.

Through their broader influence on living standards, productivity, and social cohesion, these jobs have an even greater value to society than they do for the individual. But some jobs can have negative spillovers. Jobs supported through transfers or privilege represent a burden to others or undermine their opportunities to find remunerative employment. Jobs damaging the environment take a toll on everybody. Thus it is that some jobs do more for development, while others may do little, even if they are appealing to individuals.

Which jobs have the greatest development payoffs depends on the circumstances. Countries differ in their level of development, demography, endowments, and institutions. Agrarian societies face the challenge of making agricultural jobs more productive and creating job opportunities outside farms. Resource-rich countries need to diversify their exports, so that jobs are connected to global markets rather than supported through government transfers. Formalizing countries need to design their social protection systems in ways that extend their coverage without penalizing employment.

A vast majority of jobs are created by the private sector. Governments, though, can support—or hinder—the private sector in creating jobs. The idea that development happens through jobs sheds new light on the strategies, policies, and programs governments can pursue. Strategies should identify which types of jobs would have the highest development payoffs, given a country's circumstances. Policies should remove the obstacles that prevent the private sector from creating jobs. Programs for generating employment may also be warranted, for instance, in conflict-affected countries. But the costs and benefits of these policies and programs have to be assessed, taking into account the potential spillovers from jobs, both positive and negative.

At a more practical level, this jobs lens on development leads to a three-layered policy approach:

- *Fundamentals.* Because jobs provide higher earnings and broader social benefits as coun-

tries grow richer, the policy environment must be conducive to growth. That requires attending to macroeconomic stability, an enabling business environment, human capital accumulation, and the rule of law.

- *Labor policies.* Because growth alone may not be enough, labor policies need to facilitate job creation and enhance the development payoffs from jobs. Policies can address labor market distortions while not being a drag on efficiency. But they should avoid distortionary interventions that constrain employment in cities and global value chains—and provide voice and protection for the most vulnerable.
- *Priorities.* Because some jobs do more for development than others, it is necessary to identify the types of jobs with the greatest development payoffs given a country's context, and to remove—or at least offset—the market imperfections and institutional failures that result in too few of those jobs being created.

The centrality of jobs for development should not be interpreted as the centrality of labor policies and institutions. Nearly half the people at work in developing countries are farmers or self-employed and so are outside the labor market. And even in the case of wage employment, labor policies and institutions may or may not be the main obstacle to job creation. Often, the most relevant obstacles lie outside of the labor market. The catalysts for job creation may be policies that make cities work better, help farmers access and apply appropriate agricultural techniques, or allow firms to develop new exports. Jobs are the cornerstone of development, and development policies are needed for jobs.

## Jobs wanted

To many, a “job” brings to mind a worker with an employer and a regular paycheck. Yet, the majority of workers in the poorest countries are outside the scope of an employer-employee relationship. Worldwide, more than 3 billion people are working, but their jobs vary greatly. Some 1.65 billion are employed and receive reg-

**1.6** billion people working for  
a wage or a salary

**1.5** billion people working in  
farming and self-employment

**77%** labor force participation  
by women in Vietnam

**28%** labor force participation  
by women in Pakistan

**39%** of the manufacturing jobs  
are in microenterprises  
in Chile

**97%** of the manufacturing jobs  
are in microenterprises  
in Ethiopia

**2X** employment growth  
in a firm in Mexico over 35 years

**10X** employment growth in a firm  
in the United States over 35 years

**115** million children  
working in hazardous conditions

**21** million  
victims of forced labor

**600** million jobs needed over 15 years  
to keep current employment rates

**90** million people  
working abroad

**621** million youth  
neither working nor studying

**22X** the productivity gap between  
manufacturing firms in the 90th and  
10th percentiles in India

**9X** the productivity gap between  
manufacturing firms in the 90th and  
10th percentiles in the United States

**10** million entrants to the labor force  
per year in Sub-Saharan Africa

**30** million postsecondary  
students in China

**3%** international migrants  
as a share of the world population

**60%** foreign-born population in Kuwait,  
Qatar, and the United Arab Emirates

ular wages or salaries. Another 1.5 billion work in farming and small household enterprises, or in casual or seasonal day labor. Meanwhile, 200 million people, a disproportionate share of them youth, are unemployed and actively looking for work. Almost 2 billion working-age adults, the majority of them women, are neither working nor looking for work, but an unknown number of them are eager to have a job. Clarifying what is meant by a job is thus a useful starting point.

The meaning of the words used to describe what people do to earn a living varies across countries and cultures. Some words refer to workers in offices or factories. Others are broader, encompassing farmers, self-employed vendors in cities, and caregivers of children and the elderly. The distinction is not merely semantic. The varied meanings hint at the different aspects of jobs that people value. And views on what a job is almost inevitably influence views on what policies for jobs should look like.

For statisticians, a job is “a set of tasks and duties performed, or meant to be performed, by one person, including for an employer or in self-employment.”<sup>1</sup> Jobs are performed by the employed. These are defined as people who produce goods and services for the market or for their own use. But the statistical definition is mute about what should not be considered a job. International norms view basic human

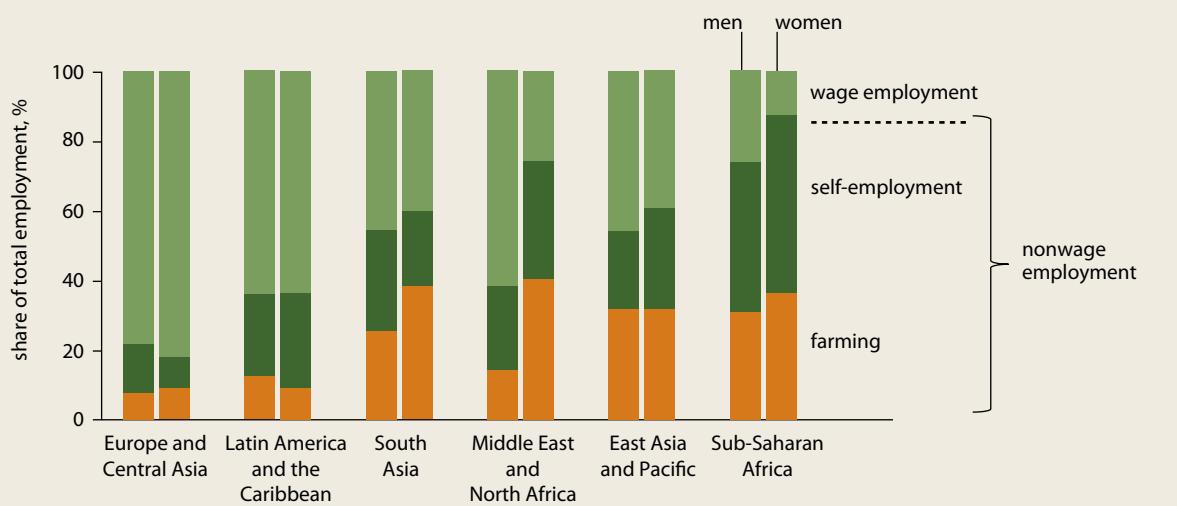
rights as the boundaries of what is unacceptable. Among them are the United Nations Universal Declaration of Human Rights (1948) and the International Labour Organization Declaration on Fundamental Principles and Rights at Work (1998), which further specifies core labor standards. Combining these different perspectives, jobs are activities that generate income, monetary or in kind, without violating human rights.

### Different places, different jobs

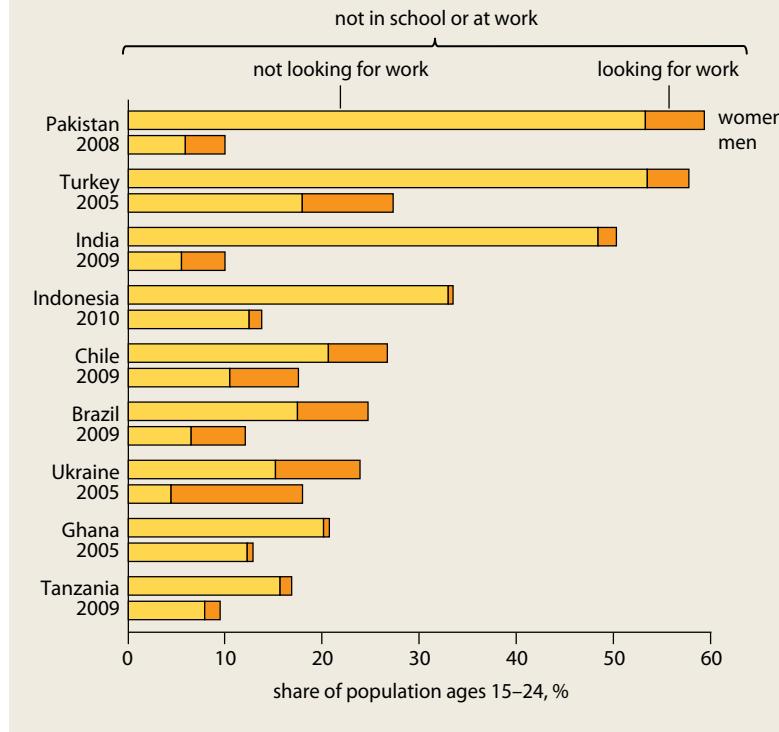
The world of work is particularly diverse in developing countries. This variety refers not only to the number of hours worked and the number of jobs available, the usual yardsticks in industrial countries, but also to the characteristics of jobs. Two main aspects stand out. One is the prevalence of self-employment and farming.<sup>2</sup> The other is the coexistence of traditional and modern modes of production, from subsistence agriculture and low-skilled work to technology-driven manufacturing and services and highly skilled knowledge work.

While nearly half of the jobs in the developing world are outside the labor market, the shares of wage work, farming, and self-employment differ greatly across countries.<sup>3</sup> Nonwage work represents more than 80 percent of women’s employment in Sub-Saharan Africa—but less than

**FIGURE 1** A job does not always come with a wage



**FIGURE 2** Among youth, unemployment is not always the issue



Source: World Development Report 2013 team.

20 percent in Eastern Europe and Central Asia (figure 1).

Work across the developing world is also characterized by a high prevalence of informality, whether defined on the basis of lack of firm registration, lack of social security coverage, or lack of an employment contract. Informal employment is not under the purview of labor regulations, either because of their limited scope or because of deliberate avoidance or evasion. Regardless of the specific definition used, informality is generally associated with lower productivity. However, this does not necessarily mean that formalization would result in greater efficiency. Informality can be a symptom of lower productivity as much as it can be a cause of it.<sup>4</sup>

Gender and age differences are striking. Worldwide, fewer than half of women have jobs, compared with almost four-fifths of men. In Pakistan, 28 percent of women but more than 82 percent of men participate in the labor force, whereas participation rates are above 75 percent

for both men and women in Tanzania and Vietnam. Beyond these stark contrasts in participation, women continue to earn significantly less than men, and the differences are not fully explained by education, experience, or sector of work. While a growing share of youth between ages 15 and 24 allocate most of their time to schooling and training, youth unemployment is still alarming in some countries (above 40 percent in South Africa since early 2008 and above 50 percent in Spain in early 2012).<sup>5</sup> Even in countries where it is low, youth unemployment is twice the national average or more. In addition, 621 million young people are “idle”—not in school or training, not employed, and not looking for work. Rates of idleness vary across countries, ranging between 10 and 50 percent among 15- to 24-year-olds (figure 2).<sup>6</sup> Many youth work in unpaid jobs; if paid, they are less likely to have social insurance.<sup>7</sup>

### The changing world of work

This complex picture is compounded by massive demographic shifts. To keep employment as a share of the working-age population constant, in 2020 there should be around 600 million more jobs than in 2005, a majority of them in Asia and Sub-Saharan Africa. While some countries have experienced very large increases in their labor force—nearly 8 million new entrants a year in China since the mid-1990s and 7 million in India—others face a shrinking population. Ukraine’s labor force, for example, is estimated to fall by about 160,000 people a year.<sup>8</sup>

Rapid urbanization is changing the composition of employment. More than half the population in developing countries is expected to be living in cities and towns before 2020.<sup>9</sup> As a result, the growth of the nonagricultural labor force will vastly exceed the growth of the agricultural labor force. This structural change, which in industrial countries took decades, now transforms lives in developing countries in a generation. Structural change can bring about remarkable improvements in efficiency, and some developing countries have narrowed the productivity gap with industrial countries rapidly. But others have failed to catch up.<sup>10</sup> Overall, the gap between developing and developed regions remains wide.

Globalization is also changing the nature of jobs. Industrial countries are shifting from

primary and traditional manufacturing industries toward services and knowledge-intensive activities.<sup>11</sup> At the same time, technological improvements and outsourcing to developing countries are leading to a decline in medium-skilled jobs.<sup>12</sup> Production tasks have been splintered so that they can be performed in different locations.<sup>13</sup> Transnational companies have built integrated value chains to tap into national skill pools around the world.<sup>14</sup> Outsourcing is occurring in services as well as in manufacturing. The share of developing countries in exports of world services nearly doubled to 21 percent between 1990 and 2008.<sup>15</sup>

Technology is changing the way workers and firms connect, through their access to much larger, even global, employment marketplaces. Some of the new marketplaces operate through the internet; others use mobile phone technology.<sup>16</sup> Part-time and temporary wage employment are now major features of industrial and developing countries. In South Africa, temporary agency workers make up about 7 percent of the labor force; the temporary staffing industry provides employment to an average of 410,000 workers a day. In India, the number of temporary workers that employment agencies recruit grew more than 10 percent in 2009 and 18 percent in 2010.<sup>17</sup>

This changing landscape of global production has also brought about shifts in skill endowments and in the world distribution of top talent. China and India rank high in perceived attractiveness as outsourcing hubs because of their exceptionally high ratings in the availability of skills.<sup>18</sup> India has close to 20 million students in higher education, nearly as many as the United States; both countries are outpaced by China, with 30 million postsecondary students.<sup>19</sup> The United States still accounts for a large share of top scores in international student assessments, but the Republic of Korea has the same share as Germany, and both are closely followed by the Russian Federation. The number of high-performing students in Shanghai alone is one-fifth that of Germany and about twice that of Argentina.<sup>20</sup>

### *The role of the private sector*

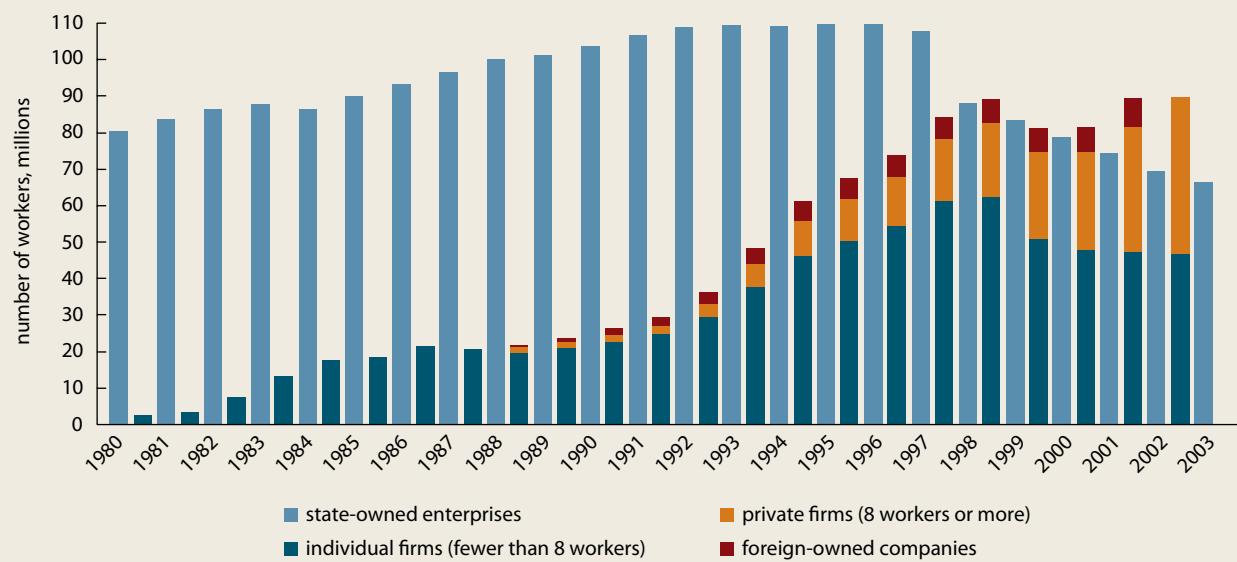
In such rapidly changing times, the private sector is the main engine of job creation and the source of almost 9 of every 10 jobs in the world.

Between 1995 and 2005, the private sector accounted for 90 percent of jobs created in Brazil, and for 95 percent in the Philippines and Turkey.<sup>21</sup> The most remarkable example of the expansion of employment through private sector growth is China. In 1981, private sector employment accounted for 2.3 million workers, while state-owned enterprises (SOEs) had 80 million workers.<sup>22</sup> Twenty years later, the private sector accounted for 74.7 million workers, surpassing, for the first time, the 74.6 million workers in SOEs (figure 3).

In contrast to the global average, in some countries in the Middle East and North Africa, the state is a leading employer, a pattern that can be linked to the political economy of the post-independence period, and in some cases to the abundance of oil revenues.<sup>23</sup> For a long period, public sector jobs were offered to young college graduates. But as the fiscal space for continued expansion in public sector employment shrank, “queuing” for public sector jobs became more prevalent, leading to informality, a devaluation of educational credentials, and forms of social exclusion.<sup>24</sup> A fairly well-educated and young labor force remains unemployed, or underemployed, and labor productivity stagnates.<sup>25</sup>

Overall, countries have been successful at creating jobs. More people have jobs now than ever before, and those jobs provide generally higher earnings. Indeed, amid rapid social and economic change, poverty has declined in developing countries. The share of the population of the developing world living on less than US\$1.25 a day (in purchasing power parity) fell from 52 percent in 1981 to 22 percent in 2008, or from 1.94 billion people to 1.29 billion.<sup>26</sup> This reduction is the result of multiple factors, but the creation of millions of new, more productive jobs, mostly in Asia but also in other parts of the developing world, has been the main driving force.<sup>27</sup>

Jobs are vulnerable to economic downturns, though, much more so in the private sector than the public sector. Short-term crises may wipe out years of progress. They may start in a single country but now, through globalization, spread over entire regions or to the world. The recent financial crisis created 22 million new unemployed in a single year. Growth in total employment, hovering around 1.8 percent a year before 2008, fell to less than 0.5 percent in 2009, and by 2011 had not yet reached its pre-crisis level.<sup>28</sup>

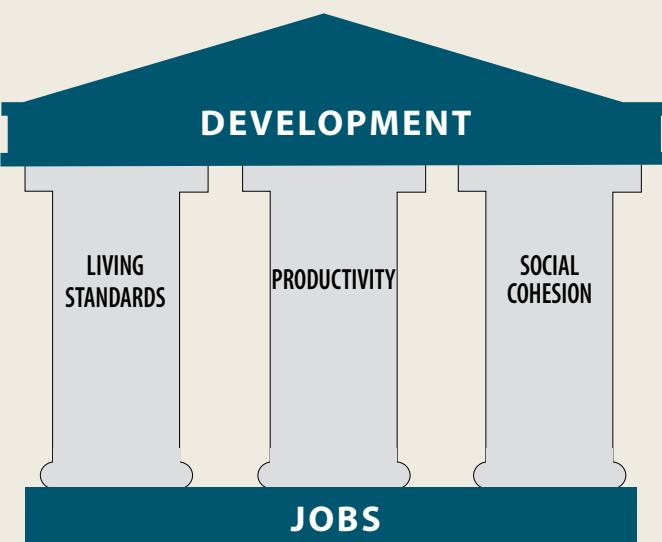
**FIGURE 3** In China, employment growth is led by the private sector

Source: Kanamori and Zhao 2004.

Note: Data for foreign-owned companies in 2002 and for non-state-owned enterprises in 2003 are not available.

Policy responses to prevent and mitigate the impact of crises involve different combinations of instruments, with potentially diverse implications for jobs.<sup>29</sup>

Demography, urbanization, globalization, technology, and macroeconomic crises bring about formidable jobs challenges. Countries that fail to address them may fall into vicious circles of slow growth in labor earnings and job-related dissatisfaction affecting a sizable portion of the labor force.<sup>30</sup> Youth unemployment and idleness may be high, and women may have fewer job opportunities, leaving potential economic and social gains untapped.<sup>31</sup> A repeating pattern of small gains in living standards, slow productivity growth, and eroding social cohesion can set in. In contrast, countries that address these jobs challenges can develop virtuous circles. The results—prosperous populations, a growing middle class, increased productivity, and improved opportunities for women and youth—may then be self-reinforcing.

**FIGURE 4** Jobs are transformational

### Development happens through jobs

Jobs are more than just the earnings and benefits they provide. They are also the output they generate, and part of who we are and how we interact with others in society. Through these outcomes,

Source: World Development Report 2013 team.

jobs can boost living standards, raise productivity, and foster social cohesion (figure 4).

### **Jobs are what we earn**

Jobs are the most important determinant of living standards. For most people, work is the main source of income, especially in the poorest countries. Many families escape or fall into poverty because family members get or lose a job. Opportunities for gainful work, including in farming and self-employment, offer households the means to increase consumption and reduce its variability. Higher yields in agriculture, access to small off-farm activities, the migration of family members to cities, and transitions to wage employment are milestones on the path to prosperity.<sup>32</sup> And as earnings increase, individual choices expand—household members can choose to stay out of the labor force or to work fewer hours and dedicate more time to education, to retirement, or to family.

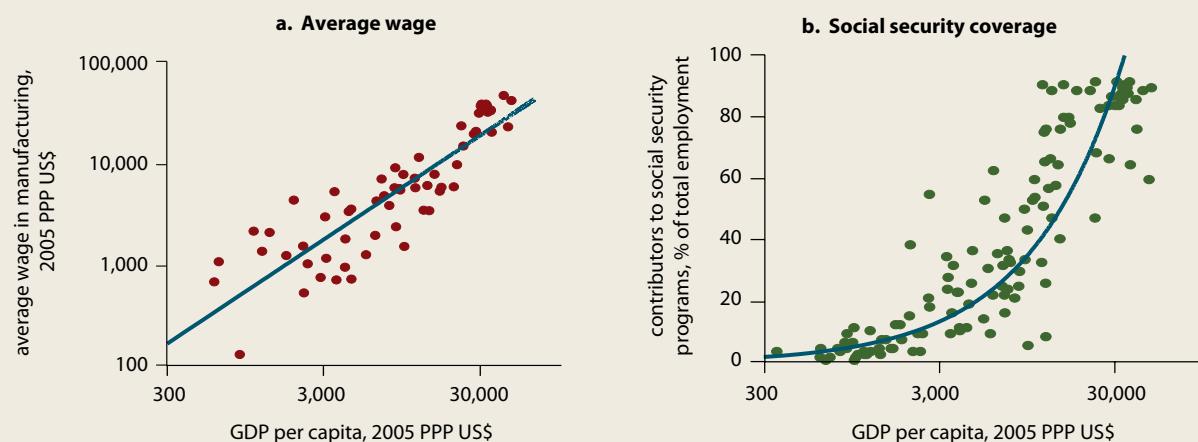
Earnings from work increase with economic development, and the benefits associated with jobs improve as well. The relationship is not mechanical, but growth is clearly good for jobs (figure 5). Admittedly, as economies become more developed, the average skills of jobholders increase, implying that observations across countries are not strictly comparable, as they do

not refer to identical workers. But growth also improves the living standards of workers whose skills have not changed.

More than two decades of research on poverty dynamics, spanning countries as different as Canada, Ecuador, Germany, and South Africa, show that labor-related events trigger exits from poverty.<sup>33</sup> These events range from the head of a household changing jobs to family members starting to work and to working family members earning more. Conversely, a lack of job opportunities reduces the ability of households to improve their well-being.<sup>34</sup> In a large set of qualitative studies in low-income countries, getting jobs and starting businesses were two of the main reasons for people to rise out of poverty.<sup>35</sup>

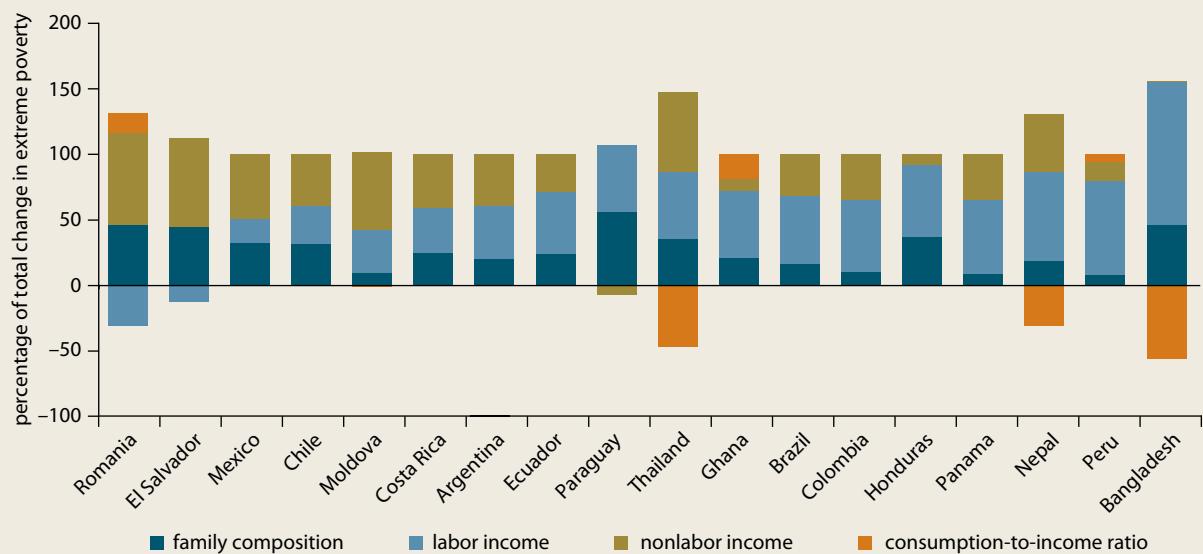
Quantitative analysis confirms that changes in labor earnings are the largest contributor to poverty reduction (figure 6). In 10 of 18 Latin American countries, changes in labor income explain more than half the reduction in poverty, and in another 5 countries, more than a third. In Bangladesh, Peru, and Thailand, changes in education, work experience, and region of residence mattered, but the returns to these characteristics (including labor earnings) mattered most. Just having work was not enough, given that most people work in less developed economies. What made a difference for escaping poverty was increasing the earnings from work.<sup>36</sup>

**FIGURE 5 Jobs provide higher earnings and benefits as countries grow**



Source: World Development Report 2013 team.

Note: GDP = gross domestic product; PPP = purchasing power parity. Each dot represents a country.

**FIGURE 6** *Jobs account for much of the decline in extreme poverty*

Sources: Azevedo and others 2012; Inchauste and others 2012; both for the World Development Report 2013.

Note: *Family composition* indicates the change in the share of adults (ages 18 and older) within the household. *Labor income* refers to the change in employment and earnings for each adult. *Nonlabor income* refers to changes in other sources of income such as transfers, pensions, and imputed housing rents. If a bar is located below the horizontal axis, it means that that source would have increased, instead of decreased, poverty. The changes are computed for Argentina (2000–10); Bangladesh (2000–10); Brazil (2001–09); Chile (2000–09); Colombia (2002–10); Costa Rica (2000–08); Ecuador (2003–10); El Salvador (2000–09); Ghana (1998–2005); Honduras (1999–2009); Mexico (2000–10); Moldova (2001–10); Panama (2001–09); Paraguay (1999–2010); Peru (2002–10); Nepal (1996–2003); Romania (2001–09); and Thailand (2000–09). The changes for Bangladesh, Ghana, Moldova, Nepal, Peru, Romania, and Thailand are computed using consumption-based measures of poverty, while the changes for the other countries are based on income measures.

Beyond their fundamental and immediate contribution to earnings, jobs also affect other dimensions of well-being, including mental and physical health. Not having a job undermines life satisfaction, especially in countries where wage employment is the norm and where the lack of opportunities translates into open unemployment rather than underemployment. Among those employed, the material, nonmaterial, and even subjective characteristics of jobs can all have an impact on well-being.<sup>37</sup> Other features such as workplace safety, job security, learning and advancement opportunities, and health and social protection benefits are valued by workers. But relatively few jobs offer these advantages in developing countries.

### *Jobs are what we do*

Economic growth happens as jobs become more productive, but also as more productive jobs

are created and less productive jobs disappear. These gains may ultimately be driven by new goods, new methods of production and transportation, and new markets, but they materialize through a constant restructuring and reallocation of resources, including labor.<sup>38</sup> Net job creation figures hide much larger processes of gross job creation and gross job destruction. On average across developing countries, between 7 and 20 percent of jobs in manufacturing are created within a year, but a similar proportion disappear (figure 7).<sup>39</sup>

Because economies grow as high-productivity jobs are created and low-productivity jobs disappear, the relationship between productivity gains and job creation is not mechanical. In the medium term, employment trends align closely with trends in the size of the labor force, so growth is truly jobless in very few cases. In the short term, however, innovations can be associated with either increases or decreases in em-

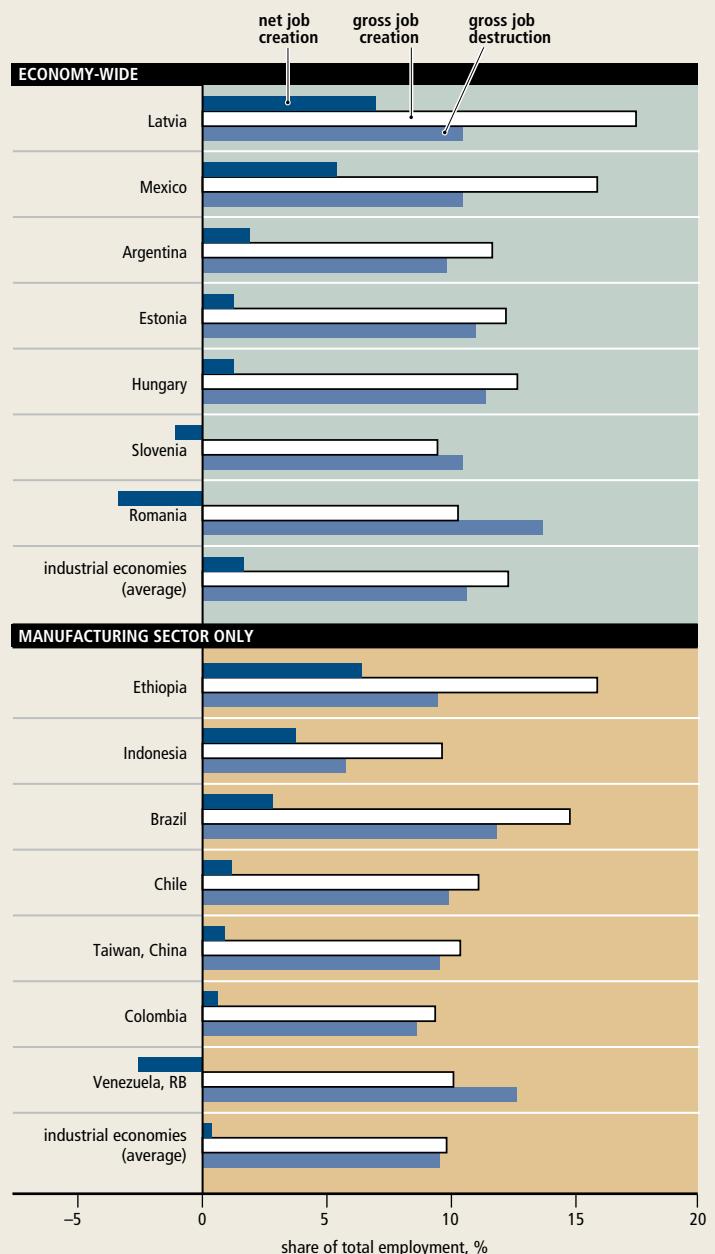
ployment.<sup>40</sup> The popular perception is that productivity grows through downsizing, but some firms are able to achieve both productivity and employment gains.<sup>41</sup> In Chile, Ethiopia, and Romania, successful “upsizers” contributed to output and employment growth substantively; sometimes they are more numerous than the successful “downsizers.”<sup>42</sup> And the combination of private sector vibrancy and state sector restructuring led to rapid output and employment growth in transition economies and in China in the late 1990s and the early 2000s.<sup>43</sup>

Successful upsizers tend to be younger, leaner, and more innovative.<sup>44</sup> But overall, large firms are both more innovative and more productive. They invest more in machinery. They are much more likely than small firms to develop new product lines, to introduce new technology, to open and close plants, to outsource, and to engage in joint ventures with foreign partners.<sup>45</sup> These firms produce more with a given amount of labor, and export more as well. They also pay substantively higher wages than micro- and small enterprises (figure 8). In developing countries, however, many people work in very small and not necessarily very dynamic economic units.

Family farms dominate in agriculture. At 1.8 and 1.2 hectares, respectively, average farm size is small in Sub-Saharan Africa, and especially in Asia.<sup>46</sup> The Green Revolution has led to both higher cereal yields and more job creation because the new technologies are labor intensive. But progress has been uneven across regions and has not taken place on a large scale in Sub-Saharan Africa. More mechanized farms have higher productivity, but constraints in land markets usually slow mechanization; without it, yields per hectare tend to be higher on smaller farms.

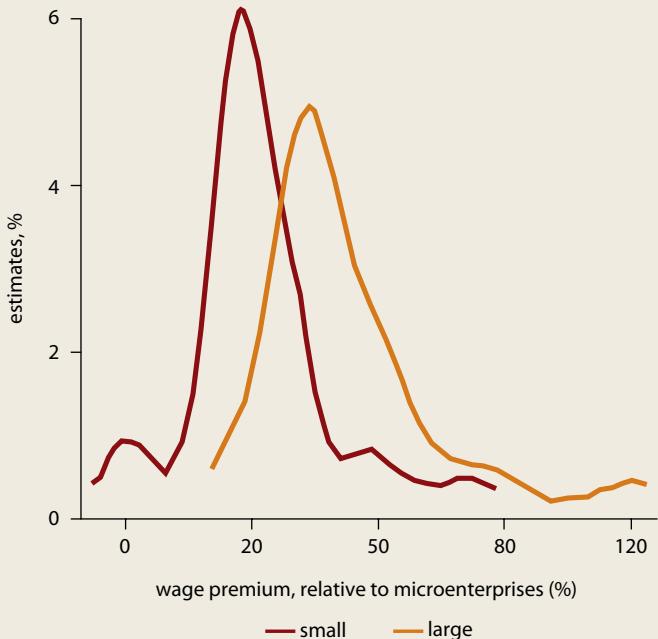
Outside agriculture there are massive numbers of microenterprises and household businesses (figure 9). These small units play significant roles in job creation, even in high-middle-income countries. They account for 97 percent of employment in the manufacturing sector in Ethiopia, but still for a sizable 39 percent in Chile. In the services sector, their role is often more important. Even in Eastern European countries, where the private sector is only two decades old, microenterprises are the source of 10 to 20 percent of employment in manufac-

**FIGURE 7** Simultaneous job creation and destruction characterize all economies



Sources: World Development Report 2013 team estimates based on Bartelsman, Haltiwanger, and Scarpetta 2009b and Shiferaw and Bedi 2010.

Note: The figure shows annual job flows. Data are from Argentina (1996–2001); Brazil (1997–2000); Canada (1984–97); Chile (1980–98); Colombia (1983–97); Estonia (1996–2000); Ethiopia (1997–2007); Finland (1989–97); France (1989–97); Germany (1977–99); Hungary (1993–2000); Indonesia (1991–94); Italy (1987–94); Latvia (1983–98); Mexico (1986–2000); the Netherlands (1993–95); Portugal (1983–98); Romania (1993–2000); Slovenia (1991–2000); Taiwan, China (1986–91); the United Kingdom (1982–98); the United States (1986–91, 1994–96); and República Bolivariana de Venezuela (1996–98).

**FIGURE 8** Larger firms pay higher wages

Source: Montenegro and Patrinos 2012 for the World Development Report 2013.

Note: The figure uses 138 household and labor force surveys spanning 33 countries over 1991–2010. The horizontal axis reports the estimated wage premium of small firms (10 to 50 workers) and large firms (more than 50 workers) relative to microenterprises, controlling for worker characteristics.

ing and 30 to 50 percent of employment in services. The large numbers of economic units are associated with a very wide dispersion of total factor productivity. In India, even within narrowly defined sectors, a manufacturing plant at the 10th percentile of the distribution generates 22 times less output than a plant in the 90th percentile would produce with the same inputs. This pattern is similar in a number of Latin American countries. By comparison, the ratio is 1 to 9 in the United States.<sup>47</sup>

While microenterprises have lackluster performance as a group, they are also very diverse. Microenterprises and household businesses are a means of survival for the poor and a way of diversifying out of farming activities. On average, their owners do not earn much.<sup>48</sup> But in middle-income countries, many among the owners of micro- and small enterprises are as entrepreneurial as their peers in industrial countries. Their weak performance may be due to an adverse investment environment—for example, limited access to credit.<sup>49</sup> Yet a small number of micro-

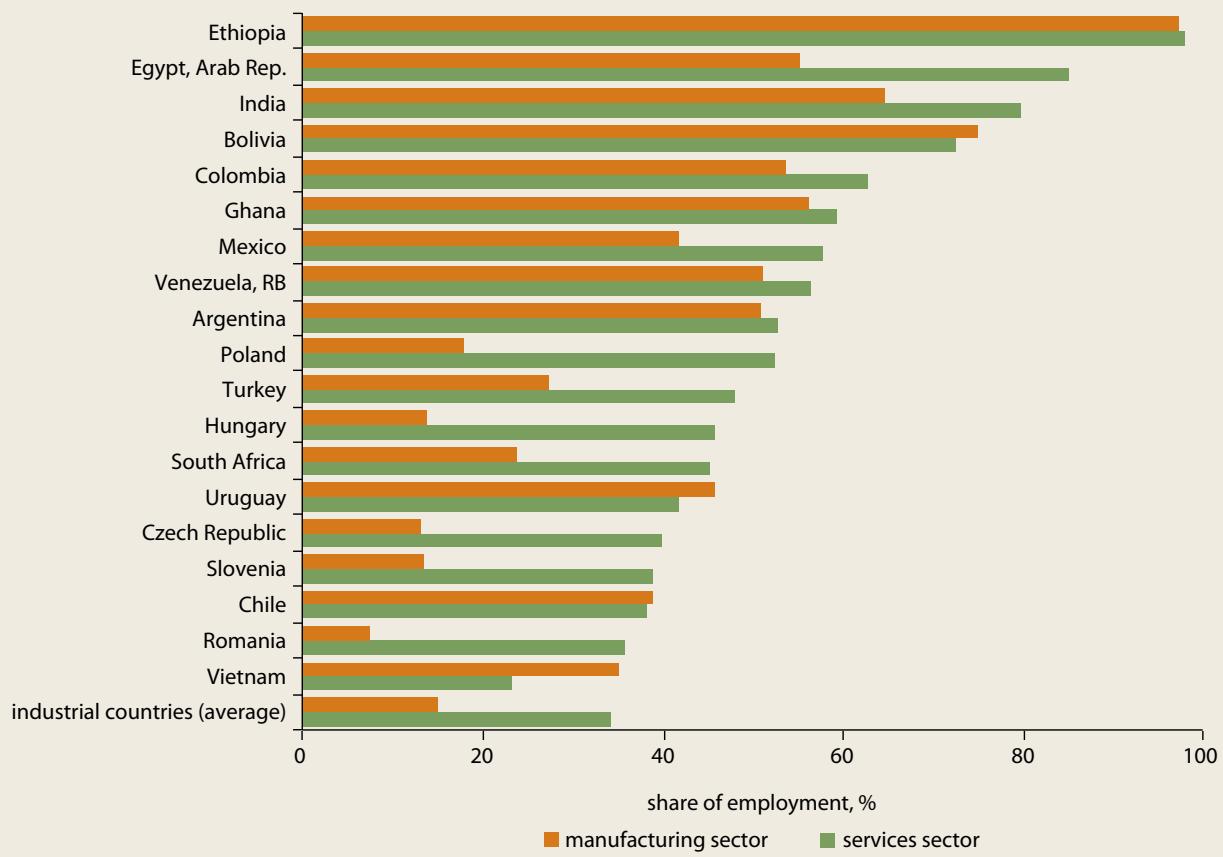
enterprises, the gazelles, invest and earn higher returns.<sup>50</sup>

While large firms are more productive, they were not all born large. In industrial countries, some of the more resounding successes, from Honda to Microsoft, started in garages. Many successful companies in developing countries also grew out of small household businesses. Thailand's Charoen Pokphand Group, founded in 1921 as a small seed shop in Bangkok by two brothers, has grown into one of the largest multinational conglomerates in agribusiness, operating in 15 countries and encompassing close to 100 companies. India's Tata Group transformed from a Mumbai-based family-owned trading firm in the late 19th century to a multinational conglomerate, comprising 114 companies and subsidiaries across eight business sectors on several continents. Many of China's successful clusters, such as the footwear industry in Wenzhou, also started from small family businesses working close to each other.<sup>51</sup>

Unfortunately, in many developing countries, larger and older firms tend to be stagnant while smaller and younger enterprises are prone to churning. A vibrant dynamic process is usually absent. In Ghana, many firms were born large and showed little growth over 15 years; in Portugal, by contrast, many firms born as microenterprises grew substantially.<sup>52</sup> The majority of firms in India is also born small, but they tend to stay small, without displaying much variation in employment over their life cycle. A revealing comparison involves the size of 35-year old firms relative to their size at birth. In India, the size declines by a fourth; in Mexico, it doubles. In the United States, it becomes 10 times bigger.<sup>53</sup> The potential gains from greater entrepreneurial vibrancy, and from a more substantial reallocation of labor from low- to high-productivity units, are sizable.<sup>54</sup> But helping those gains materialize is a daunting task.

### Jobs are who we are

Having, or not having, a job can shape how people view themselves and relate to others. While some jobs can be empowering, in extreme cases a lack of job opportunities can contribute to violence or social unrest. Youth may turn to gangs to compensate for the absence of identity and belonging that a job might provide. In Ecua-

**FIGURE 9** *The employment share of microenterprises is greater in developing countries*

Sources: World Development Report 2013 team estimates and EUROSTAT.

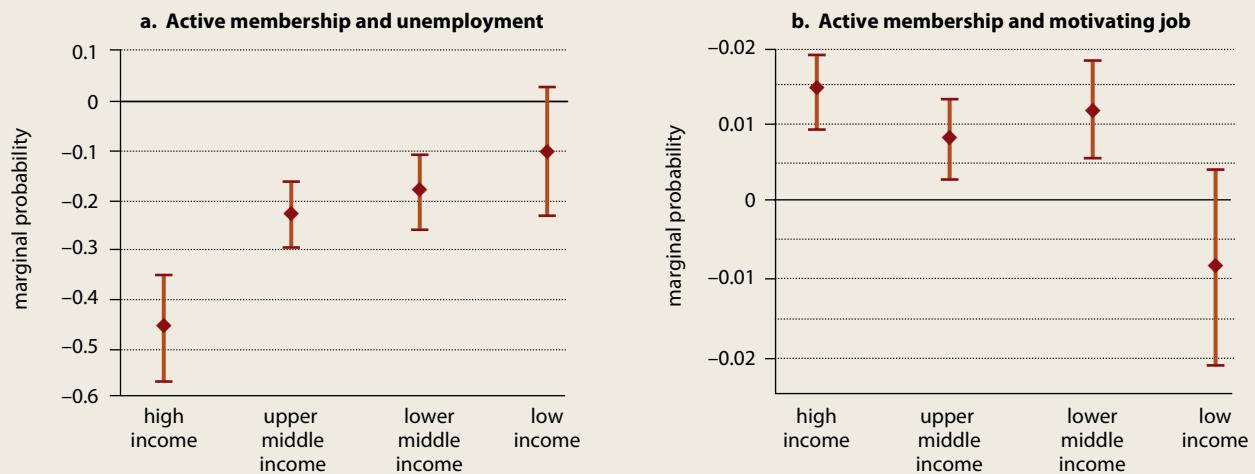
Note: Microenterprises are firms, formal or informal, with fewer than 10 workers. Data for developing countries are from Argentina (2006–10), Bolivia (2005, 2007), Chile (2006, 2009), Colombia (2009), the Czech Republic (2005–07), the Arab Republic of Egypt (2006), Ethiopia (1999), Ghana (1991), Hungary (2007–08), India (2004, 2009), Mexico (2004–10), Poland (2005–07), Romania (2005–07), Slovenia (2005–07), South Africa (2005–07), Turkey (2006–10), Uruguay (2009), República Bolivariana de Venezuela (2004–06), and Vietnam (2009). Data for industrial countries are from Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, and the United Kingdom over 2005–07.

dor, for instance, they did so “because they were searching for the support, trust, and cohesion—social capital—that they maintained their families did not provide, as well as because of the lack of opportunities in the local context.”<sup>55</sup>

The workplace can be a place to encounter new ideas and interact with people of different genders or ethnicities. Bosnians interviewed in the late 1990s commented that “the area in which there is the greatest support for ethnic co-operation is in the workplace.”<sup>56</sup> Business people in Trinidad and Tobago reported that they interacted with people of a wider range of ethnicities at work than they did in their social lives.<sup>57</sup> Networks can also exclude. In Morocco, people

whose fathers did not have formal sector jobs were significantly less likely to have such jobs themselves.<sup>58</sup>

The distribution of jobs within society—and perceptions about who has access to opportunities and why—can shape expectations for the future and perceptions of fairness. Children’s aspirations may be influenced by whether their parents have jobs and the types of jobs they have. The Arab Spring was not merely about employment. But disappointment, especially among youth, about the lack of job opportunities and frustration with the allocation of jobs based on connections rather than merit echoed across countries.

**FIGURE 10** *People who are unemployed, or do not have motivating jobs, participate less in society*

Source: Wietzke and McLeod 2012 for the World Development Report 2013.

Note: The vertical axis shows the probability of the respondent being an active member of one or more of nine types of associations, controlling for the income, education, and demographic characteristics of respondents. In panel a, the probability is linked to being unemployed, and panel b to having a job characterized as cognitive, creative, or independent. The vertical lines indicate the 95 percent confidence interval of the estimated probability.

Jobs influence how people view themselves, how they interact with others, and how they perceive their stake in society.<sup>59</sup> Jobs also can have collective consequences. They can shape how societies handle collective decision making, manage tensions between diverse groups, and avoid and resolve conflicts. The relationship is not immediate or direct, however. Jobs are only one factor contributing to the capacity of societies to manage collective decision making peacefully. And social cohesion can in turn influence jobs by shaping the context in which entrepreneurs make business decisions.

Trust beyond one's own group and civic engagement are two indicators of social cohesion. Unemployment and job loss are associated with lower levels of both trust and civic engagement (figure 10). While causality is difficult to establish, there is more than just a correlation at stake. Indonesian men and women who were working in 2000 but not in 2007 were less likely to be participating in community activities than those still at work. And those who were working in 2007 but not in 2000 were significantly more likely to be involved in the community than those who were still out of work.<sup>60</sup>

The nature of jobs matters as well. Jobs that empower, build agency, and respect rights are associated with greater trust and willingness to participate in civil society. Jobs that create economic and social ties may build incentives to work across boundaries and resolve conflict. And if people believe that job opportunities are available to them either now or in the future, their trust in others and their confidence in institutions may increase. Ultimately, jobs can influence social cohesion through their effects on social identity, networks, and fairness.

## Valuing jobs

Not all forms of work are acceptable. Activities that exploit workers, expose them to dangerous environments, or threaten their physical and mental well-being are bad for individuals and societies alike. Child prostitution and forced labor contravene principles of human dignity and undermine individual and collective well-being. Today, an estimated 21 million people globally are victims of bonded labor, slavery, forced prostitution, and other forms of involuntary work.<sup>61</sup>

In 2008, 115 million children between the ages of 5 and 17 were involved in hazardous work.<sup>62</sup> International norms of human rights and labor standards reject forced labor, harmful forms of child labor, discrimination, and the suppression of voice among workers.

Beyond rights, the most obvious outcome of a job is the earnings it provides to its holder. These earnings can be in cash or in kind and may include a range of associated benefits. Other characteristics, such as stability, voice, and fulfillment at work, also affect subjective well-being. Several of these dimensions of jobs have been combined into the concept of Decent Work, introduced by the International Labour Organization (ILO) in 1999.<sup>63</sup> Defined as “opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity,” this concept has been used by many governments to articulate their policy agendas on jobs. The concept of Decent Work has also been embraced by the United Nations and several international organizations and endorsed by numerous global forums.

As jobs provide earnings, generate output, and influence identity, they shape the well-being of those who hold them—and they also affect the well-being of others. To understand how much jobs contribute to development, it is necessary to assess these effects—the spillovers from jobs. Jobs that generate positive spillovers have a greater value to society than they have to the individual who holds the job, while the opposite is true when spillovers are negative. Intuitively, many people have notions about such broader payoffs. When asked about their most preferred jobs, respondents in China, Colombia, Egypt, and Sierra Leone give different answers from those they offer when asked to identify the most important jobs to society (figure 11). Working as a civil servant or as a shop owner is generally preferred by individuals, while teachers and doctors are quite often mentioned as the most important jobs for society.

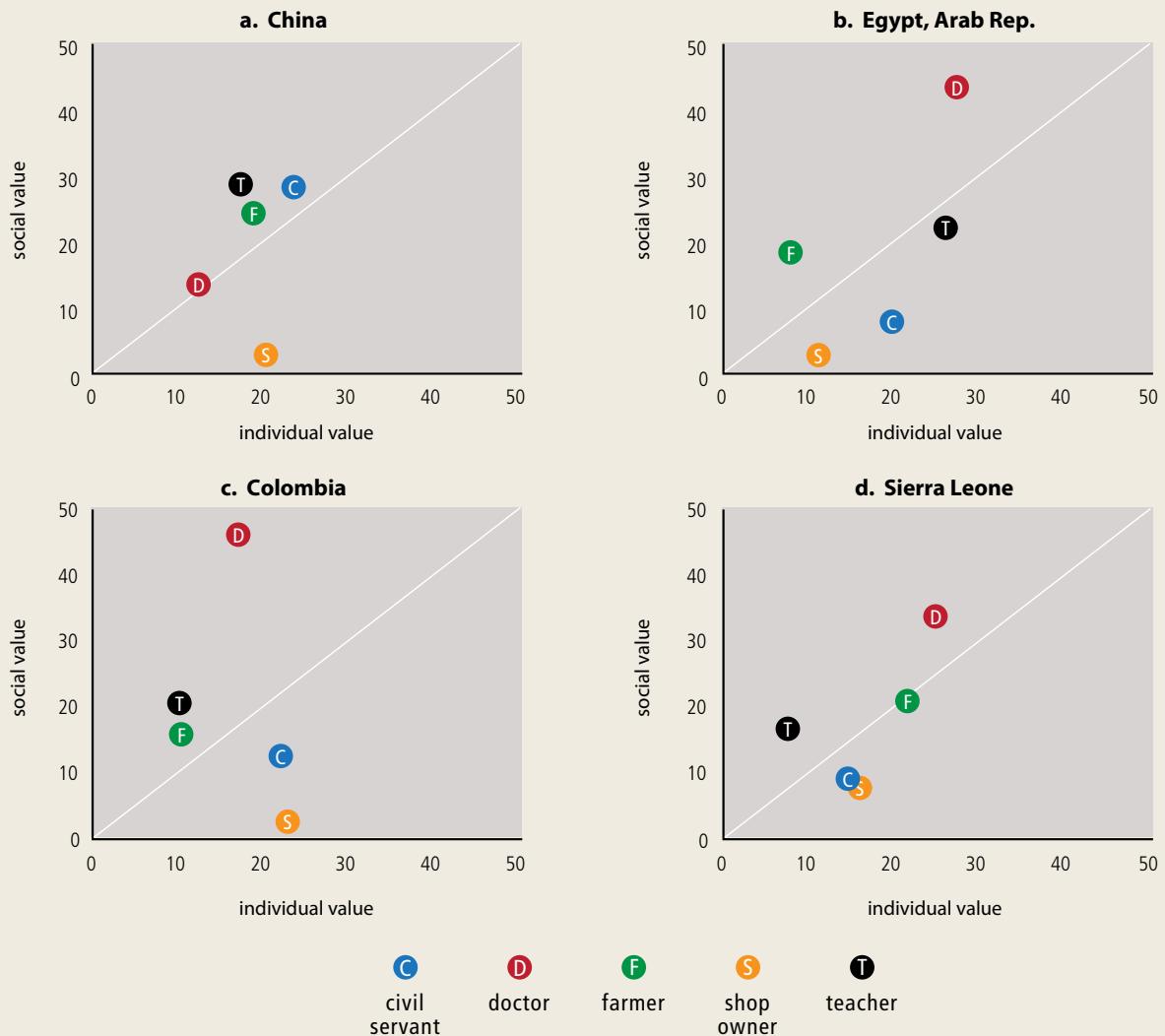
Who gets a job makes a difference too, and not just for individuals. In a society that values poverty reduction, jobs that take households out of hardship generate a positive spillover, because they improve the well-being of those who care. Female employment also matters beyond the individual. An increase in the share of

household income contributed by women often results in improvements in children’s educational attainment and health. In Bangladesh, where the garment industry employs women in large numbers, the opening of a garment factory within commuting distance of a village is seen as a signal of opportunity and leads to increased schooling for girls.<sup>64</sup> Among disadvantaged castes in Southern Indian villages, an increase of US\$90 in a woman’s annual income is estimated to increase schooling among her children by 1.6 years.<sup>65</sup>

Similarly, a job created or sustained through foreign direct investment (FDI) matters for other jobs, and thus for other people. With the investment come knowledge and know-how. These raise productivity not only in the foreign subsidiary but also among local firms interacting with the subsidiary or operating in its vicinity. Such knowledge spillovers are sizable in low- and middle-income countries.<sup>66</sup> Conversely, a job in a protected industry that needs to be supported through transfers (either by taxpayers or by consumers) generates a negative spillover, even more so when the need for protection is associated with the use of outdated technology that results in high environmental costs.

Jobs can also affect other people by shaping social values and norms, influencing how groups coexist and manage tensions. In Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia, surveys found that the number of people willing to work together or do business with someone of a different ethnicity was greater than the number of people in favor of interethnic cooperation in schools or neighborhoods.<sup>67</sup> And in the Dominican Republic, a program targeted to youth at risk shows that jobs can change behaviors with positive implications for society. Participation in the Programa Juventud y Empleo (Youth and Employment Program), which provides a combination of vocational and life skills training, reduced involvement in gangs, violence, and other risky behaviors.<sup>68</sup>

For the same level of earnings and benefits, the larger the positive spillovers from a job, the more transformational the job can be, and the greater its value to society. In everyday parlance, good jobs are those that provide greater well-being to the people who hold them. But good jobs for development are those with the highest value for society. Understanding these wider

**FIGURE 11** Views on preferred jobs and most important jobs differ

Sources: Bjørkhaug and others 2012; Hatløy and others 2012; Kebede and others 2012; and Zhang and others 2012; all for the World Development Report 2013.

Note: The figure shows the share of respondents who would want the job for themselves (individual value) and those who think the job is good for society (social value).

payoffs to jobs has shaped recent development thinking.<sup>69</sup>

Spillovers from jobs can be identified across all three transformations (figure 12). Some directly affect the earnings of others, as when a job is supported through government transfers, or restrictive regulations that reduce employment opportunities for others. Other spillovers take place through interactions: in households in the case of gender equality, at the workplace when knowledge and ideas are shared, or in society more broadly in the case of networks. Spillovers also occur when jobs and their allocation con-

tribute to common goals, such as poverty reduction, environmental protection, or fairness.

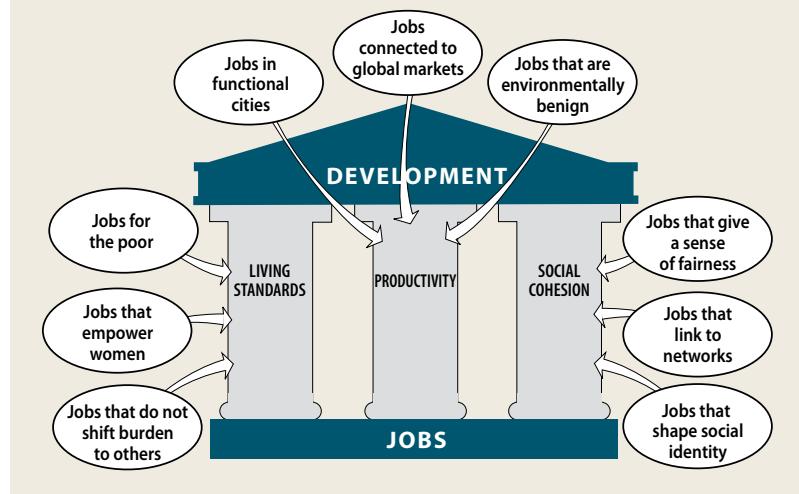
Because a job can affect the well-being of others as well as that of the jobholder, two jobs that may appear identical from an individual perspective could be different from a social perspective (figure 13). The individual perspective provides a useful starting point, because it often coincides with the social perspective. A high-paying job in Bangalore's information technology sector is probably good for the worker; it is also good for India because it contributes to the country's long-term growth. In other cases, the

two perspectives may conflict. For instance, Vietnam's poverty rate declined with unprecedented speed in the 1990s when land was redistributed to farmers and agricultural commercialization was liberalized.<sup>70</sup> From the individual perspective, farming jobs involve difficult working conditions, substantial variability in earnings, and no formal social protection. But they can make a major contribution to development, as a ticket out of poverty for many. Conversely, bloated public utilities often offer a range of privileges to their employees even if the utilities themselves provide only limited coverage and unreliable services and are obstacles to economic growth and poverty reduction. Such jobs may look appealing from an individual perspective, but are less so to society.

### Jobs agendas are diverse ... but connected

Jobs challenges are not the same everywhere. Creating more jobs may be a universal goal, but the types of jobs that can contribute the most to development depend on the country context. Jobs that connect the economy to the world may matter the most in some situations; in others,

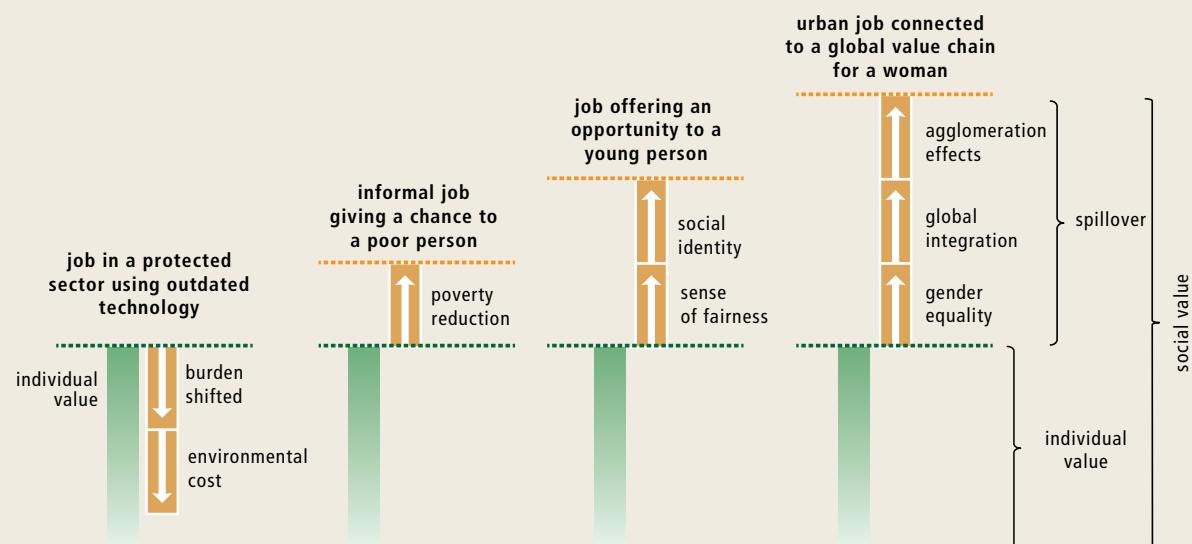
**FIGURE 12** Some jobs do more for development



Source: World Development Report 2013 team.

the biggest payoff may be for jobs that reduce poverty or defuse conflict. Certainly, the level of development matters. The jobs agenda is not the same in an agrarian economy as in one that is rapidly urbanizing. It is bound to be different still in countries already grappling with how far the formal economy can be extended.

**FIGURE 13** The individual and social values of jobs can differ



Source: World Development Report 2013 team.

But the nature of good jobs for development in a particular context is not simply a function of income per capita. It may be influenced by conflict that is ongoing or still reverberating. A country's geography or its natural endowments can also be determining factors. Small island nations have unique jobs challenges, as do resource-rich economies. Or demography may be the key characteristic—witness the imposing but very different challenges in countries facing high youth unemployment and those with aging populations.

### *A typology of jobs challenges*

A country's level of development, institutional strength, endowments, and demography define where the development payoff from jobs is greatest. The jobs agenda in one country will thus be different from that in another country, depending on their dominant features. The challenges facing countries as they move along the development path are illustrated by the agrarian, urbanizing, and formalizing cases:

- *Agrarian countries.* Most people are still engaged in agriculture and live in rural areas. Jobs that improve living standards have a substantial development payoff because of high poverty rates. Cities need to be more functional to reap the benefits from agglomeration and global integration, so jobs that set the foundation for cities to eventually become economically dynamic are good jobs for development. Even in the most optimistic scenario, however, it may take decades before urbanization is complete, so increasing productivity in agriculture is a priority.
- *Urbanizing countries.* Productivity growth in agriculture has risen enough to free up large numbers of people to work in cities. Job opportunities for women, typically in light manufacturing, can have positive impacts on the household allocation of resources. Jobs that deepen the global integration of urbanizing countries, especially in higher-value-added export sectors, are also good for development. As countries urbanize, congestion, pollution, and other costs of high density become increasingly serious, so

jobs that do no environmental damage have particularly positive development impacts.

- *Formalizing countries.* Large and growing urban populations generally lead to more developed economies, where a fairly substantial proportion of firms and workers are covered by formal institutions and social programs. But further increasing formality to levels typical of industrial countries involves tradeoffs between living standards, productivity, and social cohesion. There is a premium on jobs that can be formalized without making labor too costly and on jobs that reduce the divide between those who benefit from formal institutions and those who do not.

In some countries, the jobs challenge is shaped by demography and special circumstances affecting particular groups.

- In *countries with high youth unemployment* young people do not see opportunities for the future. Many of these countries have large youth bulges, which can put downward pressure on employment and earnings. Many also have education and training systems that are not developing the kinds of skills needed by the private sector. On closer inspection, the problem is often more on the demand side than the supply side, with limited competition reducing employment opportunities, especially in more skill-intensive sectors. In these settings, removing privilege in business entry and access to jobs is likely to have large development payoffs.
- *Aging societies* also face generational issues, but these stem from a shrinking working-age population and the high cost of providing and caring for a growing number of elderly people. The impact of the declining working-age population can be mitigated through policies for active aging, ensuring that the most productive members of society, including the highly skilled elderly, can work. Containing the increase in pension, health care, and long-term care costs can be achieved through reforms in program design, but these reforms can be a source of social strain.

Natural endowments, including geography, and institutions can create unique jobs challenges.

- *Resource-rich countries* may have substantial foreign exchange earnings, but this wealth may not translate into employment creation beyond the exploitation of natural resources. Indeed, the abundance of foreign exchange can hamper the competitiveness of other export activities. Some resource-rich countries distribute part of their wealth through transfers or subsidized public sector jobs, while relying on migrants to do menial work. This approach can maintain living standards but at the expense of productivity growth and social cohesion. In those countries, jobs that support the diversification of exports can have large development payoffs.
- *Small island nations*, because of their size and remoteness, cannot reap the benefits from agglomeration and global integration except through tourism. So the productivity spillovers from jobs are limited, as are employment opportunities outside basic services and government. Outmigration offers an alternative for improving living standards, while return migration and diaspora communities can stimulate the diffusion of new business ideas among locals.
- In *conflict-affected countries*, the most immediate challenge is to support social cohesion. Employment for ex-combatants or young men vulnerable to participation in violence takes on particular importance. With fragile institutions and volatile politics, attracting private investment and connecting to global value chains may be out of reach for quite some time. Yet construction can boom even in poor business environments, and it is labor intensive. Investments in infrastructure can not only support social cohesion through their direct employment impact, they can also be a step in preparing for future private sector job creation.

These criteria are not mutually exclusive. Chad and the Democratic Republic of Congo are both resource rich and conflict affected; Jordan and Armenia are formalizing and also have high youth unemployment. Still, looking through the jobs lens and focusing on the key features of the different country types can help identify more clearly the kinds of jobs

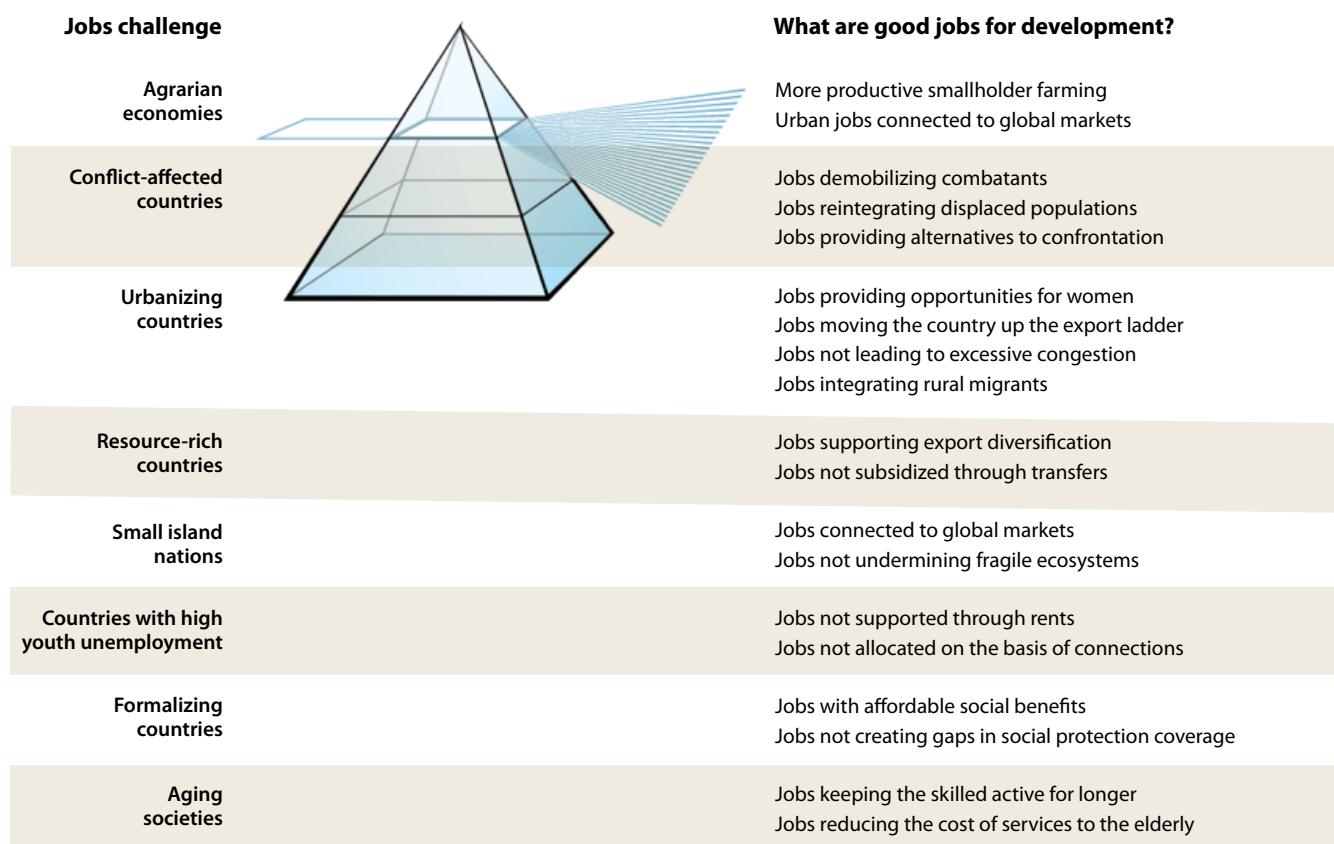
that would make the greatest contribution to development in each case. This focus allows for a richer analysis of the potential tradeoffs between living standards, productivity, and social cohesion in a specific context. It provides clues about the obstacles to job creation and, ultimately, the priorities for policy makers (figure 14).

### *Migration of people—and of jobs*

The movement of people and jobs implies that jobs challenges, while being country specific, also have a global scope. These processes have implications for living standards and productivity at both the sending and the receiving ends, and they can transform families and entire communities, for better or for worse. Tradeoffs are inevitable, and coping with them only through the policies of receiving countries alone may prove unsatisfactory.

At the turn of the 21st century, there were more than 200 million international migrants worldwide, nearly 90 million of them workers. Many migrants are temporary or seasonal workers who eventually return home. Some countries are mainly recipients, while others are sources, and yet others neither host nor send significant numbers of migrants (map 1). Some are large recipients either in absolute numbers (for instance, the United States) or in relative terms (Jordan and Singapore). Migrants from Bangladesh, Mexico, and India represent a large share of total migrants worldwide; Fiji, Jamaica, and Tonga have a large share of their population overseas. Figures for some of the smaller countries are striking. For instance, about a fifth of all Salvadorians live abroad, while more than 60 percent of the populations of Kuwait, Qatar, and the United Arab Emirates are foreign-born.<sup>71</sup>

International migration increases the incomes of migrants and their families through earnings and remittances. The majority of the studies find either no effect or a very small negative effect on the labor earnings of locals in receiving countries. Migrants also contribute to global output if their productivity abroad is higher than it would be at home, which is usually the case. They may even contribute to output in the sending country, as networks of migrants and returnees channel investments, innovation,

**FIGURE 14** Good jobs for development are not the same everywhere

Source: World Development Report 2013 team.

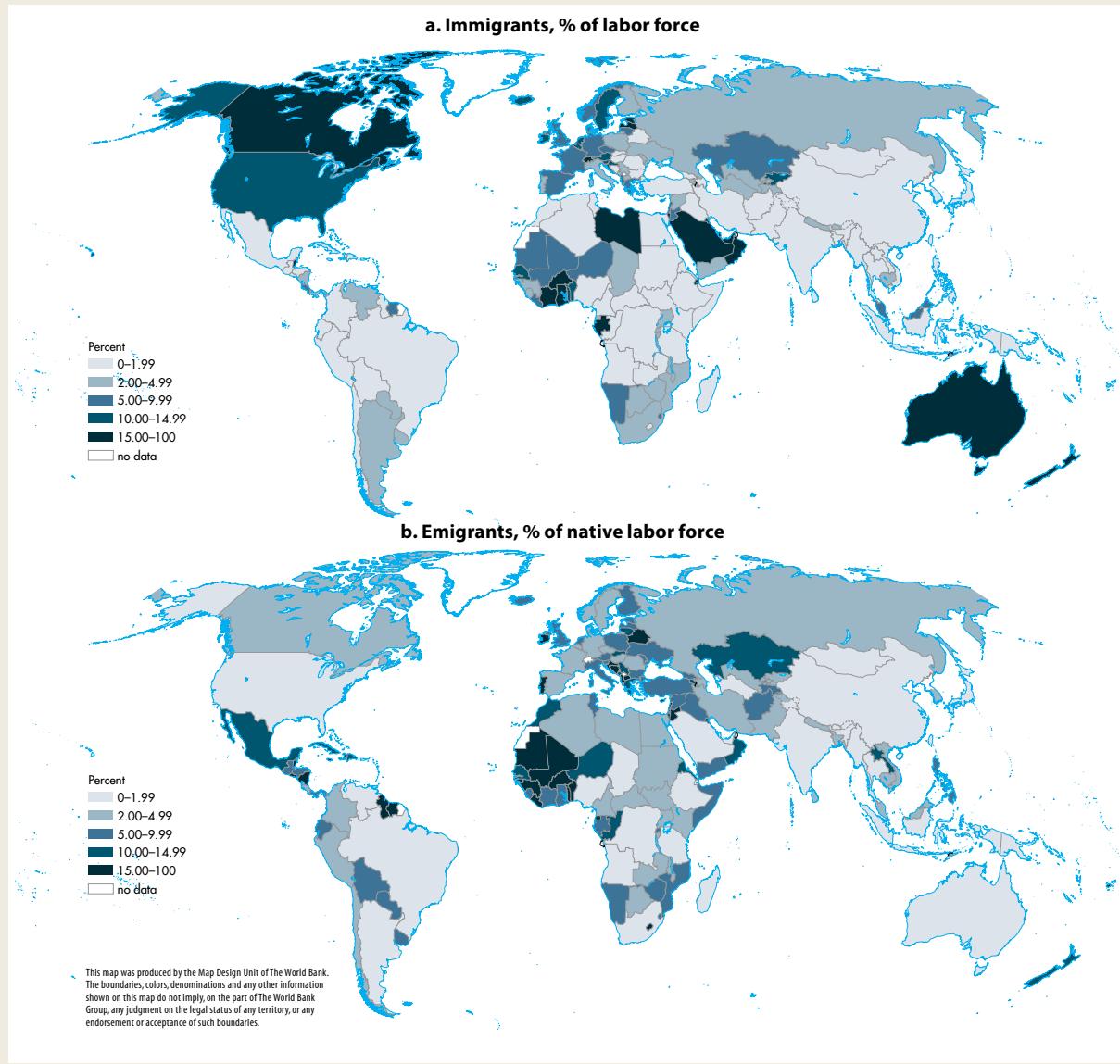
and expertise. Social effects are more mixed. On the positive side, migration connects people from different cultures in ways bound to widen their horizons. On the negative side, the separation from family and friends can be a source of distress and isolation. Migration may also bring racial prejudice and heighten social tensions in host countries, especially when migrants are secluded in segregated occupations or neighborhoods, preventing their integration in society.

Jobs are on the move as well. The past four decades have been marked by the outsourcing of manufacturing tasks from industrial countries to the developing world, especially to East Asia (figure 15). More recently, the same pattern is observable for service tasks. In fact, services are the fastest-growing component of global trade. Developing countries are now exporting not only traditional services, such as transportation and tourism, but also modern and skill-intensive services, such as financial intermediation,

computer and information services, legal and technical support, and other business services. India was the pioneer, but other countries—Brazil, Chile, China, and Malaysia, to name a few—have also seized the opportunity.<sup>72</sup>

The obvious winners of job migration are the workers and entrepreneurs in countries to which industries and splintered service jobs have migrated. This migration, along with the transfer of new technologies and advanced management methods, contributes to productivity growth and higher living standards. The hidden winners of job migration are consumers worldwide. The improved international division of labor increases the availability of goods and services and enhances the possibility of gaining from trade. The clear losers are those who have seen their jobs disappear because of the declining competitiveness of their industries and services. Among the losers, many skilled workers find comparable jobs without a substantial loss in salary, but oth-

**MAP 1** Only in some countries are migrants a substantial share of the population



Sources: World Development Report 2013 team based on Özden and others 2011, and Artuc and others 2012, using census data around 2000.

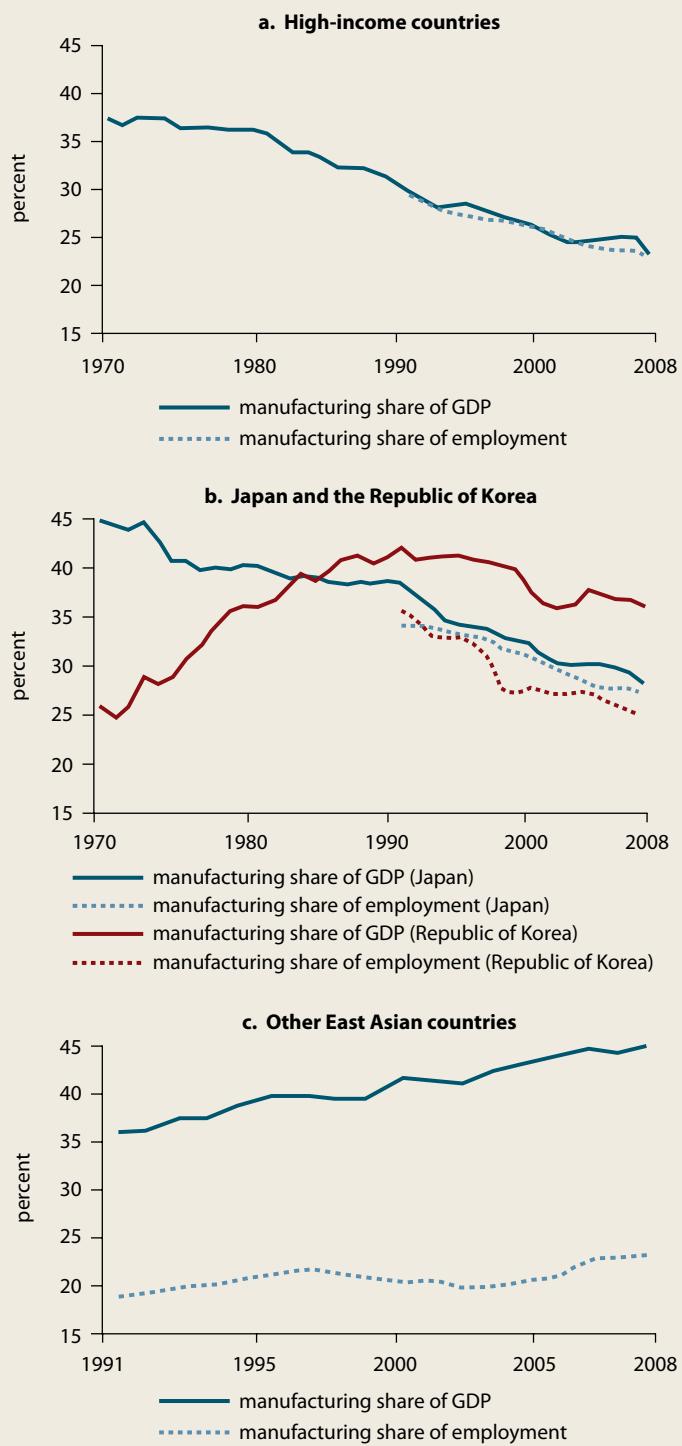
ers do not. Low-skilled workers or those with industry- or occupation-specific skills that are no longer in demand are those who suffer most.

## Policies through the jobs lens

While it is not the role of governments to create jobs, government functions are fundamental for sustained job creation. The quality of the civil

service is critically important for development, whether it is teachers building skills, agricultural extension agents improving agricultural productivity, or urban planners designing functional cities. Temporary employment programs for the demobilization of combatants are also justified in some circumstances. But as a general rule it is the private sector that creates jobs. The role of government is to ensure that the conditions are in place for strong private-sector-led

**FIGURE 15** Manufacturing jobs have migrated away from high-income countries



growth, to understand why there are not enough good jobs for development, and to remove or mitigate the constraints that prevent the creation of more of those jobs.

Government can fulfill this role through a three-layered policy approach (figure 16):

- **Fundamentals.** Because jobs improve with development, providing higher earnings and benefits as countries grow rich, a prerequisite is to create a policy environment that is conducive to growth. Macroeconomic stability, an enabling business environment, human capital accumulation, and the rule of law are among the fundamentals. Ensuring macroeconomic stability involves containing volatility and avoiding major misalignments of relative prices. Adequate infrastructure, access to finance, and sound regulation are key ingredients of the business environment. Good nutrition, health, and education outcomes not only improve people's lives but also equip them for productive employment. The rule of law includes protection of property rights and also the progressive realization of rights at work, to avoid a situation where growth coexists with unacceptable forms of employment.

- **Labor policies.** Because growth does not mechanically deliver employment, a second layer is to ensure that labor policies do not undermine job creation and instead enhance the development payoffs from jobs. But labor market imperfections should not be addressed through institutional failures. Instead, they should remain on a range—a plateau—where negative efficiency effects are modest. Labor policy should avoid two cliffs: the distortionary interventions that clog the creation of jobs in cities and in global value chains, and the lack of mechanisms for voice and protection for the most vulnerable workers, regardless of whether they are wage earners. The first cliff undermines the development payoffs from agglomeration and global integration; the second leads to low living standards and a social cohesion deficit.

- **Priorities.** Because some jobs do more for development than others, it is necessary to understand where good jobs for development lie, given the country context. More selective policy interventions are justified when incentives are distorted, resulting in too few of

Sources: World Development Report 2013 team estimates based on data from the United Nations Industrial Development Organization (UNIDO) and the United Nations Statistics Division.

Note: Japan is not included in panel a. GDP = gross domestic product.

those jobs. If this is the case, policies should remove the market imperfections and institutional failures that prevent the private sector from creating more good jobs for development. If the failures and imperfections cannot be clearly identified, or cannot be easily removed, offsetting them may be an option, but the costs and benefits of doing so need to be carefully assessed.

### Fundamentals: Ensuring the basics

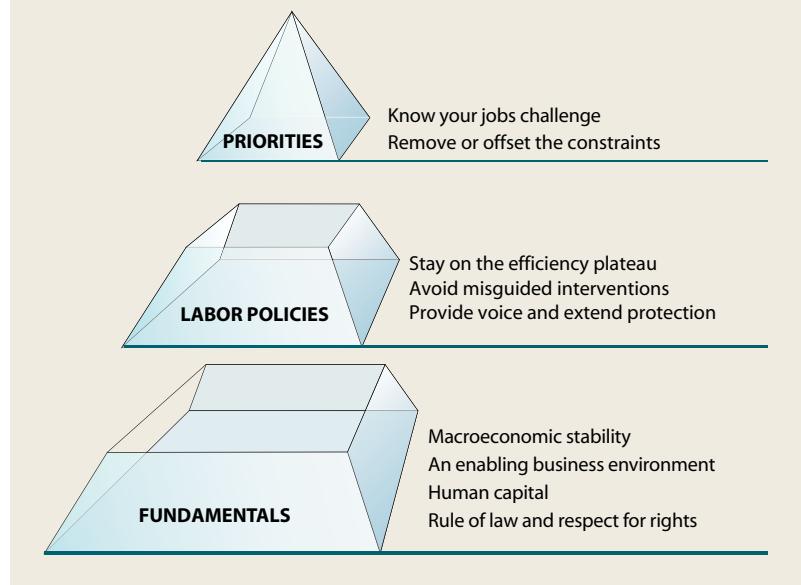
**Macroeconomic stability.** Volatility hurts employment and earnings, often immediately. According to a recent estimate, a 1.0 percent decline in gross domestic product (GDP) is associated with an increase in the unemployment rate of 0.19 percentage point in Japan, 0.45 percentage point in the United States, and 0.85 percentage point in Spain.<sup>73</sup> In developing countries, where farming and self-employment are more prevalent and income support mechanisms are more limited, the short-term impact of macroeconomic instability is less on open unemployment and more on earnings from work.<sup>74</sup>

Volatility can originate internally or be caused by external shocks. Internally, it is often the outcome of unsustainable budget deficits and lax monetary policy. But tight budgets and rigid monetary policy rules may not be a magic wand. Budget deficits are more or less worrisome depending on how quickly an economy is growing, whereas the independence of central banks needs to be weighed against the overall coherence of the country's development strategy. Assessing the soundness of macroeconomic management requires taking account of the impact of fiscal and monetary policies on economic growth.<sup>75</sup>

Volatility may also result from external shocks, including natural disasters and crises originating abroad. Precautionary policies can cushion those shocks, if and when they occur. Most often, short-term stimulus or adjustment packages are needed—but these tend to be less effective in the developing world than in developed countries because of lower multiplier effects.<sup>76</sup>

Avoiding exchange rate misalignment is necessary to sustain a vibrant export sector—and thus to create jobs connected to international markets and global value chains. Surges in a country's foreign exchange earnings generally

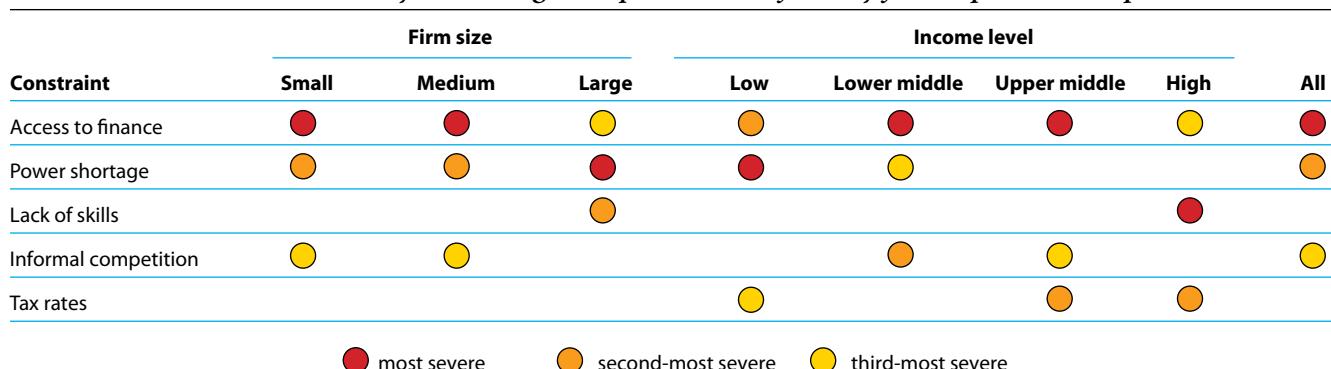
**FIGURE 16** Three distinct layers of policies are needed



Source: World Development Report 2013 team.

lead to an overvaluation of its currency, making imports more affordable and exports less competitive. Resource-rich countries face similar pressures for their currencies to appreciate, and the commodity booms of the last few years have only made these pressures stronger. Currency overvaluation can also happen in countries where large volumes of foreign assistance are needed to jump-start development, cope with natural disasters, or facilitate recovery after a conflict. An analysis of 83 developing countries between 1970 and 2004 confirms that aid fosters growth (albeit with decreasing returns) but induces overvaluation and has a negative impact on export diversification.<sup>77</sup>

*An enabling business environment.* Finance, infrastructure, and business regulations set the quality of the investment climate and thus influence job creation by private firms. Access to finance, a chief constraint to business expansion in countries in every development phase, is the top constraint in low- and upper-middle-income countries (figure 17). Financial markets have the potential to allocate resources toward more productive uses, thwart the channeling of resources to those with political connections or economic power, and expand financial in-

**FIGURE 17** Finance and electricity are among the top constraints faced by formal private enterprises

Source: IFC, forthcoming.

Note: The analysis is based on World Bank enterprise surveys covering 46,556 firms in 106 countries. Small firms have fewer than 20 employees, medium firms have 21–99, and large firms 100 and more.

clusion. But regulatory oversight is needed to ensure transparency and competition in how funds are allocated.<sup>78</sup> The financial crisis of 2008 reopened heated debates on the appropriate regulation of the financial sector and the need to balance prudence and stability with innovation and inclusion.

Access to affordable and quality infrastructure is a prerequisite for firms to operate. Power shortages are the number-two constraint to firm growth and job creation mentioned by entrepreneurs the world over—and number one in low-income countries. Telecommunications allow for a better flow of information with suppliers and customers, and the internet and mobile technology facilitate the spread of new ideas. Roads provide greater access to markets, as do ports and airports.<sup>79</sup> The way infrastructure is regulated is important as well. Inadequate pricing policies and regulations amplify the gap in needed infrastructure services. In many countries, monopolies based on political connections have led to reduced quantities of infrastructure services at higher prices and lower quality.<sup>80</sup>

Business regulation also affects the opportunities for businesses to grow and create jobs. Regulations can increase the cost of doing business, in money or in time needed to comply. Steps taken to meet requirements or to pay fees are a burden for businesses, as are delays or discretionary decisions, such as those for permits or licenses. There is great variation across firms in the same location with regard to the time it

takes to comply with regulations or to receive permits.<sup>81</sup> Business regulations also affect competition and thus the pressure to innovate and increase productivity. Across countries, regulations on business entry are inversely correlated with productivity and firm creation, with stronger effects in sectors that have higher rates of entry.<sup>82</sup> In Mexico, easing entry requirements increased business registration and employment and drove down consumer prices, largely through creating new firms rather than formalizing informal firms.<sup>83</sup>

*Human capital.* Good outcomes in nutrition, health, and education are development goals in themselves, because they directly improve people's lives. But they also equip people for productive employment and job opportunities—and through this channel, human capital drives economic and social advances. There is robust evidence from throughout the world that an additional year of schooling raises earnings substantially, and that this earnings premium reflects the higher productivity of more educated workers.<sup>84</sup> Together, nutrition, health, and education combine to form human skills and abilities that have been powerfully linked to productivity growth and poverty reduction in the medium to longer run.<sup>85</sup> Also, better health brings, directly, higher labor productivity. As such, human capital is a fundamental ingredient for desirable job outcomes.

Human capital formation is cumulative. Of crucial importance are adequate health and nutrition during “the first 1,000 days,”

from conception to two years of age. Brain development in this time period affects physical health, learning abilities, and social behavior throughout life.<sup>86</sup> Ensuring adequate nutrition, health, and cognitive stimulation through a nurturing environment from the womb through the first years raises returns to later child investments significantly.<sup>87</sup> While foundations are laid early on, human capital and skills continue to be formed throughout childhood and young adulthood. Schooling is fundamental for the further development of cognitive and social skills until the end of the teenage life. Social skills remain malleable through adolescence and the early adult years.<sup>88</sup> Young adults can continue into more specialized skill-building, including at tertiary levels, but success depends on whether the generic skills needed to learn and adapt to different tasks and problem-solving environments have been acquired. These general skills are especially important in more dynamic economic environments.

Unfortunately, the evidence shows that many countries are falling short in building up the human capital of their children and youth. The quality of delivery systems has often failed to keep pace with the expansion of access to basic social services. In a large majority of developing countries that took part in the Programme for International Student Assessment (PISA) in 2009, at least one-fifth of 15-year-old students were functionally illiterate (not reaching at least level 2 in the PISA reading assessment).<sup>89</sup>

*The rule of law.* Across countries, the presence of institutions that protect property rights, uphold the rule of law, and rein in corruption is associated with higher levels of development.<sup>90</sup> Property rights foster private sector growth by allowing firms to invest without the fear that their assets will be stolen or confiscated.<sup>91</sup> The ability to enforce contracts widens the circle of potential suppliers and customers, as personal connections become less important in establishing trust.<sup>92</sup> The rule of law has direct implications for the growth of firms and jobs. Entrepreneurs who believe their property rights are secure reinvest more of their profits than those who do not.<sup>93</sup> Conversely, rampant crime and violence are likely to drive firms away and discourage domestic and foreign investment.<sup>94</sup> Across countries, investment climate surveys

consistently find crime and corruption to be obstacles to conducting business.<sup>95</sup>

An effective judicial system is a key institution for enforcing property rights and reducing crime and corruption. An independent, accountable, and fair judiciary can contribute to private sector growth and job creation by enforcing the rules that govern transactions and by helping ensure that the costs and benefits of growth are fairly distributed. The justice system can enforce contracts, reduce transaction costs for firms, and create a safe and more predictable business environment.<sup>96</sup> And effective courts increase the willingness of firms to invest.<sup>97</sup>

An institutional environment that respects rights is an important ingredient of the rule of law and a foundation for good jobs for development. The ILO's core labor standards provide a floor in the areas of child labor, forced labor, discrimination, and freedom of association and collective bargaining.<sup>98</sup> Health and safety at work also call for attention by governments and employers. Ensuring that standards are applied in practice requires providing access to information to workers and employers. It also implies expanding legal coverage to workers in jobs that fall outside formal laws and regulations. Associations of informal workers can inform them about their rights, help them use legal mechanisms, and offer them collective voice.<sup>99</sup>

### **Labor policies: Avoiding the two cliffs**

A malfunctioning labor market may prevent economic growth from translating into more and better jobs. Traditional analyses focus on labor supply, labor demand, and their matching to explain why there may not be enough employment, or not enough wage employment in the case of developing countries. By not addressing labor market imperfections, or by creating them, labor policies can indeed constrain job creation, even seriously. In many cases, however, the constraints to creating transformational jobs are not connected to the labor code. The low productivity of smallholder farming in agrarian economies is probably more closely related to failures in agricultural research and extension. And the lack of competition in technologically advanced activities that could boost the demand for skilled work in countries with high youth unemploy-

ment is more likely to stem from cronyism and political favoritism.

There is no consensus on what the content of labor policies should be. Views are polarized, reflecting differences in fundamental beliefs. To some, labor market regulations and collective bargaining are sources of inefficiency that reduce output and employment, while protecting insiders at the expense of everyone else. In this view, unemployment insurance and active labor market programs create work disincentives and are a waste of money. To others, these policies provide necessary protection to workers against the power of employers and the vagaries of the market. They can even contribute to economic efficiency by improving information, insuring against risks, and creating conditions for long-term investments by both workers and firms.

Advocates of both views can find examples to support their positions. Those who see labor policies and institutions as part of the problem point to the impressive long-term job creation record of the United States, a country with limited interventions in the labor market. They also point to the protective job security rules that have impeded young people from finding work in many North African and Southern European countries. By contrast, those who see labor policies as part of the solution point to job-sharing as decisive in Germany's relative success in weathering the financial crisis.

A careful review of the actual effects of labor policies in developing countries yields a mixed picture. Most studies find that impacts are modest—certainly more modest than the intensity of the debate would suggest.<sup>100</sup> Across firm sizes and country levels of development, labor policies and regulations are generally not among the top three constraints that formal private enterprises face. Excessive or insufficient regulation of labor markets reduces productivity. But in between these extremes is a plateau where effects enhancing and undermining efficiency can be found side by side and most of the impact is redistributive, generally to the advantage of middle-aged male workers (as opposed to owners of capital, women, and younger workers).

In most countries that have been studied, job security rules and minimum wages have a small effect on aggregate employment. These rules offer benefits for those who are covered, while negative effects tend to be concentrated on

youth, women, and the less skilled. In Colombia and Indonesia, minimum wage increases had only a modest overall effect but the employment impact was stronger for young workers.<sup>101</sup> Regulations more clearly affect job flows, creating "stickiness" in the labor market and slowing the pace of labor reallocation.<sup>102</sup> While this hinders economic efficiency, the evidence on productivity is fairly inconclusive, though admittedly scarce.<sup>103</sup>

In developing countries, collective bargaining does not have a major impact outside the public sector and activities characterized by limited competition, where there are rents to share.<sup>104</sup> Unions consistently raise wages for workers. Studies place this premium in the 5 to 15 percent range in Mexico; around 5 percent in Korea; and at 10 to 20 percent in South Africa.<sup>105</sup> The costs in terms of reduced jobs are not so clear, however. In some countries, though not all, the tradeoff seems to be lower employment, but even then the magnitudes are relatively small. The limited evidence on union effects on productivity is also mixed.<sup>106</sup> The main challenges are extending voice to those who are not wage earners, so that the constraints facing their farms and microenterprises can be addressed, and organizing collective bargaining in a way that enhances productivity.

Active labor market programs, such as training, employment services, wage subsidies, and public works, have a mixed record.<sup>107</sup> When they are not well grounded in the needs and realities of the labor market or when administration is poor and not transparent, they are of little use or even worse. When they are well designed and implemented, they can help facilitate job matching, mitigate the negative impacts of economic downturns, and fill the gap when employers or workers underinvest in training (figure 18). Even when this is the case, though, effects tend to be modest, so expectations about what active labor market policies can achieve need to be held in check.

Social insurance coverage is limited even in the most formalized developing countries. Unemployment insurance can help workers manage the risks of job loss, but it can also weaken job search efforts. When unemployment insurance, pensions, health care, and other benefits are financed through the payroll, high contribution rates can create hiring disincentives. In

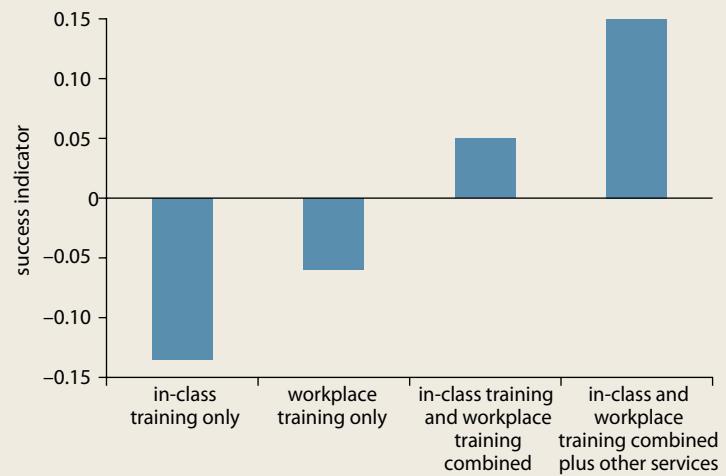
developing countries where formal sectors are small, funding these programs through general taxation is increasingly discussed,<sup>108</sup> but any taxes create distortions. In the end, there is no substitute for affordable social protection benefits that are valued by workers. The main issue is coherently integrating social protection and social assistance to minimize gaps and overlaps.

In sum, labor policies and institutions can improve labor market information, manage risk, and provide voice. But these advantages can come at the expense of labor market dynamism, reduced incentives for job creation and job search, and a gap in benefits between the covered and uncovered. The challenge is to set labor policies on a plateau—a range where regulations and institutions can at least partially address labor market imperfections without reducing efficiency. Labor market rules that are too weak or programs that are too modest or nonexistent can leave problems of poor information, unequal power, and inadequate risk management untreated. In contrast, rules that are too stringent and programs that are too ambitious can compound market imperfections with institutional failures.

The focus on good jobs for development offers some insights to assess where the edges of the plateau, the cliffs, may lie. At one end of the plateau are labor policies that slow job creation in cities, or in global value chains, and make countries miss out on jobs supporting agglomeration effects and knowledge spillovers. Forgoing the development payoffs from urbanization and global integration would be a consequence of falling off the cliff. This is not necessarily an argument for minimum regulation. There is also scope for arrangements strengthening spatial coordination, and thus increasing efficiency, as suggested by China's recent experience with collective bargaining.

At the other end of the plateau, the absence of mechanisms for voice and protection for those who do not work for an employer, or do so in the informal sector, is also a concern. Extending voice for workers who are often among the poorest may result in higher living standards. Limiting abuses by employment intermediaries should enhance efficiency, and building inclusive social protection systems can contribute to greater social cohesion. The experience of India's Self Employed Women's Association and

**FIGURE 18** Combining work and training increases the success rates of programs



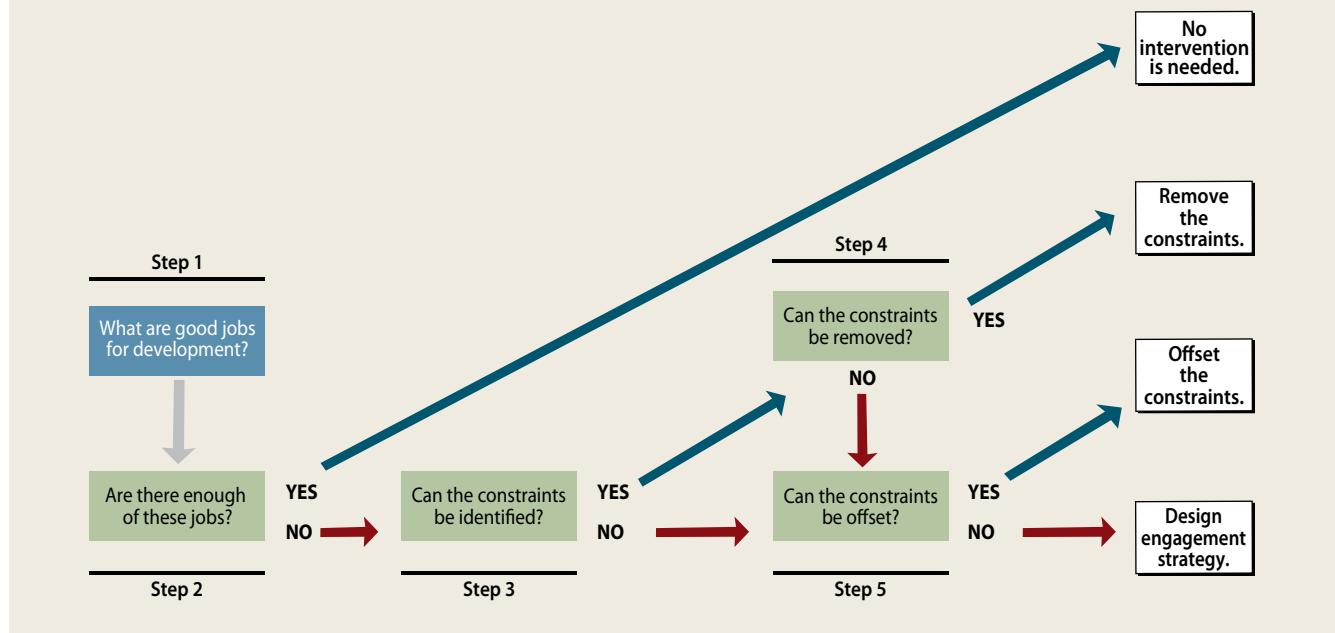
Source: Fares and Puerto 2009.

Note: The figure shows the correlation coefficient between type of training and reported success of a program, with success defined as improving employment or earnings and being cost-effective.

the health insurance program for the poor in Vietnam are encouraging in this respect.<sup>109</sup> This cliff may be less visible than excessive labor market rigidity, but it is no less real.

### Priorities: Realizing the development payoffs from jobs

In addition to ensuring that the fundamentals support growth and that labor policies are adequate, decision makers can help realize the development payoffs that come from jobs. Some jobs do more than others for living standards, productivity, and social cohesion. What those jobs are depends on the country context—its level of development, demography, endowments, and institutions. In some circumstances, there will be no constraints to the emergence of good jobs for development, and no specific policy will be needed. In others, governments can support the private sector in creating more of these jobs. Sometimes this can be achieved by removing constraints that impede the creation of jobs with high development payoffs. When this is not possible, policies can be more proactive and bypass the constraints, provided that the gains to society from doing so outweigh the cost.

**FIGURE 19** A decision tree can help set policy priorities

Source: World Development Report 2013 team.

A simple approach to setting policy priorities follows five steps (figure 19):

- *Step one: What are good jobs for development?* Assessing the development payoffs from jobs in a particular country context is the first step in identifying priorities. The nature of those jobs varies with the characteristics of the country, including its phase of development, demography, endowments, and institutions. Jobs challenges are not the same in agrarian economies, resource-rich countries, conflict-affected countries, or in countries with high youth unemployment. And the jobs with the greatest development impact differ as well, resulting in diverse jobs agendas.
- *Step two: Are there enough of these jobs?* A country may or may not face constraints in creating good jobs for development. For example, light manufacturing can offer employment opportunities for women, with significant impacts on poverty. If a boom is under way, the development value of new manufacturing jobs might materialize. But it might not if, for example, inadequate urbanization policies limit the establishment of new firms.

In the absence of gaps of this sort, it is difficult to justify government interventions beyond establishing the fundamentals and adopting adequate labor policies.

Data and analysis can be used to identify misaligned incentives, indicated by a gap between the individual and the social value of jobs. Several research areas deal with these gaps. For instance, the tools of public finance can measure the tax burden that applies to capital and labor and assess the cross-subsidization between individuals or firms. The methods of labor economics can uncover gaps between the actual earnings of specific groups of workers and their potential earnings, or between the social and individual returns to schooling. Poverty analyses help in identifying the kind of jobs that are more likely to provide opportunities to the poor, or the locations where job creation would have a greater impact on reducing poverty. Productivity studies allow for quantifying the spillovers from employment in foreign-owned investment companies, or in cities. Environmental studies shed light on the carbon footprint and pollution created by various types of jobs. And val-

ues surveys can discover which types of jobs provide social networks and social identity.

- *Step three: Can the constraints be identified?*

The gaps between the individual and social values of specific types of jobs indicate unexploited spillovers from jobs. The gaps typically arise from market imperfections and institutional failures that cause people to work in jobs that are suboptimal from a social point of view, lead firms to create jobs that are not as good for development as they should be, or connect people less through jobs than would be socially desirable. But identifying those constraints is not always easy. For instance, a broad set of cultural, social, and economic forces may result in insufficient employment opportunities for women. Similarly, the obstacles to more jobs in cities could be in the land market, or in the institutional arrangements to coordinate urban development, or in the ability to raise revenue to finance infrastructure.

- *Step four: Can the constraints be removed?* If the institutional failures and market imperfections leading to misaligned incentives can be identified, reforms should be considered. It is a good economic principle to target reforms

on the failures and imperfections at the root of the problem. Where reforms are technically and politically feasible, policy makers can directly tackle the major constraints hindering the creation of more good jobs for development by the private sector.

- *Step five: Can the constraints be offset?* Reforms might not be feasible, technically or politically.

Or perhaps the constraints for jobs are not identifiable. An alternative then is to adopt offsetting policies that can restore the incentives for job creation. For instance, if a diffuse but entrenched set of norms and beliefs makes it difficult for women to work, efforts could aim at increasing their employability through targeted investments in social and physical infrastructure (box 1). Similarly, if politically charged regulations slow down the reallocation of labor toward more productive activities, urban infrastructure and logistics could enhance the attractiveness of jobs in cities and jobs connected to world markets.

But there are cases when constraints can neither be removed nor offset. An engagement strategy involving a deeper analysis of the options and buy-in by key stakeholders is needed then.

Policy making to remove or offset constraints needs to be selective and supported by good public finance principles. The costs and benefits of policy options need to be assessed, but calculations are different when the overall development impact is the guiding objective. An employment program to demobilize ex-combatants in a conflict-affected country could be assessed in terms of whether the earnings gains of participants justify the program costs, but a full accounting should also incorporate the potentially positive effects from reintegration and peace building. In the Democratic Republic of Congo, the cost of an integration program for ex-combatants was about US\$800 per beneficiary.<sup>110</sup> Such a program would likely be judged as cost inefficient by traditional standards. Whether or not it is still worth implementing depends on the value policy makers attach to social cohesion benefits. These benefits should be stated for the policy decision to be transparent.

### *Diverse jobs agendas, diverse policy priorities*

Some countries have successfully set policy to bring out the development payoffs from jobs, in ways that provide a model to others.

As an *agrarian country*, in the 1990s Vietnam concentrated on increasing productivity in agriculture, freeing labor to work in rural off-farm employment and eventually supporting migration to cities. In 1993, more than 70 percent of employment was in agriculture, 58 percent of the population lived in poverty, and famine was still a real concern.<sup>111</sup> Two decades later, Vietnam is the second-largest exporter of rice and coffee; the largest exporter of black pepper and cashew nuts; and a top exporter of tea, rubber, and seafood products. Poverty has declined dramatically. Combined with a strong emphasis on agricultural extension, land reform and deregulation led to rapidly growing agricultural productivity on very small farm plots. These policies were part of a broader package of reforms, or *Doi Moi*, that took Vietnam from central planning to a market economy with a socialist orientation.<sup>112</sup> Policies also aimed at

### **BOX 1 How does women's labor force participation increase?**

Some developing countries have experienced important increases in women's labor participation over a relatively short period of time. Nowhere has the change been faster than in Latin America. Since the 1980s, more than 70 million women have entered the labor force, raising the female labor participation rate from 36 percent to 43 percent. In Colombia, the rate increased from 47 percent in 1984 to 65 percent in 2006. By contrast, in the Middle East and North Africa, women's labor force participation has only grown by 0.17 percentage points per year over the last three decades.

Recent research attributes this rapid transformation to increases in labor force participation among married or cohabiting women with children, rather than to demographics, education, or business cycles. Changes in social attitudes contributed to the transformation, but this is a complex area with limited scope—and justification—for direct policy intervention. For instance, women's participation rates are very low in the West Bank and Gaza, particularly among married women. But this cannot be mechanically attributed to religion, as countries like Indonesia have high participation rates. Other social norms and regulations prevent women from participating, despite their willingness and capacity to do so.

While the scope to influence social attitudes is limited, evidence suggests that public policies and programs in other areas have an important role to play. It also suggests that a combination of targeted investments and interventions in social and physical infrastructure can modify women's labor force participation and the

returns to their earnings. These investments can be categorized into three groups. They can address shortages in the availability of services (such as lack of electricity or daycare facilities) that force women to allocate large amounts of time to home production. They can make it easier for women to accumulate productive assets, such as education, capital, and land, facilitating their entry into high-productivity market activities. And they can remove norms or regulations that imply biased or even discriminatory practices, preventing women from having equal employment opportunities.

There are successful experiences with targeted investments and interventions of each of these three sorts. Public provision or subsidization of child care can reduce the costs women incur at home when they engage in market work. Examples include publicly provided or subsidized day care such as Estancias Infantiles in Mexico, Hogares Comunitarios in Colombia, and similar programs in Argentina and Brazil. Improvements in infrastructure services—especially in water and electricity—can free up women's time spent on domestic and care work. Electrification in rural South Africa, for instance, has increased women's labor force participation by about 9 percent. Correcting biases in service delivery institutions, such as the workings of government land distribution and registration schemes, allows women to own and inherit assets. Finally, the use of active labor market policies, the promotion of networks, and the removal of discriminatory regulations are important to make work more rewarding for women.

Sources: World Development Report 2013 team based on Amador and others 2011, Chioda 2012, and World Bank 2011d.

creating employment opportunities outside agriculture. The country opened to foreign investors, first in natural resource exploitation and light manufacturing, and then more broadly in the context of its accession to the World Trade Organization in 2007. Registered FDI increased fourfold in just two years, from 1992 to 1994; over the past five years, FDI inflows exceeded 8 percent of GDP.<sup>113</sup>

Rwanda, a conflict-affected country, has rebounded after the ethnic conflict and destruction of the mid-1990s. By 2000, Rwanda's economy had returned to precrisis levels as a result of the cessation of conflict as well as an aggressive package of reforms.<sup>114</sup> Growth has continued, reaching an estimated 8.8 percent in 2011, and the poverty rate fell by 12 percentage points between 2005 and 2010. In the wake of the conflict, the government supported the reintegration and demobilization of more than 54,000 former combatants. In 2012, 73 percent of ex-combatants

expressed satisfaction with their social integration, and 85 percent of community members felt there was trust between the two groups.<sup>115</sup> While ex-combatants were only a small share of Rwanda's population of 10 million, their reintegration had payoffs for social cohesion. Rwanda has built on this start by rejuvenating the private sector through reforms of institutions and business regulations.<sup>116</sup> The coffee industry has created thousands of new jobs.<sup>117</sup>

Chile, a resource-rich country, has managed its copper riches in a way compatible with job creation in nonresource sectors. Home to more than a quarter of the world's copper reserves, Chile diversified its exports and its economy while effectively managing resource-related risks such as currency appreciation and inflation. Unemployment fell to single digits from around 20 percent in the early 1980s.<sup>118</sup> A resource stabilization fund (since 1987) together with a transparent fiscal rule (since 1999) al-

lowed the country to save for difficult times and avoid a loss of competitiveness. Governance reforms in all areas of public sector management promoted accountability and transparency. An active export-oriented growth policy, including the welcoming of foreign investment, supported productivity spillovers from jobs connected to global markets. Competitive innovation funds for nonmineral export sectors, especially in agribusiness, have broadened the export base.<sup>119</sup> The public budget boosted education spending, which almost doubled between 1990 and 2009, leading to an unprecedented expansion of secondary and tertiary education.<sup>120</sup>

*Slovenia* has successfully tackled its very *high youth unemployment* rate, reducing the ratio of youth to adult unemployment from three in the 1990s to around two today.<sup>121</sup> The success in reducing youth unemployment cannot be attributed to spending on active labor market programs (about average for transition countries), liberalizing the labor market (rules remain more restrictive than the average in developed countries), or low minimum wages (still on the high side).<sup>122</sup> Potential distortions from these policies seem to be somewhat offset, however, by a model of consensus-based decision making whereby trade unions and employer organizations, with broad coverage, set wages that respond well to macroeconomic trends and sectoral productivity.<sup>123</sup> Sustained growth before the global crisis is ultimately responsible for much of Slovenia's decline in youth unemployment. Taking advantage of European integration, the economy successfully restructured its export sector. Very good infrastructure and a fairly well-skilled workforce helped as well.

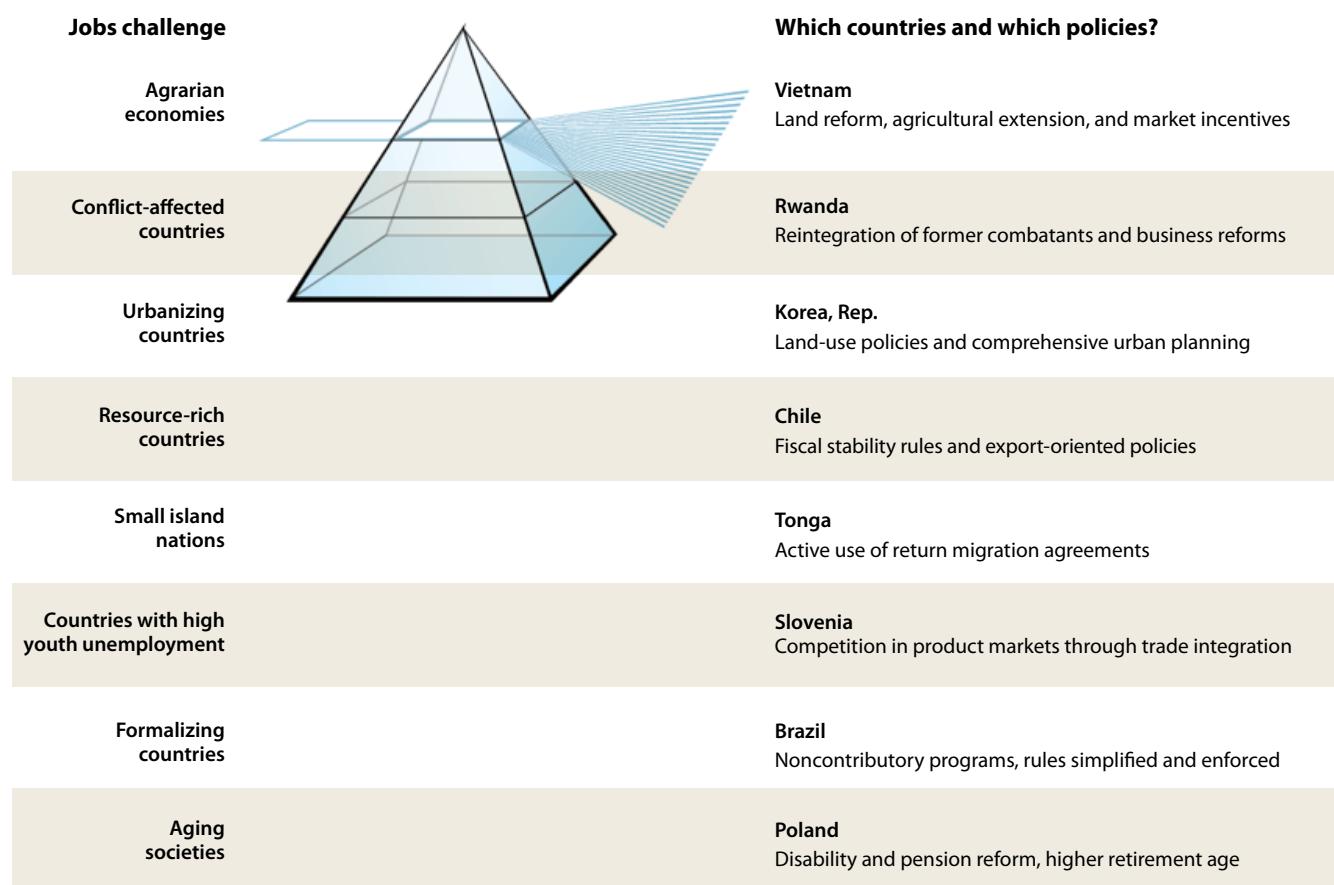
Examples of successful policies can actually be found across the entire typology of jobs challenges (figure 20). As an *urbanizing country*, *Korea* carefully designed and phased policies to accompany the transition of jobs from agriculture to light manufacturing and then to industries with higher value added.<sup>124</sup> Land development programs were established first, followed by a land-use regulation system, and then by comprehensive urban planning. Housing and transportation policies held the diseconomies of urbanization in check. *Tonga*, a *small island nation*, is actively using the Recognized Seasonal Employer program launched by

New Zealand in 2007 to provide employment opportunities through migration, leading to higher remittances, improved knowledge of agricultural techniques, computer literacy, and English-language skills.<sup>125</sup> *Brazil* provides an example of a rapidly *formalizing country*. Over the past decade, job creation in the formal sector has been three times as rapid as in the informal sector. Just in the five years leading up to the crisis, the formal share of total employment increased by about 5 percentage points.<sup>126</sup> Non-contributory social protection programs such as *Bolsa Familia*, a simplification of tax rules for small business, increased incentives for firms to formalize their workers, and improved enforcement of tax and labor regulations contributed to this success. *Poland*, an *aging society*, has seen its employment ratio increase from 60 percent in 2006 to 65 percent in 2009. This was due to changes in the application of eligibility rules of disability pensions, and pension reforms adjusting the level of benefits down as life expectancy increases. In 2012, a new wave of pension reforms raised the retirement age to 67 for men and women from the current 65 for men and 60 for women.<sup>127</sup>

### *Connected jobs agendas: Global partnerships for jobs*

Policies for jobs in one country can have spillovers to other countries, both positive and negative. An important issue is whether international coordination mechanisms could influence government decisions to enhance the positive spillovers and mitigate the negative. Several areas lend themselves to more and better coordination.

*Rights and standards.* Cross-border mechanisms exist to set standards and provide channels for improving compliance with rights. ILO conventions can influence domestic legislation and be a channel for voice and coordination internationally, as demonstrated by the process of adopting the conventions for home-based and domestic workers. The support for core labor standards in the 1998 Declaration on Fundamental Principles and Rights at Work suggests that countries respond to pressure from the international community.<sup>128</sup> Yet the pressure only goes so far. The persistence of forced labor, children working in hazardous conditions, discrimi-

**FIGURE 20** Which countries succeeded at addressing their jobs challenges and how?

Source: World Development Report 2013 team.

nation, and lack of voice suggest that ratification on its own is not sufficient.

Trade agreements are a potential instrument for international coordination on rights. They can incorporate incentives for attention to voice and working conditions by linking trade access to the adoption and enforcement of labor laws and standards. Whether linking rights to trade actually leads to better outcomes for workers on either side of a trade agreement is less clear. Labor clauses can be used as a protectionist tool, undermining trade and employment opportunities in developing countries. Moreover, in the absence of capacity and institutions to monitor and enforce compliance, trade agreements on their own can be weak instruments. For instance, Cambodia's successful bilateral trade agreement with the United States was accompa-

nied by two projects, one to build capacity for monitoring working conditions in garment factories and one to support an arbitration council to resolve collective labor disputes.<sup>129</sup>

Beyond the initiatives of governments through conventions and trade agreements, a growing emphasis is being placed on private sector accountability and the broader corporate social responsibility (CSR) agenda, whereby companies voluntarily bring social and environmental concerns into their operations.<sup>130</sup> Codes of conduct are most likely to be adopted by companies based in the European Union and North America, which then make engagement with labor standards a condition of business with suppliers. But there is limited evidence on the extent to which codes of conduct translate into improved enforcement of standards. Be-

cause of the complexity of global supply chains, seasonal and temporary workers are outside the reach of CSR frameworks. Workers outside of global supply chains are not covered.<sup>131</sup> To be effective, CSR efforts should focus more on building the capacity of local firms to comply and the capacity of labor inspectorates to do their work.

*Trade and investment.* International trade in goods has been gradually liberalized over time, and the notion that freer trade is mutually beneficial for the transacting parties is now widely shared. However, many developing countries still lack the competitiveness to harness the benefits from global integration. Direct assistance to reduce logistic costs and improve the competitiveness of firms and farms is thus a priority. Aid for trade has increased substantially and now accounts for about a third of total aid to developing countries. But there is scope for making the assistance more effective, by focusing on the export activities most suited to address the specific jobs challenges that recipient countries face. Increasing the involvement by the private sector would also enhance the effectiveness of the assistance.<sup>132</sup>

In contrast to trade in goods, progress in services liberalization has been slow, at both the multilateral and the regional levels. Offers to the Doha Round currently being negotiated promise greater security in access to markets but no additional liberalization compared to the policies in force.<sup>133</sup> Services are characterized by well-known market imperfections—from network externalities in infrastructure to asymmetric information and moral hazard in finance—and are thus subject to more pervasive regulations. Liberalizing trade in services requires adequate domestic regulation. Setting up markets for electricity, or cushioning the social impacts of large distributors on retail trade, is challenging.<sup>134</sup> Not surprisingly, liberalization of services is much less advanced in developing countries than in industrial countries.<sup>135</sup>

The productivity gains from liberalizing services would be substantial. Many services are inputs into the production process. Electricity, finance, telecommunications, and trade have a direct impact on business costs, affecting the competitiveness of downstream sectors. By boosting job creation and raising labor earnings, these productivity gains should also lead to improved living standards. Social impacts

can be more mixed. They are clearly positive when cell phones connect people (and especially the poor) to product markets, to employment opportunities, or to government services. They can be negative when the disappearance of retail trade leads to the decline of urban centers and affects the livelihoods of older shopkeepers who may not find alternative employment easily. An adequate sequencing of services liberalization and domestic regulatory reform is needed to manage these tradeoffs, and, in doing so, address the concerns of developing countries.<sup>136</sup> International collaboration can fill the knowledge gaps and facilitate implementation.<sup>137</sup>

International agreements can also promote global public goods. One case in point is gender equality. Trade is not gender neutral, implying that liberalization changes women's access to jobs. Traditionally men were more likely to have "brawn jobs," involving stronger physical requirements, while "brain jobs" involving dexterity, attention, or communication—from stitching garments to processing data—present more opportunities for women. Call centers in Delhi and Mumbai employ more than 1 million people, most of them women. Preferential access for imports from sectors with more "brain jobs" can thus create employment opportunities for women in countries where gender equality is far from attained.<sup>138</sup> But as countries move up the ladder of global value chains, gender opportunities can change. This was the case in Malaysia, where the share of women working in manufacturing declined in the mid-1980s.<sup>139</sup>

*Migration.* In contrast to the movement of goods and services across borders, few international agreements pertain to migration in general and the migration of workers in particular. Those in existence have limited coverage. ILO conventions 97 and 143, in force since 1952 and 1978, refer to the prevention of discrimination or abusive conditions against migrants and call for penalties and sanctions against those who promote clandestine or illegal migration. But they have been ratified by only 49 and 23 countries, respectively. Liberalizing the provision of services by natural persons, in line with Mode 4 of the General Agreement on Trade in Services (GATS), is not on the agenda of many countries, industrial or developing. And the United Nations international convention on the rights of migrant workers and their families, which en-

tered into force in 2003, has been ratified by only 22 countries—mostly sending countries.

While migration occurs across borders, legislation is mostly driven by country-specific laws. This is an area where a global perspective is warranted, but views on what needs to be done are diverse. One view focuses on the large earnings differentials between countries, suggesting that global productivity and poverty reduction would accelerate enormously with the free movement of labor.<sup>140</sup> Another perspective focuses instead on national security and the protection of communities and their cultures, implying the need for barriers to contain migration. Yet another highlights the moral imperative of protecting the human rights of migrants, no matter their legal status, and giving shelter to those who suffer any form of persecution.<sup>141</sup> None of these views suffices, however, because any one of them alone cannot address the complex tradeoffs that migration poses for policy design.

In many instances, both sending and receiving countries can benefit from migration through a collaborative approach. Most abuses perpetrated by traffickers, firms, or workers are associated with illegal migrant flows, so the formalization of these flows is a basic tool for protecting the rights of migrant workers. This formalization cannot be enforced without the cooperation of institutions in both sending and receiving countries. That is why bilateral agreements are also needed, with provisions for quotas by occupation, industry, region, and duration of stay.<sup>142</sup> The agreements can distinguish between temporary movements of workers and steps to permanent migration, with conditions and protocols to go from one to another. They can include considerations about taxation, social security, and even financing higher education—a special concern in the case of “talent” migration. These agreements can design incentives so that stakeholders in both sending and receiving countries have an interest in enforcing the provisions.<sup>143</sup>

### **Jobs are center stage, but where are the numbers?**

A significant research and data agenda lies ahead. Further analysis is needed on the rela-

tionship between jobs and movements in and out of poverty; the dynamics of micro- and small enterprises in the informal sector; and the links between jobs and human behaviors and norms. Research on the magnitude of spillovers from jobs could identify good jobs for development tailored to country contexts. Another important research area concerns the impact of jobs on the acquisition of cognitive and non-cognitive skills, and how this impact varies depending on the characteristics of the job and the person who holds it. Similarly, more evidence on productivity spillovers from jobs across cities with different characteristics would have a high value for development policy. Estimates of the environmental impacts of different types of jobs are, today, scarce at best. In the area of labor policies, more empirical work is needed on the boundaries of the plateau, depending on the characteristics of the country. More research is also needed on how international trade, investment across borders, and migration affect the composition of employment across countries. More solid knowledge on the sequencing of international commitments and domestic policies related to services could address the reluctance of developing countries to make further progress in the direction of liberalization and reap the gains from global integration.

Setting policy priorities for jobs needs to be based on reliable data. Given that a large share of the people at work in developing countries are not wage employees, and that even fewer have a formal sector job, the measurement of employment is challenging. Determining which jobs have the greatest payoffs for poverty reduction requires linking information on a household’s income or consumption with information on the employment of its members. Understanding which economic units create more jobs, or whether labor reallocation leads to substantial growth rather than just churning, requires information on the inputs and outputs of very diverse production units. Assessing how the composition of employment affects trust and willingness to participate in society requires information on individual values and behaviors.

The paucity of empirical analyses on the employment impact of the global crisis in developing countries and the difficulty of comparing measures of informal employment across countries suggest that data quality and avail-

ability remain a constraint for policy making. Much effort goes into measuring unemployment rates, and measuring them often.<sup>144</sup> But open unemployment is not a very telling indicator in countries where a large fraction of the labor force is not salaried. The Millennium Development Goal on eradicating poverty lists four indicators to monitor progress toward the employment target, defined as “achieving full and productive employment and decent work for all, including women and young people.” But these indicators only partially capture advances in the quantity and quality of jobs in the developing world.<sup>145</sup>

Today’s challenges for labor statistics can be regrouped into three key areas: data gaps; data quality issues; and planning, coordination, and communication issues. Data gaps concern countries where labor statistics do not exist at all or are collected only sporadically. Whenever such statistics exist, data quality is a concern throughout the statistical production chain, from the use of appropriate definitions to questionnaire design, from sampling frame to interviewer processes, and from data entry and coding to verification and estimation procedures. Planning, coordination, and communication issues arise when different institutions are responsible for collecting and disseminating the data.<sup>146</sup>

A quarter of a century ago, a renewed emphasis on poverty reduction as the key objective of development policy launched a long-term data effort. Across the world, information on household living standards was collected through standardized surveys. The sampling methods and the variable definitions used were duly documented. And the data and documentation were made available to researchers and practitioners whenever possible. For jobs, employment modules attached to household surveys used for poverty analyses would need to be

standardized and include informal firms and microenterprises in establishment surveys. Such an approach would move jobs center stage.

\* \* \*

Countries have a choice in responding to the jobs challenges of demographics, structural shifts, technological progress, and periodic macroeconomic crises. They can simply pursue growth, ensure that the labor market functions well, and hope that jobs will follow. Or they can recognize that growth does not mechanically deliver the jobs that do most for development. Jobs for women, jobs in cities and in global value chains, and jobs providing voice and protection for the most vulnerable in society may come high on the list. The precise nature of the jobs challenge depends on a country’s geography, endowments, institutions, and level of development. What is common to all is the need to remedy the institutional failures and market imperfections that prevent the private sector from creating more of those good jobs for development. Countries can then return to the difficult questions posed at the outset. For each of them, there is a conventional wisdom that practitioners do not consider to be totally satisfactory. The jobs lens in development does not lead to a flat rejection of the conventional wisdom, but to a qualification of when it holds and when it does not.

In short, countries can leave themselves open to small gains in living standards, slow productivity growth, and fractious societies. Or, by addressing their jobs challenges, they can enjoy a self-reinforcing pattern of more prosperous livelihoods, rising productivity, and the stronger social cohesion that comes from improving employment opportunities and fairness in access to jobs.

## When is the conventional wisdom right?

*Growth strategies or jobs strategies?* The conventional wisdom is to focus on growth as a precondition for continued increases in living standards and strengthened social cohesion. But lags and gaps among the three transformations of living standards, productivity, and social cohesion are not uncommon. The impact of growth on poverty reduction varies considerably across countries. And in some cases, growth is not accompanied by increased social cohesion—even though poverty may fall and living standards improve for some, the expectations of others remain unfulfilled. The employment intensity of different sectors and fairness in access to employment opportunities matter as well. It is thus jobs that bring together the three transformations.

Tradeoffs among improving living standards, accelerating productivity growth, and fostering social cohesion arguably reflect a measurement problem, more than a real choice. If growth indicators captured the intangible social benefits from jobs, from lower poverty to greater social cohesion, a growth strategy and a jobs strategy would be equivalent. But a growth strategy may not pay enough attention to female employment, or to employment in secondary cities, or to idleness among youth. When potentially important spillovers from jobs are not realized, a jobs strategy may provide more useful insights.

*Can entrepreneurship be fostered?* The conventional wisdom is that most micro- and small enterprises in developing countries are just forms of survivorship, with limited chances to grow. But self-employed workers account for a large share of employment in developing countries. Even if only a fraction of them succeeded in building a viable business, the aggregate impact on living standards and productivity would be substantial. Moreover, in developing countries many large enterprises are born large, often the result of government support or privileged access to finance and information. Breaking privilege is one more reason why the success of micro- and small enterprises is so important.

Management practices are important in explaining firm productivity, even in small and medium-size firms. The capacity to acquire skills and to apply them to business is one of the most important characteristics of successful entrepreneurs. Yet markets fail to nurture entrepreneurship, because knowledge spillovers imply that some of the returns to acquiring or developing new managerial ideas and knowledge are appropriated by others. And the potential to absorb management practices differs greatly among beneficiaries. Observable characteristics of small business owners can predict entrepreneurial potential, and programs to upgrade their managerial capacity have been shown to make a difference. Programs targeted to small business owners with entre-

preneurial potential can thus make a substantial difference in living standards and productivity.

*Can policies contribute to social cohesion?* The conventional wisdom is that a lack of jobs is detrimental to social cohesion, but other than ensuring full employment there is little that governments can or should do. Yet open unemployment is not the main challenge in many countries, as the characteristics of jobs also matter. While not all jobs can positively affect social cohesion, those that shape social identity, build networks—particularly for excluded groups—and increase fairness can help defuse tensions and support peaceful collective decision making.

Measures that support inclusion, extend access to voice and rights, and improve transparency and accountability in the labor market can increase the extent to which people perceive that they have a stake in society. This perception can be especially critical when risks of social unrest from youth unemployment and conflict are high. Employment programs can undermine social cohesion if they have weak governance or divisive targeting, but can have positive effects when they are well-designed. Jobs policies for youth at risk can incorporate counseling and training in conflict resolution. Public works programs can facilitate community participation and engagement between citizens and local authorities. Policies can thus focus not only on the number of jobs, but on expanding job opportunities for excluded groups.

*Skills or jobs—what comes first?* The conventional wisdom is that investing in skills will lead to job creation and to higher productivity and labor income. High unemployment and skills mismatches are often attributed to shortcomings in education and training systems. But in reality they can also result from market distortions, which send the wrong signals to the education system or lead to a lack of dynamism in private firms. In such situations, massive investments in training systems, as seen in many parts of the world, might show disappointing results as hoped-for job outcomes do not materialize.

A core set of basic skills, both cognitive and social, is necessary for productive employment, and they cannot just be acquired on the job. Without such generic skills, the prospects of improving employment opportunities and earnings are thin. Skills are also critical for countries to move up the value-added ladder, as they can ignite innovation, produce the benefits of mutual learning, and hence lead to job creation themselves. But in between, much learning can happen through work: job opportunities can shape social skills and create demand for education and training. Learning on the job leads to significantly higher

earnings in many settings, with the return to one year of work experience being around a third to half of the return to an additional year of schooling.

*A targeted investment climate?* The conventional wisdom is that a level playing field is preferable because governments do not have enough information to pick winners and targeting can be captured by interest groups. But given the often limited fiscal space and administrative capacity of developing countries, creating an enabling business environment across the board can be challenging, and the relevant question is how policy priorities should be set. The conventional wisdom views targeting with a skepticism that stems from failed experiences with industrial policy. However, targeting may not necessarily be aimed at industrial sectors. Supporting job creation in sectors with high rates of female employment, or productivity gains in smallholder farming, or more jobs connected to global value chains may have high development payoffs depending on country contexts.

When there is clarity about where the good jobs for development are, and there is sufficient information to understand what can be done to support the creation of those jobs, a targeted investment climate may be warranted. But this is provided that targeted interventions can be designed in a way that makes them resilient to capture by interest groups. The risk of capture is easier to contain when the number of beneficiaries is very large, such as the case of farmers, urban businesses, and female micro-entrepreneurs. It is much higher in the case of industrial policy.

*Competing for jobs?* The conventional wisdom is that the number of jobs is not finite, so that policies for jobs in one country cannot be harmful to other countries. Indeed, in the medium to long term, total employment is roughly determined by the size of the labor force. But policies may alter global trade, investment, and migration flows, affecting the composition of employment. The concern is that the share of good jobs for development may decline in one country as it increases in another. Policies aimed at capturing a larger global share of the jobs with the largest productive spillovers can reduce well-being abroad, even if global well-being increases.

However, not all efforts to support job creation amount to beggar-thy-neighbor policies. Whether they do so depends on the type of instruments used and the nature of the spillovers from jobs. A key question is what purpose policies serve. Policies that aim to improve compliance with rights, prosecuting forced labor and harmful forms of child labor, amount to providing a global public good. On the other hand, policies that aim at reaping the benefits from productive externalities may adversely affect other countries, especially when they undermine an open trading system and are not aligned with a country's dynamic comparative advantage.

*Protecting workers or protecting jobs?* The conventional wisdom is that policies that protect people are preferable, because they mitigate welfare losses while at the same time allowing the reallocation of labor, hence supporting creative destruction. Protecting jobs that are no longer economically viable through government transfers and employment protection legislation freezes an inefficient allocation of resources. Protecting jobs also entails a high risk of capture. It may lead to enduringly unproductive jobs, stifle technological advance, prevent structural change, and eventually undermine growth.

However, there are times when many jobs are lost or threatened at once and few are being created. There are also jobs generating substantial productivity spillovers, whose disappearance in large numbers can lead to ghost towns and depressed regions. Protecting people should have primacy if shocks are idiosyncratic—if the employment dislocation is local and limited and if turnover continues to be the norm. Protecting jobs may be warranted in times of systemic crises or major economic restructuring. But job protection policies can create permanent inefficiency, especially in countries with weak institutions, making it indispensable to establish and enforce trigger rules and sunset clauses that define the extent and size of the protection.

*How to accelerate the reallocation of workers?* The conventional wisdom is to focus policy on removing the labor market rigidities that keep workers in firms or areas with low productivity. But reforms may not always be politically feasible. In India, complex and cumbersome labor market institutions have unambiguously negative effects on economic efficiency but these institutions have remained largely untouched for 60 years.

Tolerance for the avoidance or evasion of distortive regulation can help contain their cost but not ensure dynamism. In India, widespread noncompliance has been the dominant response to cumbersome labor regulations. However, labor-intensive manufacturing sectors remain sluggish despite buoyant performance of the overall economy. Other countries with similarly stringent regulatory obstacles have accomplished more efficiency-enhancing labor reallocation by actively taking advantage of productivity spillovers from jobs in industrial clusters, dynamic cities, or global value chains to make the regulations less binding. In Sri Lanka, the development of export processing zones (EPZs) drove the takeoff of the garment industry. In Brazil, the surge of internal migration is closely associated with the country's continuing integration into the global economy and a development policy that favors clusters and agglomeration. In China, labor reallocation is rooted in the development of competitive cities, supported by regional competition and experimentation. A strategic focus on enhancing productivity spillovers from jobs, through urbanization and global integration, can overcome the labor rigidity.

## Jobs drive development

They should not be an afterthought of growth

Some have greater development payoffs

## It is not just the number of jobs

## Jobs are created by the private sector

Public action sets the stage

Many jobs in developing countries are in farms and very small firms

## Informal is normal

## Some work is unacceptable

Rights should not be overlooked

One size does not fit all

## Jobs challenges vary across countries

## Get the policy fundamentals right

They have a bearing regardless of the jobs challenge

The main constraints to job creation may lie elsewhere

## Labor policies matter less than assumed

## Set priorities for public action

Focus on the jobs with greater development payoffs

Data and cooperation on cross-border investments and migration lag

## A global agenda for jobs is needed



Sebastião Salgado / Amazonas—Contact Press Images

Worker at a construction site in Jakarta, Indonesia

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62. ILO 2010.
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64. Heath and Mobarak 2011.
65. Luke and Munshi 2011.
66. Alfaro and Chen 2011; Romer 1993.
67. UNDP 2003a; UNDP 2003b.
68. Ibarraran and others 2012.
69. As an example, recent World Development Reports on youth (World Bank 2006b), geography (World Bank 2009b), conflict (World Bank 2011a), and gender (World Bank 2011c) look at spillovers from jobs in different contexts.
70. Glewwe 2004.
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82. Klapper, Laeven, and Rajan 2006.
83. Bruhn, 2008.
84. See, for example, Psacharopoulos and Patrinos (2004); Montenegro and Patrinos 2012 for the World Development Report 2013.
85. See, for example, Hanushek and Woessmann (2008) and Commander and Svejnar (2011) on the productivity link. Structural change and poverty links are explored in Lee and Newhouse (2012) for the World Development Report 2013.
86. Engle and others 2007; Grantham-McGregor and others 2007; Heckman 2008; Walker and others 2007; Young and Richardson 2007.
87. Engle and others 2007.
88. Heineck and Anger 2010; Cunha, Heckman and Schenck 2010.
89. OECD PISA 2009, <http://www.pisa.oecd.org>.
90. IMF 2003; Rodrik 2000.
91. Keefer 2009; North 1981, 1990.
92. Acemoglu, Johnson, and Robinson 2001; North 1990; Rodrik, Subramanian, and Trebbi 2004.
93. World Bank 2004.
94. World Bank 2010.
95. World Bank 2004.
96. World Bank 2004.
97. Laeven and Woodruff 2007.
98. ILO 1998.
99. Chen and others 2012 for the World Development Report 2013.
100. Betcherman 2012.
101. Alatas and Cameron 2003; Arango and Pachón 2004; Rama 2001; SMERU Research Institute 2001.
102. Haltiwanger, Scarpetta, and Schweiger 2008.
103. Betcherman 2012 for the World Development Report 2013; Freeman 2009; OECD 2006.
104. Aidt and Tzannatos 2002.
105. Freeman 2009.
106. Aidt and Tzannatos 2002.
107. Card, Kluge, and Weber 2010; OECD 2006; Almeida and others 2012 for the World Development Report 2013.
108. Bird and Smart 2012; Levy 2008.
109. Bhatt 2006; Chen and others 2012 for the World Development Report 2013.
110. World Bank 2010. Note that this unit cost is the aggregate cost of the Multi-Country Demobilization and Reintegration Program, including all forms of reintegration support, not only employment.
111. Glewwe 2004.
112. Rama 2009.
113. World Development Indicators 2012. World Development Indicators, World Bank, Washington, DC. <http://data.worldbank.org/data-catalog/world-developmentindicators>.
114. World Bank 2007.
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118. World Development Indicators 2012. World Development Indicators, World Bank, Washington, DC. <http://data.worldbank.org/data-catalog/world-developmentindicators>.
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121. OECD 2010.
122. OECD 2009.
123. OECD 2009.
124. Yusuf and Nabeshima 2006; Park and others 2011.
125. See World Bank 2010; Gibson, McKenzie, and Rohorua 2008.
126. Fajnzylber, Maloney, and Montes-Rohas 2011; OECD and ILO 2011.
127. World Bank 2011d.

128. Chau and Kanbur (2002) find evidence of a peer effect whereby ratification depends on the number of similar countries that have already ratified the convention.
129. Adler and Hwang 2012 for the World Development Report 2013.
130. Levi and others 2012 for the World Development Report 2013; Newitt 2012 for the World Development Report 2013.
131. Locke, forthcoming; Locke, Quin, and Brause 2007.
132. Hoekman 2011.
133. Borchert, Gootiiz and Mattoo 2011.
134. François and Hoekman 2010.
135. Hoekman and Mattoo 2011.
136. Fink, Mattoo, and Rathindran 2003; François and Hoekman 2010.
137. Hoekman and Mattoo 2011.
138. World Bank 2011c.
139. Randriamaro 2007.
140. See, for instance, Winters and others (2002); World Bank (2005).
141. See, for instance, EFRA (2011) and Angenendt (2012).
142. Regional agreements, such as the European Union's Schengen area, can also cover specific areas such as visas or social security of migrant workers. Several Latin American countries, Spain, and Portugal have been developing common principles about social security rights and regulations for migrants.
143. For a discussion on these issues, see Pritchett (2006).
144. Sixty-five countries produce monthly or quarterly labor force surveys, whereas 116 produce annual surveys.
145. The four indicators are GDP per employed person (a measure of productivity), the employment-to-population rate, the proportion of the employed population living on less than US\$1.25 a day (the so-called working poor), and the proportion of own-account and unremunerated workers in employed population (also called vulnerable workers). See United Nations Development Group 2010.
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Jobs provide higher earnings and better benefits as countries grow, but they are also a driver of development. Poverty falls as people work their way out of hardship and as jobs empowering women lead to greater investments in children. Efficiency increases as workers get better at what they do, as more productive jobs appear, and less productive ones disappear. Societies flourish as jobs bring together people from different ethnic and social backgrounds and provide alternatives to conflict. Jobs are thus more than a byproduct of economic growth. They are transformational—they are what we earn, what we do, and even who we are.

High unemployment and unmet job expectations among youth are the most immediate concerns. But in many developing countries, where farming and self-employment are prevalent and safety nets are modest at best, unemployment rates can be low. In these countries, growth is seldom jobless. Most of the poor work long hours but simply cannot make ends meet. And the violation of basic rights is not uncommon. Therefore, the number of jobs is not all that matters: jobs with high development payoffs are needed.

Confronted with these challenges, policy makers ask difficult questions. Should countries build their development strategies around growth, or should they focus on jobs? Can entrepreneurship be fostered, especially among the many microenterprises in developing countries, or are entrepreneurs born? Are greater investments in education and training a prerequisite for employability, or can skills be built through jobs? In times of major crises and structural shifts, should jobs, not just workers, be protected? And is there a risk that policies supporting job creation in one country will come at the expense of jobs in other countries?

The *World Development Report 2013: Jobs* offers answers to these and other difficult questions by looking at jobs as drivers of development—not as derived labor demand—and by considering all types of jobs—not just formal wage employment. The Report provides a framework that cuts across sectors and shows that the best policy responses vary across countries, depending on their levels of development, endowments, demography, and institutions. Policy fundamentals matter in all cases, as they enable a vibrant private sector, the source of most jobs in the world. Labor policies can help as well, even if they are less critical than is often assumed. Development policies, from making smallholder farming viable to fostering functional cities to engaging in global markets, hold the key to success.

