Socially Inclusive Structural Change

Section One

Poverty is reduced when economic growth and structural change both generate employment and ensure a distribution of benefits that improves well-being for all. Over the past half-century, most developing countries have not achieved sustained growth; nor has growth generated sufficient productive employment to reduce poverty. The classic employment-generating growth path – which saw labour move from agriculture to the manufacturing sector – is not being replicated in today's developing economies. In poor countries, most labour leaving agriculture goes into low-productivity activities in the informal economy rather than into industry. Only a few late industrializers have succeeded in emulating the pattern of structural transformation of the advanced economies, doing so through strategic state support for both industry and agriculture. By contrast, the majority of low-income countries are on alternative paths of structural change which, in many cases, are associated with highly segmented and unequal labour markets.

This section examines the potential for different patterns of structural change to generate productive employment and their implications for inequality. Income and wealth inequality have risen in most countries, particularly during the last two decades, for a number of reasons. These include financial and trade liberalization, stabilization policies that fail to protect the poor, regressive tax regimes, and labour market policies that increase casual, informal and unprotected employment. The structure of the labour market is a particularly important factor in generating or sustaining exclusion or inequalities along multiple dimensions – not only income or class status, but also by region, ethnicity and gender.

Structural change affects regions and ethnic groups differently. Some regions and groups may experience high levels of poverty and remain disadvantaged even when economies are growing and overall levels of inequality and poverty are low or falling. Ethnic inequalities may be reinforced by discriminatory public policies and differential access to governance institutions as well as the way in which labour markets are structured.

Like ethnic inequalities, gender inequalities, as well as the relationship between poverty and gender, are complex. They are found across a wide spectrum of institutions, both private and public. While positive changes in gender relations are associated with the social transformations that accompany economic development, these changes are not simply a by-product of economic growth. On the contrary, some patterns of growth and structural change are premised on, and reinforce, gender inequalities. Thus, while women's access to paid work has increased in most countries in recent decades, the terms and conditions of much of that work have deteriorated.

A range of complementary policies can foster patterns of structural change that are inclusive and generate employment, enhance well-being and reduce inequality. These include growth-enhancing macroeconomic policies, strategic industrial policies, support for agriculture and food security, and ensuring broad access to productive assets (including land); labour market policies that expand employment opportunities and remuneration, and decent conditions of work through appropriate forms of regulation; and redistributive and transformative social policies – investment in social infrastructure, services and transfers, and affirmative action policies – supported by progressive forms of taxation.

CHAPTER 1

Towards Employment-Centred Structural Change

A fundamental precondition for poverty reduction is a pattern of growth and structural change that generates productive employment, improves earnings and contributes to the welfare of the population. Employment policies must figure centrally in development strategies if such a pattern of growth is to occur. The 1995 World Summit for Social Development refocused the world's attention on the centrality of employment in social development, committing governments "to promote full employment as a basic priority of economic and social policies, and to enable all men and women to attain secure and sustainable livelihoods through freely chosen productive employment and work".[1] Nevertheless, the dominant development policy approaches of the following decade, as reflected, for example, in the Poverty Reduction Strategy Papers (PRSPs), largely ignored employment. Even the Millennium Development Goals (MDGs) subsume employment under the goal of halving extreme poverty and hunger. While inclusion in the MDGs of the target of "full and productive employment and decent work for all" is a timely acknowledgement of its importance, the strategies for achieving this target remain unclear.

This chapter outlines elements of a framework for incorporating employment more centrally in development policy. It highlights the potential and limits of different growth paths in generating employment, and argues that economic growth or industrialization per se will not necessarily lead to sustained improvements in employment, income and well-being. The classic pattern of structural change found in today's high-income countries, in which economic growth fuelled a shift from agriculture to industry and from industry to services, as well as a shift from self-employment to formal wage employment, is difficult to replicate in the context of open economies without deliberate policies. Labour still moves out of agriculture in the vast majority of countries, but it is absorbed into low-value services and the informal sector where the scope for sustained growth in productivity and incomes is limited. Poverty in most parts of the developing world is in large part accounted for by this pattern of structural change. The free-market orientation of development policy in the last few decades is associated with expanding labour market inequalities, persistent informalization and the emergence of precarious forms of employment in many countries.

> *The free-market orientation of development policy is associated with labour market inequalities, persistent informalization and the emergence of precarious forms of employment*

Public policy is critical for generating a pattern of structural change that creates employment and reduces poverty. However, there is no one-size-fits-all approach to employment policy, and the institutions critical for achieving inclusive outcomes often lie outside the labour market itself. Macroeconomic policy, financial institutions, the international structure of production, the nature and composition of households, gender dynamics and social policy all influence employment outcomes and the potential for better opportunities to translate into real differences in people's lives. Effective policy interventions will depend on existing structures of employment and particular institutional and economic contexts. At a general level, and taking each country's structure of employment as a starting point, policies must address problems of insufficient labour demand, improve the quality of existing employment and facilitate labour mobility. In addition, the process of development involves the transformation of the structure of employment – not simply improving opportunities in existing activities. The long-term challenge is to move human resources into higher value added activities and raise the level of labour productivity.

> *Countries successful in reducing poverty quite rapidly used industrial and agricultural policies and active social policies to facilitate employment-centred structural transformations*

Countries that have been successful in reducing poverty in relatively short periods of time used industrial and agricultural policies as well as active social policies to facilitate employment-centred structural transformations. Similar kinds of interventions can be used in many countries today to transform the structure of employment, nurture productive linkages between industry and agriculture, and encourage the development, in the longer term, of a solid foundation for decent work opportunities. Such strategies, however, will have to be sensitive to the constraints of climate change, which require additional efforts to support technological capacities that will propel countries to high-growth paths that are low carbon-intensive.[2]

The evidence presented in this chapter points to four main conclusions.

- Economic growth is important, but alone it does not necessarily reduce poverty and inequality. Employment represents a critical channel through which additional income generated by growth can be widely distributed throughout a population, and therefore deserves more focused policy attention.
- Structural change can have multiple paths, involving different types of industrialization, primary sector or service-led development. Countries that are stalled in low-productivity activities in agriculture, mineral extraction or services tend to produce highly segmented and unequal labour markets, generate limited employment opportunities and offer little in the way of social protection.
- The employment-centred policies that successfully eradicated poverty in late industrializing countries are incompatible with neoliberal development strategies more recently adopted by most countries. Successful countries invested substantially in infrastructure; channelled credit to specific productive activities; and pursued well-managed industrial and agricultural policies, as well as active social policies that improved the skill levels and welfare of the population.
- For many countries where industrialization has stalled or barely taken off, a significant challenge lies in improving the quality of service and agricultural employment, instead of pursuing a single objective of increased industrial production. Such challenges take on growing importance in light of food and environmental crises.

The chapter is organized as follows.

Section 1 explores the relationship between structural change and employment. It examines why the traditional model of industrialization is difficult to replicate in the setting of an open economy, the implications for employment outcomes and the role of policy.

Section 2 discusses significant global changes in the supply of labour: urbanization, growing participation of women in the labour force, integration of the global workforce and migration.

Section 3 uses country case studies to illustrate five different development paths, including the structure and evolution of employment and development strategies, and implications for poverty and living standards.

Section 4 discusses the relationship between employment and poverty, focusing on the working poor.

Section 5 concludes with a discussion of policy issues for promoting employment-centred structural change.

1. Structural Change in a Globalized World

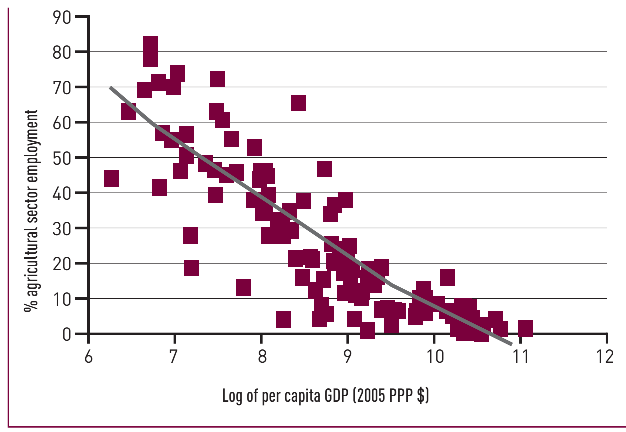
Structural change involves continuous shifts in the shares of manufacturing, services and agriculture in output and employment in favour of more dynamic sectors. How these sectors are organized, and how individuals, groups and communities are integrated into them have implications for livelihoods. Employment represents the single most important source of income for the majority of the world's people – either directly through their participation in the labour market, or indirectly through their membership in households sustained by earnings from employment. Structural change that improves employment opportunities will therefore be more inclusive than that in which the quality of employment stagnates or deteriorates. Conversely, unequal access to decent work and persistent labour market inequalities will frustrate efforts to reduce poverty.

> *Structural change that generates decent work will improve people's livelihoods*

As economies develop they undergo changes in the structure of production that have direct implications for the quality and quantity of employment opportunities. The pattern of economic development associated with today's high-income countries is a shift away from agriculture towards manufacturing, other types of industrial production and services, and a shift from self-employment to formal wage employment.[3] As labour and capital move from agriculture into more dynamic activities, average productivity in the economy climbs, further enhancing the demand for services and industrial products. Agriculture will also experience improvements in productivity, since the urban industrial population has to be fed by a declining rural labour force. Structural change is often accompanied by changes in the demographic structure, with fertility rates declining as countries industrialize and move up the income scale.[4]

Data comparing countries by per capita income (figures 1.1, 1.2 and 1.3) illustrate that the basic tendency of economic growth is a shift out of agricultural employment. Figure 1.1 shows the relationship between per capita gross domestic product (GDP) and the share of agricultural employment for 120 countries. A distinct negative relationship is evident: as per capita income increases, agricultural employment, as a share of total employment, drops significantly, approaching zero among the highest income countries.

FIGURE 1.1: The share of agricultural employment and per capita GDP, averages 1997–2006 (natural logarithm)

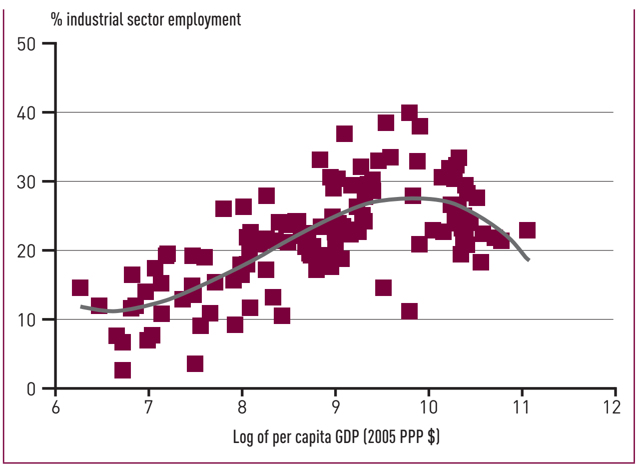


Note: Line fitted using nearest neighbour algorithm (bandwidth=0.5).
Source: Heintz 2009.

Figure 1.2 shows that industrial employment, as a share of total employment, increases with per capita income up to about 30 per cent of total employment on average and thereafter begins to decline.[5] This relatively low peak of 30 per cent suggests that it is unrealistic to expect the industrial sector ever to employ the majority of the labour force. The level of per capita income at which de-industrialization begins to occur has fallen (in this case, de-industrialization is defined by a fall in manufacturing's share of total employment as per capita income increases).[6] However, it should be noted that the distinction between manufacturing and services is becoming blurred, especially in high-income economies. Manufacturing firms outsource many of their service activities to service firms and use intermediate inputs from independent service providers.[7]

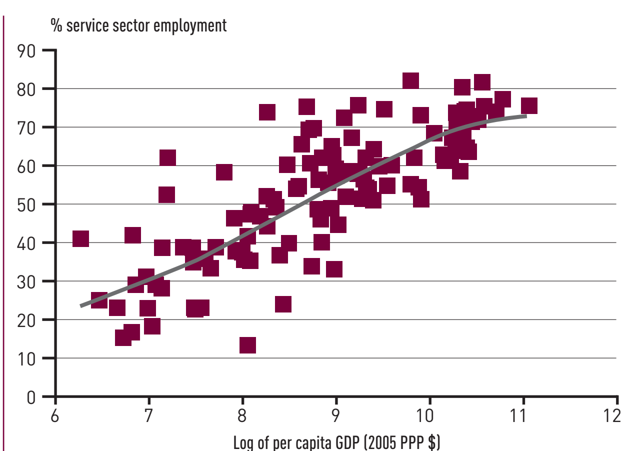
Figure 1.3 shows the strong positive relationship between the share of employment in services and per capita income. In many high-income economies, services account for 70 to 80 per cent of all employment. For low-income countries, services account for 20 to 30 per cent of total employment, but still create more jobs than industry.

FIGURE 1.2: The share of industrial employment and per capita GDP, averages 1997–2006 (natural logarithm)



Note: Line fitted using nearest neighbour algorithm (bandwidth=0.5).
Source: Heintz 2009.

FIGURE 1.3: The share of service employment and per capita GDP, averages 1997–2006 (natural logarithm)



Note: Line fitted using nearest neighbour algorithm (bandwidth=0.5).
Source: Heintz 2009.

The traditional pattern of structural change may not apply in a globalized world

Despite the broad tendencies suggested by these figures, the traditional pattern of structural change may not apply in a world with open economies and networks of globalized production and trade. Globalization weakens the organic links between agriculture and industry, since an urban population can be fed by importing food rather than by supporting domestic agricultural production. The demand for manufactured goods can also be met by increased imports rather than by expanding domestic production. And global competition in the production of manufactured goods may lead to productivity improvements, which can cause industrial employment to fall behind industrial output.

> *By 2008, productivity improvements or macroeconomic policies were no longer supporting growth in aggregate demand in the same way they did in the past*

Increases in the rate of productivity growth tend to slow the rate of employment growth (see table 1.1). During the period 1961–1970, for example, a 1 percentage point increase in the growth rate of productivity resulted in a 0.07 percentage point reduction in the rate of employment growth – a very small effect. However, in the period 2001–2008, the same 1 percentage point increase in the growth rate of productivity resulted in a 0.54 per cent decline in the growth rate of employment – a much more significant impact. This suggests that by 2008, productivity improvements or macroeconomic policies were no longer supporting growth in aggregate demand in the same way they did in the past.

TABLE 1.1: Estimates of the impact of productivity growth on employment growth, 1961–2008

	Estimated impact of productivity growth on employment growth	Constant (%)	Number of observations
1961–1970	−0.07 (0.022)	2.4 (0.15)	315
1971–1980	−0.15 (0.025)	2.8 (0.19)	350
1981–1990	−0.13 (0.032)	2.4 (0.17)	350
1991–2000	−0.28 (0.032)	2.2 (0.18)	350
2001–2008	−0.54 (0.049)	3.4 (0.25)	280
1961–2008 (all years)	**−0.21 (0.014)**	**2.1 (0.08)**	**1,645**

Notes: Employment is measured by number of workers. Productivity is measured by GDP per worker. Data are from 35 countries in Asia, Latin America and Eastern Europe. The database only contained information on the total labour force, not employment, for countries in Africa and the Middle East. The estimated equation included a lagged endogenous variable (the growth rate of employment lagged one period) and country-fixed effects. Time series data were taken from the Groningen Growth and Development Centre, Total Economy Database. Source: Heintz 2009.

These characteristics of the relationship between productivity growth and employment growth apply across all sectors of the economy. However, the change in this relationship is more pronounced for the industrial sector than for other sectors, since the scope for productivity growth is larger. This could lead to a divergence between the industrialization of output and that of employment.

Greater openness in trade is probably the primary cause of the growing divergence between output and employment growth.[8] In addition, macroeconomic policies that aim to restrict domestic demand in order to stabilize rates of inflation and public debt may also contribute to such divergence. In low-income countries in particular, public expenditure contraction tends to be directed not only at the employment-intensive social sectors, such as health and education, but also at spending that directly affects agriculture, which is a major source of livelihoods. This leads to less direct job creation by government, and also less indirect impact through multiplier effects.

The trajectories of structural change experienced in most countries today differ from the development paths of high-income countries

Different trajectories of structural change, therefore, can be observed in most countries today. Movement out of agriculture is still occurring, but the resulting labour force is not automatically absorbed into the industrial sector. Instead, workers move disproportionately into the service sector and informal employment, where the scope for sustained growth in productivity and improvements in incomes is limited. In recent decades, a few countries in East Asia have undergone an industrial transformation similar to the one experienced in the high-income countries. They used interventionist industrial and other policies, managed trade, close finance-industry links and social policies that raised the skill level of their labour force. The share of industrial employment grew and living standards rose significantly. However, maintaining a standard of work that provides adequate remuneration and protection is difficult even for these countries that have successfully industrialized.

2. Emerging Trends in Employment

So far, this chapter has discussed the various relationships observed between economic development and the structure of employment. The discussion has focused on how structural shifts in domestic demand for goods and services and in productivity affect the level and composition of labour demand. In recent years, however, developments on the supply side of labour markets around the world have been far reaching. This section highlights four labour supply issues that are of particular importance in understanding household incomes and poverty risks: urbanization, growing participation by women in the labour force, greater integration of the global workforce, and migration.

Household incomes are affected by the dynamics of global labour supply

Urbanization

An increasing share of the world's population lives in towns and urban centres.[9] Though the urban share of the population is highest in high-income countries and lowest in low-income countries, growing urbanization is a phenomenon experienced by all country groupings.[10] This raises serious questions as to whether demand for labour in urban areas will grow sufficiently to absorb the expanding workforce.

Table 1.2 illustrates recent trends in the growth of urban populations, total population and industrial employment for 11 developing countries. In all cases, the urban population is growing faster than the total population (note that these are annual average growth rates spanning 20 to 25 years).

Urbanization is growing in high- and low-income countries

The table shows a positive relationship between the growth rate of the urban population and the growth rate of industrial employment. This suggests that as labour demand in the industrial sector increases, so does rural-to-urban migration. However, in most of the countries examined here, growth in the urban population exceeds the growth in industrial employment opportunities. This indicates that, over time, industrial employment will account for a decreasing share of total urban employment. Rural-to-urban migrants who are not employed in industrial jobs will work in the service sector or in informal employment, or will become unemployed. Of course, not all industrial employment is located in urban areas, but the majority of such opportunities are concentrated in and around cities. In most countries, earnings even from informal urban employment on average remain above earnings in agriculture, providing an incentive for continued rural-to-urban migration even when there are few opportunities for industrial jobs. Continued urbanization in contexts where employment opportunities are limited may place downward pressure on urban earnings, while informal employment is typically precarious and poorly remunerated and with little, if any, social protection.

Rural-to-urban migrants who are not employed in industrial jobs will work in the service sector or in informal employment, or will become unemployed

TABLE 1.2: Annual growth rates of urban population, total population and industrial employment in selected countries

	Urban population annual growth rate (%)	Total population annual growth rate (%)	Industrial employment growth rate (%)	Years	Source
Bolivia	3.6	2.2	4.2	1981–2003	GGDC
Botswana	7.8	2.6	7.2	1981–2003	UNIDO
Brazil	2.6	1.7	1.6	1981–2005	GGDC
Costa Rica	3.9	2.4	3.2	1981–2006	ILO
India	2.8	1.9	0.6	1981–2002	UNIDO
Indonesia	4.6	1.5	3.7	1981–2006	ILO
Republic of Korea	2.2	0.9	1.5	1981–2006	ILO
Mexico	2.2	1.7	1.8	1981–2005	GGDC
Peru	2.3	1.8	1.2	1981–2005	GGDC
Philippines	4.3	2.3	2.1	1981–2006	ILO
Thailand	1.9	1.2	4.2	1981–2006	ILO

Notes: Industrial employment includes manufacturing, construction and utilities. For Botswana and India, industrial employment only includes manufacturing. The correlation coefficient between growth in the urban population and growth in industrial employment across the 11 countries is 0.77. GGDC = Groningen Growth and Development Centre; ILO = International Labour Organization; UNIDO = United Nations Industrial Development Organization. Source: Heintz 2009.

Growing labour force participation by women

Another important trend is the notable increase in women's participation in paid work, which increased globally by more than 18 per cent between 1997 and 2007.[11] Chapter 4 addresses this issue in greater detail. Women's increased labour force participation has coincided with limited growth in formal industrial employment and the more rapid increase in the share of service and informal forms of employment. More women around the world are being employed in service rather than industrial activities, which are often more poorly paid and offer less social protection.

Increasing global labour supply

Growing involvement of women in paid work is part of a wider process of expansion in the global labour supply. With market reforms in Eastern Europe, Central Asia and, perhaps most significantly, China, and India's adoption of more outward-oriented economic policies, the number of workers engaged in production for the global market has increased enormously in recent decades. Expansion in the global pool of labour has outstripped the increase in the global pool of capital, making labour relatively more abundant and capital relatively scarcer.[12] The result has been downward pressure on wages, at least until global capital accumulation can catch up. The almost universal decline in wage shares of national income (see chapter 2) can be at least partly explained by this wider process. The relative scarcity of capital has been made more severe by neoliberal policies that discouraged fixed capital investment.[13]

The rise in the share of manufactured exports originating in developing economies represents one dimension of the integration of the global workforce. In 1960, manufactured goods accounted for only 12 per cent of developing countries' exports; by 2000 they accounted for about 67 per cent. Not only are developing countries competing with the established manufacturing sectors of advanced industrial nations, they also are competing with each other. This shift has coincided with declining terms of trade for certain types of manufactured goods, especially labour-intensive ones, which account for the bulk of poor countries' manufactured exports.[14] The competitive pressures may make industrial development more difficult as gains from trade deteriorate over time and erode the resources available to invest in upgrading industrial production.

> *The number of workers engaged in production for the global market has increased enormously in recent decades and average wages have decreased in low-skill sectors*

International migration

International migration plays a complex role in labour supply. While the proportion of international migrants in the world population has remained broadly stable at around 3 per cent, the total number grew to nearly 200 million by 2005, including refugees and asylum seekers. Most migrants go abroad for economic reasons, however, and are unevenly distributed across the world. For countries with high levels of out-migration, such as Ghana, Mexico and the Philippines, remittances from employment constitute a sizeable inflow of financial resources. In high-income countries, migrants tend to be concentrated in low-paid, precarious and unprotected forms of employment. In the United States, for example, non-citizens account for a disproportionate share of day labourers, part-time workers and temporary hires – categories of work that tend to be significantly more precarious. In some cases, migrant workers are caught up in highly exploitative, illegal employment arrangements. Despite these labour market disadvantages, remittances financed through employment income and sent back to the migrant's country of origin often constitute a sizeable component of household income, thereby reducing the risk of poverty (see chapter 8).

3. How Different Patterns of Development Affect Employment

Employment includes not only wage employment but also the work of the self-employed, from farmers and artisans to petty traders and informal load carriers, who engage in market transactions to obtain remuneration for their labour. The experiences of different countries can highlight the potential of different patterns of development to decrease poverty through their effects on employment. What stands out clearly from the evidence is the heterogeneity of experiences and outcomes. Moreover, it suggests that economic growth alone will not necessarily generate employment. Nor will growth alone reduce poverty. Even in countries that have achieved successful industrialization, labour market conditions have deteriorated in recent years, reflected by a decline in the quality of employment and by growing inequality. The cases are discussed below under five broad types of development paths: economies that have made the transition to manufacturing; cases of industrialization with dualist labour market regimes; cases of service-led growth; economies in which agriculture dominates; and mineral-rich economies.

East Asian states have followed the classic manufacturing growth path

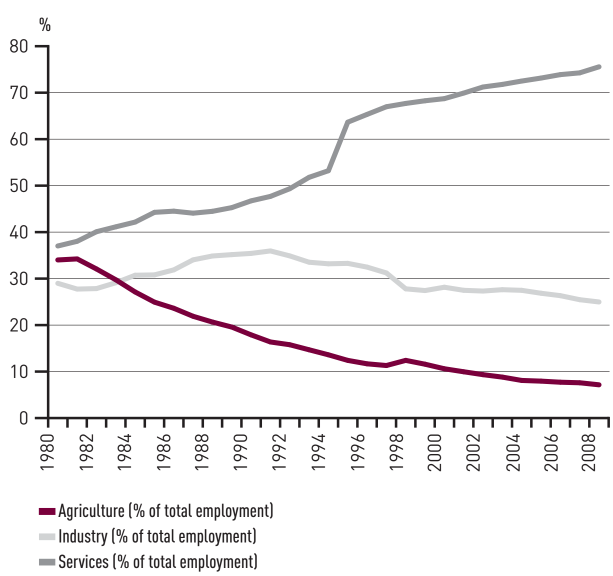
East Asian states have successfully replicated the classic industrialization model of the now-developed economies. They prioritized economic growth and established a strong state structure to influence investment decisions and mobilize labour. Starting far behind the technological frontier, they copied, refined and extended the state-directed strategies of the early industrializers.[15] This involved complementary policies in the economic and social fields. Credit, investments, entry and exit of firms in specific sectors, and pricing were coordinated to regulate competition and facilitate technological upgrading and industrial restructuring. They invested heavily in education, training and research, leading to a deepening of skills across sectors and income groups. They had carried out land reform, which raised productivity and income levels in the rural sector. And they combined selective import substitution and export-led growth through well-managed industrial policies. They also imported foreign licences, rather than relying extensively on foreign direct investment (FDI), and actively mobilized resources through very high savings rates, which were channelled into long-term investment. They adopted a policy of life-long employment for (mostly male) workers engaged in core industries, and created strong links between formal employment and social protection, which was provided by private firms with the state acting as a regulator. This development strategy generated high rates of growth, low levels of unemployment and helped the majority of people to lift themselves out of poverty.

Republic of Korea: Taking a classic route

The Republic of Korea exemplifies one of the East Asian states that followed a classic growth path in which the share of industrial employment increased. Average living standards rose dramatically, and poverty fell from 41 per cent of the country's population in 1965 to less than 8 per cent in 1991.[16] However, by the time of the East Asian financial crisis in 1997, the industrial share of employment had begun to fall and service employment was rising. The crisis had a dramatic impact on labour markets, fundamentally reshaping employment arrangements and effectively destroying any guarantee of life-long employment.

Figure 1.4 shows the shares of employment in agriculture, industry and services for the Republic of Korea from 1980 to 2008. At the start of this period, a process of industrialization was already under way, and industrial employment stood at 29 per cent of total employment. This share peaked at 36 per cent in 1991. Services comprised a growing share of all employment, exceeding 50 per cent by 1993. In 1980, agriculture still accounted for a third of all employment. By 2007, its share had dropped to just over 7 per cent. The share of agricultural output also fell. In the industrial sector, the share of employment increased along with the share of output during the 1980s, but in the 1990s both shares declined. However, the share of industrial employment declined much more rapidly than the share of industrial output.

FIGURE 1.4: Share of employment by sector in the Republic of Korea, 1980–2008



Average shares of employment and output in the Republic of Korea, 1980–2006

	1981–1985	1986–1990	1991–1995	1996–2000	2001–2006
Employment shares (%)					
Agriculture	29.6	20.7	14.6	11.5	8.9
Industry	29.2	34.3	34.2	29.4	27.3
Services	41.1	45.0	51.2	59.1	63.8
Output shares (%)					
Agriculture	14.9	10.5	7.1	5.3	4.0
Industry	38.1	41.3	41.8	40.8	39.7
Services	46.9	48.3	51.1	53.9	56.3

Source: Heintz 2009.

During the phase of rapid industrialization, gains in productivity were associated with growth in industrial employment. By the 1990s, this relationship between industrial employment and productivity no longer held: output was no longer growing fast enough to compensate for labour displacement associated with productivity gains. In the service sector, the share of employment increased faster than the share of output. Slower productivity growth in services, in turn, limited the capacity of the economy to achieve the same rate of improvement in employment earnings for service workers that was evident in manufacturing employment during the period of rapid industrialization.

Table 1.3 shows the distribution of employment for regular, temporary and daily employment for the Republic of Korea in 2005. Both average hours of work and average hourly earnings are lower in the temporary and daily categories, implying that the earnings potential (hours worked multiplied by hourly earnings) for such jobs is significantly lower than in regular employment. Female wage earners are more likely to work in non-regular jobs than men. Most non-regular employment is concentrated in the service sector – including retail trade, hotels, restaurants, administrative support and educational services. In rural areas, agricultural employment accounts for a significant share of non-regular employment. Construction work comprises an important share of daily employment, with male workers dominating. After the East Asian financial crisis, the number of temporary and daily employment contracts grew dramatically. It is estimated that non-regular employment grew from 17 per cent of total employment in 2001 to 29 per cent in 2006.[17] This development ruptured the complementary link between employment and social protection. As subsequent chapters will show, this led to social policy reforms aiming to ensure greater inclusion of those not formally employed.

TABLE 1.3: Share of employment in the Republic of Korea, 2005

	Distribution of employment (%)		Weekly hours		Hourly earnings (Korean won)	
	Male	Female	Male	Female	Male	Female
Urban employment						
Regular employee	40.2	25.0	59	39	14,570	10,871
Small-scale enterprise	1.5	1.4	43	31	9,589	7,942
Other enterprises	38.7	23.6	59	47	14,771	11,059
Temporary employee	15.1	28.6	33	24	7,140	6,048
Small-scale enterprise	4.7	10.2	31	21	6,287	5,105
Other enterprises	10.4	18.4	34	25	7,529	6,580
Daily employee	8.2	10.1	25	14	6,709	4,332
Small-scale enterprise	3.2	5.4	22	14	6,403	4,173
Other enterprises	5.0	4.7	23	16	6,908	4,515
Employer	9.9	3.5	52	54	n.a.	n.a.
Small-scale enterprise	6.0	2.9	53	54	n.a.	n.a.
Other enterprises	3.9	0.6	50	52	n.a.	n.a.
Own-account worker	16.9	12.6	50	45	n.a.	n.a.
Contributing family worker	0.9	9.1	44	57	n.a.	n.a.
Rural employment						
Regular employee	0.9	0.8	40	32	9,009	7,760
Temporary employee	0.4	0.8	25	20	5,507	4,874
Daily employee	0.3	0.8	22	13	6,481	3,399
Employer	0.3	0.1	57	59	n.a.	n.a.
Own-account worker	6.4	3.1	43	39	n.a.	n.a.
Contributing family worker	0.5	5.5	42	43	n.a.	n.a.

Note: Small-scale enterprises have fewer than five employees. Other enterprises have five or more employees. n.a. = not available. Source: Heintz 2009. See also Heintz (2008) for details.

Other East Asian states: Growth combined with poverty reduction

Indonesia, Malaysia and Thailand represent a second group of East Asian countries that have also followed the path of manufacturing-led development, although their levels of skill formation, domestic savings, social protection and state capacity are much lower than the Republic of Korea, and foreign capital plays a more significant role in their industrial strategies. In Malaysia, manufacturing employment expanded rapidly – from 7 per cent in the 1960s to about 28 per cent in 2000. Whereas 55 per cent of Malaysians earned a living from agriculture in the 1960s, this share fell to 16 per cent by 2000. Poverty fell from about 50 per cent in 1970 to less than 6 per cent in 2004.[18]

China and Viet Nam constitute a third group: countries transitioning from centrally planned to market economies. In both countries, communist governments have facilitated faster growth, with party cadres initially spearheading reforms and in some cases acting as entrepreneurs, even as changes in the incentive structure offered more resources, property rights and decision-making powers to small producers. Rural industrialization constituted an important part of the development strategy of these countries, at least in the early stage of decollectivization.[19] As transition progressed, their development strategies have come to rely on high-productivity-driven foreign firms, which affect the extent to which employment growth can match labour force growth. A large proportion of the population is still employed in agriculture. Nonetheless, poverty has fallen sharply to less than 10 per cent in China[20] and less than 15 per cent in Viet Nam.[21]

The dualism of many middle-income countries exacerbates inequalities

Many middle-income countries are highly industrialized. In per capita terms, Latin America is the most industrialized region in the developing world.[22] On average, agriculture accounts for less than 10 per cent of national output in the region, although agribusiness is thriving, especially in Argentina, Brazil and Mexico. Capital-intensive farming has replaced traditional *latifundia* (large estates) and is responsible for an overwhelming share of agricultural output. At the same time, over half of the urban labour force is self-employed or works as domestic labour or in small enterprises with low pay. A few other developing countries, such as the Philippines and South Africa, share Latin America's pattern of industrialization and dualism (that is, economies with a formal sector that offers high wages, benefits, security and prospects for upward mobility; and an informal sector characterized by low incomes and less job security, training and mobility).

From 1950 to the 1980s, many of these countries pursued an import-substitution industrialization strategy, with some achieving high growth rates and reduced poverty during part of that period. They were unable, however, to complete the process of industrial transformation, producing instead labour market and social policy regimes that are highly dualistic. Long-running economic crises and massive debts in the 1980s exposed most of these countries to the policy prescriptions of the international financial institutions (IFIs).

The skewed nature of income distribution in favour of high-income groups was linked with skill- and capital-intensive industrialization. In South Africa, where the apartheid state deliberately discouraged the emergence of an integrated national economy and tried to contain black labour militancy, many industrial firms and farm owners opted for capital-intensive methods by investing in sophisticated machinery, requiring few skilled technicians and a small labour force.[23] Such a strategy worsened unemployment, poverty and inequality, which the post-apartheid government has not been able to reverse while pursuing a high-productivity growth strategy.[24] Unemployment in South Africa is about 27 per cent, the highest rate in the world.

The growth strategies of dualist economies in Latin America relied heavily on foreign loans and massive importation of capital goods and technology. These could not be sustained when the terms of trade for key exports deteriorated and interest rates skyrocketed. Nor could the export strategy that later complemented the model of import substitution generate enough revenues to pay for the accumulated debt or avert the balance of payments crises of the 1980s.

Brazil: Industrialization without job creation

Despite industrialization, about half of Brazil's workforce is informally employed. Table 1.4 presents the average sectoral distribution of employment and output in Brazil. Industrial employment accounted for between 20 and 24 per cent of total employment over the period 1980–2006. Both the share of industrial employment and the share of industrial output declined on average over this period, although there is some indication of an upturn from 2001–2006. Output fell faster than industrial employment, suggesting a reduction in average productivity in industrial activities.

Table 1.5 shows that the share of non-agricultural informal employment is identical to the share of non-agricultural formal employment – 41 per cent. Employed women are more likely to work in non-agricultural informal employment than employed men. This is mostly due to the large number of domestic workers in Brazil, the vast majority of whom are women (see chapter 4). Earnings are generally highest in formal employment and lowest in agricultural employment, and workers in non-agricultural informal employment earn more, on average, than most agricultural workers. All categories of informal employment have lower earnings; and in all categories of employment, women earn less than men. This is due to a combination of lower average hourly earnings and fewer hours of paid work each month. Nevertheless, the hierarchy of earnings, with non-agricultural informal workers earning more than most agricultural workers, suggests that there will be continued economic pressures for ongoing rural-to-urban migration, even if rural migrants have no chance of being employed in a formal job. Of course, some caution is warranted in drawing conclusions too hastily – these estimates do not take into account other factors, such as differences in the cost of living in rural and urban areas. Poverty reduction will be slower if informal employment expands and wages in these forms of precarious employment do not improve.

TABLE 1.4: Average shares of employment and output in Brazil, 1980–2006

	1981–1985	1986–1990	1991–1995	1996–2000	2001–2006
Employment shares (%)					
Agriculture	28.9	24.1	27.3	24.0	20.5
Industry	23.5	23.5	20.2	19.8	21.0
Services	47.7	52.3	52.5	56.1	58.5
Output shares (%)					
Agriculture	10.7	9.6	7.7	5.5	6.2
Industry	44.9	43.2	36.8	26.3	28.7
Services	44.4	47.2	55.5	68.2	65.1

Source: Heintz 2009.

TABLE 1.5: Structure of employment in Brazil, 2007

Employment category	Number employed			% of total		
	Male	Female	Total	Male	Female	Total
Formal, non agricultural						
Private formal employee	16,910,679	9,519,926	26,430,605	33	25	30
Public employees	3,560,926	4,601,150	8,162,076	7	12	9
Formal own-account	568,888	599,940	1,168,828	1	2	1
Formal employer	575,429	208,780	784,209	1	1	1
Formal, agricultural						
Formal employee	147,542	16,044	163,586	0.3	0.0	0.2
Formal self-employed	48,043	4,485	52,528	0.1	0.0	0.1
Total formal	*21,811,507*	*14,950,325*	*36,761,832*	*43*	*39*	*41*
Informal, non-agricultural						
Informal employee (excluding domestic)	7,532,732	4,790,937	12,323,669	15	13	14
Domestic worker	409,871	6,214,878	6,624,749	1	16	7
Informal own-account	8,721,828	5,089,100	13,810,928	17	13	15
Informal employer	1,558,830	660,610	2,219,440	3	2	2
Contributing family worker	432,132	829,676	1,261,808	1	2	1
Total informal non-agricultural	*18,655,393*	*17,585,201*	*36,240,594*	*36*	*46*	*41*
Informal, agricultural						
Informal employee, permanent	2,299,094	237,892	2,536,986	4	1	3
Informal employee, temporary	1,879,499	301,350	2,180,849	4	1	2
Informal self-employed	3,919,952	554,414	4,474,366	8	1	5
Contributing family worker	1,189,497	1,673,175	2,862,672	2	4	3
Total informal agricultural	*9,288,042*	*2,766,831*	*12,054,873*	*18*	*7*	*14*
Other categories						
Production for own use	1,429,282	2,384,875	3,814,157	3	6	4
Other/unknown	94,825	219,397	314,222	0	1	0
Total	***51,279,049***	***37,906,629***	***89,185,678***	***100***	***100***	***100***

Source: Heintz 2009.

The inability of industrialization to deliver high levels of formal employment in dualist economies undermines the complementarity demonstrated in the East Asian cases between labour market participation and social protection. As subsequent chapters will show, governments that are keen to improve the welfare of the poor have instead expanded social assistance schemes, such as cash transfers. While these schemes have helped to reduce poverty and inequality, the sharp divisions in labour markets and failure of the growth strategy to generate enough jobs that are adequately remunerated and protected make it difficult for the majority of the population to escape from poverty or for inequality to be substantially reduced.

Can service-led development be an alternative to industrialization?

Growth in the service sectors of many developing countries – particularly higher value added services – has raised the possibility that service-led development could provide an alternative to the manufacturing-led path.[25] Two points are worth noting. First, services are not necessarily a substitute for industrialization. Many services contribute to industrial production that raises average productivity.

Second, there has been strong growth in international trade in services. If services become increasingly tradable, then the demand for services need not come from domestic industries or consumers, but could result from industrial growth elsewhere in the global economy. Whether the export of services can mimic the success of the export-based industrialization strategy followed by East Asia remains to be seen.

Ireland: Bolstering economic growth through services

In some countries with reasonable levels of industrialization, the service sector can be productive. Ireland, dubbed the Celtic Tiger, used services to sustain its growth strategy of the 1990s, which reversed the country's long period of economic stagnation and high levels of unemployment. The service sector's share of exports doubled from 17 per cent to 34 per cent between 1998 and 2004, and employment in services, which grew by about 18 per cent between 2002 and 2006, accounts for 67 per cent of total employment. The service-led strategy is driven by FDI (with financial services accounting for about 85 per cent of such investment in 2004), and is based on a regime of low taxation. A series of collective agreements, involving the state, employers, trade unions and farmers, have been decisive in holding wages down in exchange for high levels of employment and low income tax rates. However, welfare expenditures have fallen sharply, and poverty levels have shown a steady rise since 1997, except at the 60 per cent of average income poverty line where poverty has remained quite stable.[26] Concerns have been raised about the enclave nature of the financial services sector and the weakening of productivity growth in the economy as services have come to dominate. The global economic crisis has had an adverse impact on Ireland's growth strategy, fuelling unemployment and industrial unrest.

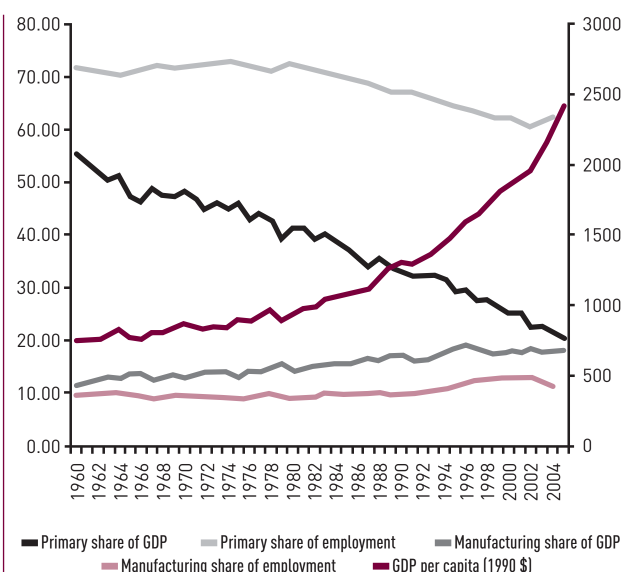
India: Bypassing industrialization through growth in services

India's early development strategy (1950–1980) was based on import-substitution industrialization and some flirtation with redistribution to respond to the demands of segments of the peasantry that the governing party had mobilized in anti-colonial struggles. However, the ruling party was disproportionately influenced by landed and business elites, which the state could not discipline sufficiently to deliver high growth and structural change.[27] Even when the focus of public policy shifted to poverty reduction in the 1960s and 1970s, state intervention took populist forms and contradictory pulls within the party rendered growth problematic and redistribution ineffective.[28] The outcome is a manufacturing sector that failed to reach the heights of the East Asian countries. Recent changes in the policy regime and the increasing significance of services have led to high growth rates. It is unclear, however, whether the service sector will ultimately transform the Indian economy by stimulating the lagging manufacturing and agricultural sectors.

The employment situation in India and the country's development path do not fit neatly into traditional categories.

In its formal industrial sector, India has experienced jobless growth in which output has expanded, but employment has stagnated or declined. A large share of India's population is still employed in agriculture. In contrast to the performance of the rural economy, a number of high value added services have taken off in recent years. Perhaps the best known are tradable services in information and communications technology (ICT). Nevertheless, the informal, or unorganized, sector continues to account for much of India's urban employment. Figure 1.5 provides an overview of the structure of employment in India. The expansion of industrial output has not led to a consistent expansion of industrial employment. Indeed, more recently employment growth has stagnated in the industrial sector.

FIGURE 1.5: Dimensions of structural change in India, 1960–2004



Source: Ghosh 2008.

The lack of complementarity between labour market participation and social protection is particularly marked in India and other service-based and agrarian economies. In the case of India, 90 per cent of the working population belongs to the informal sector, and therefore lacks adequate coverage by social protection programmes.

The combination of higher growth and the emergence of the new service sector has generated speculation that India is pursuing a new economic model, one that bypasses traditional industrialization by embracing new opportunities made possible by advances in communications and computer technology.[29] A number of factors make a service-led development path a possibility. First, services may have a positive impact on the productivity of other sectors of the economy, including the industrial sector. Therefore, growth in services can potentially support higher productivity and better standards of living. Second, the high value added services are mostly tradable – for example, information services. Along the classic manufacturing-led development path, growth in domestic industrial production generated the market for an expanding service sector. In a globally integrated world, sustained industrial growth need not precede the expansion of services if those services are tradable. Third, the scope for technological innovation and economies of scale may be greater for services than is often believed. This would allow services to usurp the role played by industry, at least in part, in the classic development model.

> *In a globally integrated world, sustained industrial growth need not precede the expansion of services if those services are tradable*

Conceptualizing a service-led growth path for India raises a number of thorny issues. A recent analysis of the drivers of growth in India suggests that manufacturing and finance have been the two most important sectors;[30] ICTs do not yet feature prominently. From an employment perspective, this pattern of growth is worrying. Despite remarkable increases, employment in the ICT sector remains relatively small if compared to overall service employment in India. Also, individuals must have sufficient skills to take advantage of employment opportunities in the ICT sector. Displaced workers from the industrial sector may be able to move into these jobs. However, it is unlikely, at least in the short and medium term, that rural-to-urban migrants or workers in the informal economy will enjoy sufficient upward labour market mobility to take up ICT jobs – limiting the extent to which service-led development can reduce poverty.

Finally, service-led development that relies on the promotion of tradable services will almost certainly lead to growing inequalities among workers in service activities. Tradable services will enjoy higher returns to labour and improved opportunities, while non-tradable services (those tied closely to the domestic market, including a large share of urban informal employment) may not realize equivalent advantages. Poor workers are more likely to be concentrated in non-tradable services, suggesting that these individuals and their families may be left behind under a service-led growth paradigm.

India's development model suffers another constraint. Annual agricultural growth in the post-liberalization period has averaged nearly 1 per cent below that achieved in the 1980s, largely due to a decline in public investment during that period.[31] Sustained levels of growth have reduced poverty in aggregate terms. According to official statistics,[32] income poverty began to decline from about 50 per cent of the population in 1977–1978 to about 27 per cent in 2004–2005. But the rate of decline is estimated to have been faster in the 1980s, compared to the 1990s and beyond, suggesting that poverty reduction suffered a setback after the initiation of neoliberal reforms. And although rural-urban per capita incomes narrowed in the 1980s, they widened again in the 1990s, and there is limited progress in many physical indicators of well-being and deprivation. Nutrition poverty remains high at about 75 per cent.[33] Other indicators, such as child mortality or height-to-weight ratios of children, are poor in absolute terms, despite the increase in output growth.[34]

Low-income countries remain heavily agrarian

Many low-income countries are experiencing a different type of transformation. Their state-led strategies of industrialization produced high growth, savings and investment rates in the 1960s and 1970s, even though they tended to have high capital-output ratios, suggesting less efficient use of capital.[35] By the early 1980s, the majority of these countries were in crisis and were forced by the IFIs to adopt deflationary and liberalization policies. In many cases, this led to a distinct process of de-industrialization and a hollowing out of the state. Their economies have remained heavily agrarian, with a large informal sector and less diversified and more limited industrial and export sectors.[36]

Kenya and Cambodia: Predominantly agricultural

Kenya and Cambodia represent two countries in which agricultural output is still a very high share of GDP and agricultural employment dominates. In addition, both countries have a fledgling industrial base and have enjoyed some success in recent years in penetrating new export markets – Kenya in horticultural products and Cambodia in garments. The success of these export sectors remains precarious, and it is unclear whether they will provide an adequate foundation, by themselves, for future industrialization and employment generation.

The vast majority of employment in Kenya is characterized by agricultural activities, on the one hand, and a service economy with a high rate of informalization, on the other. Agricultural employment accounts for 62 per cent of total employment (see table 1.6). Smallholders and family members working on small farms and family plots constitute the vast majority of agricultural jobs. Informal self-employment (including own-account or self-employed workers, employers and contributing family workers) constitutes an important source of employment outside of agriculture – both as a primary occupation and a supplementary source of income. Overall, services dominate non-agricultural employment, with 79.5 per cent of all employment outside of agriculture in the service sector, and 80 per cent of all informal household enterprises providing service activities.[37] Kenya's formal, non-agricultural sector is quite small, accounting for about 11 per cent of total employment, including public sector jobs. Only 9.2 per cent of non-agricultural employment is in manufacturing; 6.4 per cent is in construction.

TABLE 1.6: Structure of employment in Kenya, 2005

Employment category	Number employed			% of total		
	Male	Female	Total	Male	Female	Total
Formal, non-agricultural						
Private employee	534,959	160,319	695,278	8.1	2.6	5.4
Government employee	319,581	171,296	490,877	4.8	2.8	3.8
Public enterprise employee	43,578	16,240	59,818	0.7	0.3	0.5
Employer	31,159	8,419	39,579	0.5	0.1	0.3
Own-account worker	56,885	53,682	110,567	0.9	0.9	0.9
Other self-employed	736.5	1071.3	1807.8	0.0	0.0	0.0
Formal, agricultural						
Agricultural employee	166,950	83,545	250,495	2.5	1.3	1.9
Total formal	*1,153,112*	*493,501*	*1,646,613*	*17.0*	*8.0*	*13.0*
Informal, non-agricultural						
Informal employee	961,080	474,061	1,435,141	14.5	7.6	11.2
Informal employer	84,382	39,280	123,662	1.3	0.6	1.0
Informal own-account	683,929	640,658	1,324,587	10.3	10.3	10.3
Contributing family worker	87,875	113,653	201,528	1.3	1.8	1.6
Other self-employed	13,848	8,818	22,666	0.2	0.1	0.2
Total informal, non-agricultural	*1,831,113*	*1,276,470*	*3,107,584*	*28.0*	*21.0*	*24.0*
Informal, agricultural						
Employee	549,334	233,104	782,438	8.3	3.7	6.1
Own-account	1,338,396	1,597,429	2,935,826	20.2	25.7	22.9
Other self-employed	277,041	710,174	987,214	4.2	11.4	7.7
Contributing family worker	1,384,734	1,664,953	3,049,687	20.9	26.7	23.7
Total informal, agricultural	*3,549,504*	*4,205,660*	*7,755,164*	*54.0*	*68.0*	*60.0*
Total agricultural	*3,716,455*	*4,289,205*	*8,005,659*	*56.0*	*69.0*	*62.0*
Other/unclassified	88,543	247,510	336,054	1.3	4.0	2.6
Total	***6,623,009***	***6,224,213***	***12,847,222***	***100.0***	***100.0***	***100.0***

Source: Heintz 2009.

The structure of employment in Cambodia is similar to that in Kenya, with agriculture and services dominating. Agriculture accounts for 59 per cent of total employment and, like Kenya, is comprised mostly of own-account and contributing family workers (see table 1.7). Private sector wage employment comprises just 13 per cent of all employment. Outside of agriculture, self-employment (as own-account or contributing family workers) is the largest category of employment. Manufacturing employment is relatively small and the garment sector is responsible for over half of all opportunities in manufacturing. Services account for roughly a quarter of all employment (or 61 per cent of non-agricultural employment). Like Kenya, efforts to reduce poverty through employment, based on the existing structure of employment alone, should thus focus on raising the returns to labour in agriculture and services.

TABLE 1.7: Structure of employment in Cambodia, 2003/2004

Employment category	Number employed			% of total		
Non-agricultural						
Private employee	476,328	373,674	850,002	14.5	11.3	12.9
Public employee	239,092	67,097	306,188	7.3	2.0	4.6
Own-account worker	441,030	454,373	895,403	13.5	13.7	13.6
Employer	2,226	477	2,703	0.1	0.0	0.0
Contributing family worker	181,853	342,387	524,240	5.5	10.3	7.9
Total non-agricultural	*1,340,529*	*1,238,008*	*2,578,536*	*41.0*	*37.0*	*39.0*
Agricultural						
Employee	133,265	148,166	281,431	4.1	4.5	4.3
Own-account worker	1,055,806	628,617	1,684,423	32.2	18.9	25.5
Employer	2,503	1,980	4,484	0.1	0.1	0.1
Contributing family worker	693,203	1,228,410	1,921,614	21.1	37.0	29.1
Total agricultural	*1,884,778*	*2,007,173*	*3,891,951*	*57.0*	*60.0*	*59.0*
Other/unclassified	53,594	72,972	126,565	1.6	2.2	1.9
Total	***3,278,900***	***3,318,153***	***6,597,053***	***100.0***	***100.0***	***100.0***

Source: Heintz 2009.

In agrarian economies, efforts to reduce poverty through employment should focus on raising the returns to labour in agriculture and services

In Kenya, the recent growth of the horticultural sector provides an interesting example of how export performance may be linked to employment creation and poverty reduction. The employment effects of the rapid expansion of horticulture include increases in smallholder farm production and in the number of workers on large commercial operations. The primary products of the sector are fresh fruits, vegetables and cut flowers. Fresh vegetables and fruits are linked to smallholders, while the production of cut flowers is organized by larger commercial enterprises. In terms of wage employment, which is concentrated in cut flowers, 60 to 70 per cent of workers are women and most are young – half the workforce is under 21. Initially, employment in the horticultural sector appeared to reduce poverty and raise living standards among households, when compared to those households that were not involved in the sector. The effect was particularly strong in rural areas.[38] However, enforcement of international food standards has reduced the participation of smallholders, whose contribution to export earnings fell from 70 per cent in 1999 to only 30 per cent by 2000.[39] It should also be noted that many of the jobs generated are casual and seasonal, and income is volatile.[40]

In Cambodia, the dynamic export sector is the garment industry. Representing less than 1 per cent of GDP in 1994, the industry has now grown to 16–17 per cent of GDP and nearly 80 per cent of exports. Women account for an estimated 81 per cent of all wage employment in the garment sector. However, only 31 per cent of all women who work as wage employees have jobs in this sector.[41] Similarly, while women represent half of all employed individuals in Cambodia, they make up only 42 per cent of all wage employees. Individuals from provinces with higher-than-average incidences of poverty migrate to work in the garment sector.[42] An estimated 71 per cent of all garment workers remit 30 per cent or more of their earnings back to their households of origin.[43] Some garment firms are joint ventures with Cambodian investors, but most firms are entirely foreign-owned.[44] This lack of domestic embeddedness makes production more mobile and sensitive to policy changes.

These examples from Kenya and Cambodia underscore the difficulty of building a base of new, outward-oriented economic activities in low-income economies dominated by agriculture. Both horticultural products and garments are labour-intensive exports, subject to competitive pressures. External factors – such as the global economic crisis – have a profound impact on the markets for these products and, ultimately, employment in these sectors. Recent growth accelerations in many agrarian and other economies were linked to the boom in commodity prices and the growth of the world economy in the period 2000–2007. This growth led to some reduction in poverty. However, the economic and food crises have exposed the fragility of that growth. Key indicators of well-being, such as nutrition, are still very poor,[45] and may even have worsened as a result of agricultural liberalization that promoted agro-exports. A large number of people still live insecure lives even though, by $1.25-a-day measures, they are above the poverty line. Many move in and out of poverty depending on prevailing conditions and replace more nutritious and costly foods with cheaper alternatives in order to reduce their daily expenses.[46] The need to enhance the livelihoods of small farmers in combating poverty in agrarian economies has been thrown into sharp relief by the food crisis. The next two sections examine these issues before discussing labour market and employment issues in mineral-rich economies.

Recent growth in many agrarian economies was linked to the boom in commodity prices, but the economic and food crises have exposed the fragility of that growth

Promoting employment and food security through support to small farmers

The food crisis can be traced to the liberalization policies of the 1980s and 1990s. In the global South, spending on farming as a share of public expenditures fell 50 per cent between 1980 and 2004, from $7.6 billion to $3.9 billion. By way of comparison, in 2006, farmers in countries that are members of the Organisation for Economic Co-operation and Development (OECD) received $130 billion in direct payments in 2006.[47]

In Latin America, economic liberalization reforms of the 1980s and 1990s tended to reinforce existing divisions between geographic locations and producers, and the region entered the new millennium with a higher proportion of poor and indigent rural dwellers than in 1980. The most dynamic products of the 1990s were those grown by modern, capitalized farmers with links to international agro-industry and export markets. Those in decline were largely produced by small farmers.[48] One of the real costs of liberalization in Latin America has been the rise in agricultural imports.

The rural effects of liberalization policies have been more profound among agriculturally dependent populations in sub-Saharan Africa. Compared to other developing regions, agriculture in sub-Saharan Africa had been a sluggish earner before liberalization, though not uniformly so. State bodies, such as marketing boards, were perceived as a costly drain on government revenue and inefficient in delivering inputs and paying farmers.

The reduction of state involvement was supposed to reverse the situation. From 1989 to 2004, the national budget share of agriculture in the region fell from 7 per cent to 5.3 per cent.[49] Larger scale commercial farmers and estate owners have been in a better position to take advantage of improved prices and new markets than smallholders. In several countries and for particular commodities, liberalization did produce spurts in smallholder production of export crops, but these gains have not been maintained.[50]

As liberalization progressed, sub-Saharan Africa witnessed a steady decline of its agricultural exports as a share of world agricultural trade. Meanwhile, the problems surrounding food production and food security worsened. The 2002 shortages in southern Africa showed the increasingly perilous state of rural livelihoods. Deteriorating household food security in Malawi, Zambia and Zimbabwe was attributed to the loss of subsidies for fertilizers and seeds and of rural credit, and the erosion of agricultural marketing services, especially in remote areas. Although much derided, marketing boards serviced the need of smallholders for inputs, provided marketing channels to remote and widely dispersed farms, and enforced commodity standards. Their dismantling has led to serious concern on the part of many observers. The private traders that have taken their place provide patchy services, bypass farmers in areas where transport costs are high, and do not carry out adequate checks or enforce quality control.[51]

> *Expelling smallholders to urban fringes of economic systems characterized by jobless growth cannot be called development*

There is a tendency to dismiss smallholder production for local markets as obsolete,[52] especially as the pace of de-peasantization (peasant displacement from land and reliance on off-farm income) accelerates. De-peasantization is, however, the outcome of a politically organized food regime premised on increased privileges for corporate over peasant agriculture, as institutionalized in the subsidy structure of the World Trade Organization/Free Trade Area/Economic Partnership Agreement (WTO/FTA/EPA). In spite of market discrimination, small producers have an important social and ecological role (and many small producers would like to support them, as evidenced by recent mobilization in the transnational food sovereignty movements). Expelling smallholders to urban fringes of economic systems characterized by jobless growth cannot be called development.

An alternative agricultural model

Current development policy seeks to incorporate small farmers into what the World Bank calls a "new agriculture", which is "led by private entrepreneurs in extensive value chains linking producers to consumers".[53] The expectation is that the private sector will drive "the organization of value chains that bring the market to smallholders and commercial farms".[54] In this view, the problem of smallholder agriculture (or rural poverty) is a problem of productivity and detachment from value-chain agriculture, through which farmers gain technologies to intensify their production of certain commodities for consumer markets. Such a view is fraught with problems from the perspective of social development and poverty reduction. There is often a trade-off between own consumption, production for local markets and production for global markets, with respect to addressing the problem of poverty and hunger in rural areas.[55]

Neoclassical economics regards trade as the catalyst of growth, and certainly that has been the path taken historically. But trade does not always guarantee improvements in welfare, as is clearly evident today. Moreover, given the current catastrophe of slum proliferation, where industrialization and urbanization have been decoupled,[56] the question arises as to whether continued displacement of rural populations by intensive production of industrial grains (for example, feed crops versus food crops) and high-value foods for export is an appropriate vision for agricultural development. The premise that export agriculture is an economic necessity is perhaps the most questionable assumption from the perspective of social welfare, food rights and a sustainable environment. In a world of drastically shrinking limits, where it is urgent to curb unnecessary consumption and phase out fossil fuels, improving agricultural productivity to fuel the international food trade is arguably less important than improving agricultural productivity and the security of farming to provide local populations with enough and appropriate foods.

An alternative approach is prefigured in the work of the UN–sponsored *International Assessment of Agricultural Science and Technology for Development* in 2008. This report advocates a multifunctional role for agriculture in reducing poverty and social and gender inequality, stabilizing the cultures of rural populations, and reversing environmental degradation and global warming. The report recommends strengthening local and regional food systems, democratizing food policy, and prioritizing the needs of small farmers by securing access to productive resources (seeds, land, water), credit, information, market infrastructure and fair trade systems. The report questions industrial agriculture and genetically modified food as the solution to the social and ecological crises associated with global agribusiness, on the grounds that markets fail to adequately value environmental and social harm. It also questions the salience of a market-driven approach, and its narrow focus on productivity, versus an integrative view of food, resource and nutritional security. Such an approach to food security that places the livelihoods of small producers at the centre of public policy could reduce vulnerability and should be seen as a crucial dimension of social policy in agrarian economies.

Without careful management, mineral wealth can be a mixed blessing

In many mineral-rich economies, structural transformation has involved a movement from agriculture to mining, or a change that is largely confined to the primary sector. In these economies, the mining sector dominates output but does not create enough jobs to lift the population out of poverty. The dominant actors are often transnational firms that use capital-intensive technologies, providing employment to a small, well-paid, skilled workforce. Governments can reallocate mineral rents to more productive sectors or act as channels through which such rents can be reinvested in the rest of the economy.

However, many countries have not used mineral rents to support development in sectors that can create more jobs. Manufacturing capacity remains extremely low even in the high-income economies of the Gulf states. Natural resource abundance may generate distortions in countries' economic and political systems, leading to "Dutch disease"[57] (discussed further in chapter 8). Dutch disease (or the "resource curse") refers to patterns of consumption and investment in boom periods (associated with dramatic growth in revenue from resource extraction) that are not sustainable during periods of economic downturn. Exchange rates and wage rates appreciate, affecting tradable activities in manufacturing and agriculture. The outcome may be an enclave economy, such as in Equatorial Guinea, that generates extreme inequality and poverty even in contexts of high growth. Mineral resources create opportunities for corruption and pressures for redistribution in ways that do not enhance public welfare and development. Features of Dutch disease are likely to emerge in situations where the institutions that regulate the mineral sector and manage fiscal revenues are not well developed, and where state power is monopolized by rent-seeking rulers or is captured by powerful private interests.

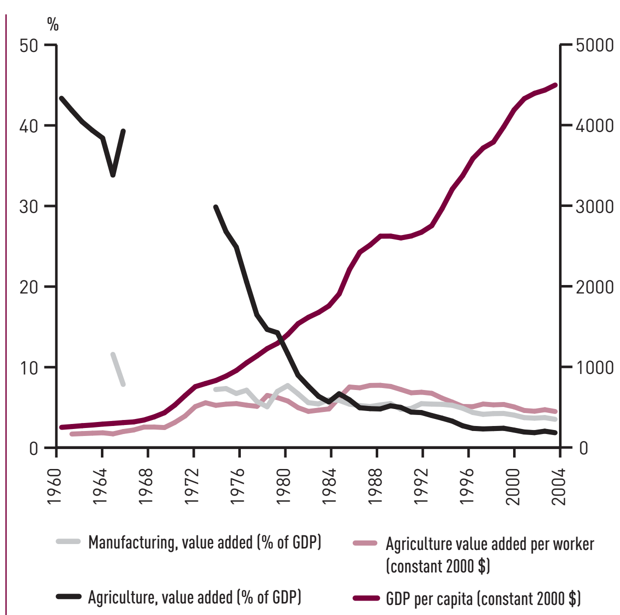
> *Many mineral-rich economies have not used mineral rents to support development in sectors that can create more jobs*

Botswana: Successful resource management, but few jobs

Botswana represents a country that has managed its mineral wealth much better than most mineral-rich developing countries. Its development strategy prioritizes high growth, sound macroeconomic management and infrastructure development. Through policies that discourage exchange rate overvaluation, fiscal strategies that set targets on government spending, and the creation of special funds that stabilize mineral revenues, the government has consistently maintained a stable macroeconomy that has avoided the so-called resource curse.[58] Multiparty democracy, although practised under conditions of single-party dominance, has acted as a check on governmental arbitrariness, and a professionalized civil service has helped the state enforce its rules on economic management. The governing elite forged strong links to production-oriented cattle owners and successfully constructed pacts with traditional rulers and elites of key ethnic groups[59] that have allowed it to maintain stability.

However, success in governing the economy has not translated into broad-based and diversified growth. The share of agriculture in GDP has fallen drastically since 1960 (see figure 1.6), even though per worker output in agriculture has not increased. The diversification of the economy into manufacturing was not seriously attempted, and was definitely not achieved, since the share of manufacturing in GDP has declined as well. Nor have organized interests in civil society been strong enough to compel the state to adopt more redistributive policies.[60] While the share of public sector salaries rose, the minimum wages of less skilled/moderately educated employees fell below the poverty line by the 1980s, producing a class of working poor. A notable feature of Botswana's development is its relatively low level of industrialization and, like South Africa, high level of unemployment. Levels of unemployment, inequality (as measured by the Gini coefficient) and poverty remain high at about 20 per cent, 0.57 and 30 per cent, respectively.[61] Mineral-rich Indonesia and Malaysia, which are among the top 10 developing-country exporters of manufactured products, have fared much better in transforming their economies from minerals to manufacturing.[62]

FIGURE 1.6: Dimensions of structural change in Botswana, 1960–2004



Source: Ghosh 2008.

4. The Links between Employment and Poverty

The foregoing discussion on employment and labour markets is broadened out in the following section to explore the links between employment and poverty. Two sets of institutions are critical in shaping the employment-poverty nexus: the labour market and the household. Employment status is typically defined and analysed at the level of the individual or the job. Poverty – income poverty in particular – is most commonly defined and measured at the level of the household. Therefore, the structure of the household – in terms of the composition of dependants and earners – will directly influence how employment opportunities translate into changes in poverty outcomes.

Overall labour force participation is determined by prevailing economic conditions, as well as the social and cultural context, in particular gender norms. Households often respond to adverse economic shocks – including rising unemployment – by increasing their rate of labour force participation. Studies of labour market dynamics in Latin America have shown that women's labour force participation increased in times of economic crisis and as a result of policies that trigger labour displacement, job instability and higher rates of unemployment.[63] Economic changes that cause women to enter the labour force are also associated with a deterioration in the average quality of employment opportunities, that is, greater reliance on informal or precarious forms of paid work. Households also increase their labour force participation in response to long-term structural unemployment. For instance, research in South Africa has shown that women's labour force participation has responded to increases in household joblessness.[64] Finally, household poverty also raises the likelihood that children enter the paid labour force.

Therefore, the relationship between poverty and employment runs in both directions: poverty can increase total household employment, often in more marginal activities, and particularly among women and children. However, it is also important to recognize that the additional employment income earned in this way will be combined with other sources of household income, ultimately influencing the depth and incidence of poverty. The links between employment and poverty depend critically on how the employed and the economically dependent populations are organized in households. If the burden of supporting the dependent population is unequally distributed, the result will be higher risks of poverty for certain segments of the population. Moreover, not only does income from employment need to support a larger number of people in households with more dependants, but choices in terms of employment are also limited in these households, due to the higher burdens of unpaid care work (see chapter 7).

The working poor poverty rate is one indication of how employment affects poverty

To shed light on the link between employment and poverty, this report defines a working poor poverty rate. The working poor are defined as those individuals who are (i) employed and (ii) living in households whose income or consumption levels fall below a poverty threshold. The working poor poverty rate is the number of working poor in a particular employment category expressed as a percentage of the total number of people in the same employment category. This indicates the likelihood that workers in particular types of employment will live in income- or consumption-poverty. Working poor poverty rates are derived from national poverty lines, which vary across countries; some countries use consumption data whereas others use income data. Since cross-country data on working poor poverty rates do not currently exist, this report uses two countries – Brazil and Kenya – to illustrate the relationship (see table 1.8). National poverty lines in Brazil and Kenya are determined differently. In Brazil it is based on income – whether or not a household's income falls below the poverty line. In Kenya it is based on total household consumption. Therefore, we can compare the *relative* risk of being in poverty among employment categories in these two countries, but poverty rates are not directly comparable.

TABLE 1.8: Working poor poverty rates in Brazil and Kenya

	Brazil (2007)			Kenya (2005)		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Formal employment (%)						
Paid employee (non-agricultural)	12.0	6.6	9.8	17.4	9.9	15.3
Of which are in the private sector	12.6	6.8	10.5	16.9	12.3	15.8
Of which are in the public sector	9.1	6.1	7.4	18.3	7.9	14.7
Self-employed (non-agricultural)	5.8	7.2	6.4	11.0	12.4	11.6
Formal agricultural workers	30.6	17.2	28.9	31.5	27.7	30.2
Informal, non-agricultural employment (%)						
Paid employee	26.2	24.8	25.4	35.3	29.4	33.3
Of which are domestic workers	31.6	31.0	31.1	39.0	30.5	32.3
Own-account workers	23.2	21.0	22.4	34.6	36.9	35.7
Employer	5.5	2.3	4.6	21.4	24.1	22.3
Contributing family worker	34.8	27.1	29.8	27.4	33.3	30.7
Informal, agricultural employment (%)						
Paid employee	56.2	48.5	55.4	43.2	51.9	45.8
Self-employed	44.0	46.5	44.3	47.3	46.6	46.9
Contributing family worker	63.1	59.0	60.7	50.4	47.2	48.7
Other employment (%)						
Production for own use	52.9	50.3	51.3	n.a.	n.a.	n.a.
Total	**23.7**	**20.3**	**22.3**	**38.9**	**41.4**	**40.1**
	Brazil (2007)			**Kenya (2005)**		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Formal employment (%)						
Agriculture	30.7	18.1	29.1	32.9	31.1	32.2
Manufacturing	11.4	8.2	10.5	16.8	22.9	18.0
Construction	20.9	8.6	20.2	20.9	40.5	24.9
Services	10.9	6.3	8.7	15.0	9.4	13.1
Informal employment (%)						
Agriculture	51.4	52.8	51.9	48.2	47.5	47.8
Manufacturing	24.6	20.6	22.6	39.4	51.9	43.2
Construction	31.0	29.6	31.0	51.9	74.3	56.3
Services	20.2	23.4	21.9	32.3	32.9	32.6

Notes: Estimates are based on 2007 data from a Brazilian household survey known as PNAD and the Kenya Integrated Household Budget Survey, 2005. The Brazilian poverty line is set at half the 2007 minimum wage per capita of 380 reais. Brazilian poverty rates are based on household income. Kenyan poverty rates are based on household consumption – rural and urban poverty lines, based on National Bureau of Statistics calculations. n.a. = not available. Source: Heintz 2009.

In both countries, working poor poverty rates tend to be higher in agricultural versus non-agricultural employment, and in informal versus formal employment. Poverty rates for self-employed workers in the formal sector and outside of agriculture are lowest, on average. In Brazil, self-employment in the informal sector has a lower poverty risk than informal wage employment. In Kenya, this same pattern holds true for men, but not for women. Overall, the highest risk of poverty is associated with agricultural employment. In Brazil, agricultural self-employment has lower poverty rates on average than agricultural wage employment. In Kenya, this pattern holds true only for women.

The bottom part of table 1.8 presents working poor poverty rates per sector of economic activity. Again we see the same patterns. Informal employment has much higher poverty rates than formal employment and agricultural employment exhibits the highest poverty risk. The interesting comparison is between service employment and manufacturing employment. For formal employment, jobs in services are associated with a lower risk of poverty than jobs in manufacturing – this holds true for men as well as women in both countries. For informal employment, the same holds true (the one exception being women in Brazil, in which informal manufacturing has slightly lower poverty rates than informal services – but this may be explained by the large number of domestic workers in that country). These results emphasize the importance of having policies to support employment in services when devising poverty reduction strategies.

Of course, creating more formal jobs and fewer informal jobs would also have a significant impact on average poverty rates. The rate of informalization is higher in services than in manufacturing. Therefore, poverty rates for a typical manufacturing job may indeed be lower than poverty rates for a typical service job, since the latter is more likely to be unregulated, precarious and lacking basic protections. In the case study of the Republic of Korea, a similar pattern holds true for non-regular employment. Much of the growth in non-regular work in that country occurred in services and construction. Nevertheless, a real challenge is improving the quality of service and agricultural employment, instead of pursuing a single objective of increasing industrial employment.

5. Putting Employment Back on the Agenda: Implications for Policy

Economic policies to promote growth and development will only reduce poverty and inequality if the benefits of growth are widely shared. Employment represents a major channel through which additional income generated by faster growth can be distributed throughout the population. The issue of employment, therefore, must be reintroduced more forcefully in policy formulation. In doing so, some conventional wisdom must be upturned. It is often thought, for example, that jobs are a by-product of economic growth. Even the MDGs did not initially include employment goals. Likewise, inadequate employment opportunities are often seen as exclusively a labour market problem, with the most common prescription being increased flexibility achieved by rolling back regulations and social protections. Major categories of employment are sidelined or ignored altogether – specifically, employment in the informal economy. When these activities are recognized, policies often focus on promoting entrepreneurship instead of addressing the conditions under which labour is exchanged.

This concluding section presents some key elements of a framework for incorporating employment more centrally in the formulation of development policy. Given the variations in employment structures, there can be no one-size-fits-all employment policy. However, because employment structures are the outcome of processes of development and change, public policy should also focus on their transformation so as to create a stronger foundation for the universal provision of decent work opportunities.

Improve employment opportunities

Addressing labour demand, quality and mobility

Even if the structure of employment is taken as given, employment opportunities can be improved by addressing three key areas.

- First, policies must tackle insufficient labour demand. Many countries experience widespread unemployment and/or underemployment, both of which have a common root cause: insufficient labour demand, which results from the demand for goods and services. Economic policies must seek to stimulate an adequate level of labour demand that will enable the majority of the population to move out of poverty.

- Second, the policy framework should support improvements in the quality of existing employment, which is often constrained by low productivity and/or the inability of workers to capture the benefits of productivity improvements. Improving the quality of employment involves raising productivity and improving wage levels, social protection and conditions of work. Balancing the need for increases in both productivity and employment, especially in economies with high levels of structural unemployment, is a big challenge.[65] However, productivity growth can support employment expansion if the rate of capital formation or accumulation is high, as demonstrated by Japan in the 1960s and early 1970s, and in the Republic of Korea during its period of high growth and industrialization.[66]
- Third, workers must be agile enough to change jobs and move into other industries. Barriers to labour and economic mobility limit the redistributive impact of an employment-centred development strategy. A range of interventions – removing restrictions on the movement of labour, improving access to education and skills upgrading, providing basic financial services and reducing imbalances in the burden of unpaid work, for example – are instrumental in improving the mobility and economic status of workers.

Identifying and addressing the most significant constraints

A first step in improving employment opportunities is identifying the most significant constraints, which vary widely from country to country. This requires an understanding of the structure of employment and the associated economic and institutional context. Each of the five types of economies discussed in this chapter exhibits distinct characteristics and therefore will have different policy priorities. For example, the countries characterized by relatively high levels of agricultural self-employment, such as Cambodia and Kenya, face different constraints to improving those jobs than countries with a large, urbanized workforce in wage employment. Policies to improve conditions for the poorest workers require knowledge of the employment arrangements in which individuals from low-income households work.

Macroeconomic policy is essential for addressing certain constraints to improving employment. For example, restrictive monetary policies that target low inflation rates reduce the growth of domestic demand. One frequent outcome of such policies is high real interest rates.[67] In some countries, high real interest rates have attracted short-term capital inflows, leading to an over-appreciated exchange rate and a heightened risk of volatile capital outflows. Therefore, an alternative monetary policy framework is essential for expanding domestic markets, maintaining a competitive exchange rate, and improving access to credit on affordable terms. Similarly, fiscal policies need to be reoriented to support greater public investment. Such investment is often essential for improving productivity and ensuring market access (for example, through new roads and better transportation).

Macroeconomic management represents only part of the policy toolkit. Selective industrial and agricultural policies and institutional reforms are also necessary. For example, limited access to credit may be primarily a result of the institutional structure of the financial sector. A more relaxed monetary stance may not make a significant difference in the absence of reforms that channel credit to activities that are currently shut out of formal financial institutions. Improved productivity may depend on very specific categories of infrastructure investment (for example, electrification schemes for residential areas to enhance the productivity of home-based workers). Given growing urbanization, innovative urban policies are also essential to support the livelihoods of low-income workers. Finally, there must be policies that focus on support for smallholders in order to feed rural families and the general population, improve rural productivity and incomes, and connect the agricultural sector more productively to other sectors of the economy.

Transform the structure of employment to make sustained inroads against poverty

Improving employment opportunities by taking the existing structure of employment as given is likely to be inadequate. The process of economic development involves the transformation of the structure of employment – not simply improving opportunities in existing activities. The long-term challenge is to move human resources into higher value added activities, raise the average level of labour productivity, and thereby increase wages and people's incomes. The classic development trajectory involved the growth of industrial employment and a movement out of agriculture, facilitated by improvements in agricultural productivity and an increase in farm incomes. As this chapter has shown, in an open-economy setting with a high degree of global integration, this pathway may not be the only option. Nevertheless, the basic tenets remain valid: reallocating labour to more productive activities, smoothing the transitions between sectors, and helping lagging sectors keep up with the process of structural change will contribute to economic growth and development.[68]

> *Reallocating labour to more productive activities, smoothing the transitions between sectors, and helping lagging sectors keep up with the process of structural change will contribute to economic growth*

Macroeconomic policy, the investment climate and investment in infrastructure

In transforming the structure of paid employment, the macroeconomic environment plays a crucial supporting role. New investment is needed for the transformation of productive activities. Macroeconomic policies can facilitate raising productive investment by maintaining a favourable investment climate.[69] The elements of such an investment climate include the maintenance of low and positive real interest rates, strong growth in demand (which may include a competitive real exchange rate) and low levels of volatility (which can be achieved, for example, by managing the destabilizing effects of short-term capital flows). Controls on the international mobility of financial capital may need to be put in place to realize these policy objectives.[70]

An appropriate policy framework can also ensure that natural resources are used to improve employment outcomes. If the resources from commodity exports are used to fund strategic investment, instead of general consumption, the bias against tradable or export sectors can be minimized. Appropriate infrastructure investments can improve competitiveness and productivity, and help ensure that productive resources are allocated to activities with the potential to create decent employment opportunities.[71] Managed exchange rates, instead of market-determined ones, can also help counter the problem of real exchange rate appreciation during commodity booms.

Structural transformation needs strategic policy interventions

Most of the developed countries and the newly industrialized countries of East Asia used industrial and agricultural policies to facilitate the structural transformations associated with their varied processes of industrialization. The precise policy mix differs across countries, but they shared a number of common features:

- government-directed investment in infrastructure;
- development finance to channel credit to specific productive activities;
- well-managed industrial and agricultural policies, such as subsidies and tax credits, extension services and redistributive land reform;
- the pursuit of dynamic competitive advantage by nurturing the development of strategic industries and activities; and
- social policies to improve the skill levels and welfare of the population, such as investments in education, training and research.

Similar kinds of interventions can be used in many countries today to transform the structure of employment and encourage the development, in the longer term, of a solid foundation of decent work opportunities. Given the constraints of climate change, such interventions should also be low carbon-intensive and may require international agreements that support financial and technology transfers to developing countries.[72]

The employment-centred interventionist policies that successfully reduced poverty in the past are incompatible with the neoliberal development strategies adopted by most countries in recent decades. Certainly, markets provide critical information about global consumption patterns and trends, the relative scarcity of inputs, and the distribution of productive resources. Such information is necessary, but not sufficient, to determine the optimal policy mix and allocation of labour to support sustained growth. Markets are often inadequate in meeting large and complex challenges that require urgent action, as demonstrated by the global economic crisis. A combination of non-market interventions and the use of market-generated information is necessary to achieve an employment-friendly development path.

> *The employment-centred policies that successfully eradicated poverty in the past are incompatible with neoliberal development strategies more recently adopted by most countries*

Industrialization is important but is not the only viable path out of poverty. The case studies on Brazil and Kenya show that in some countries, service employment, including informal services, may be associated with lower risks of poverty than other forms of employment. Services are also an important source of paid employment for women. However, some caution is warranted before pursuing a service-led strategy. As the case of the Republic of Korea shows, service jobs appear to have a greater propensity to be part-time, temporary and more precarious in a number of respects in recent years. In the case of Kenya, services have dominated informal employment. If service-led development simply means an expansion of these forms of employment, it will not lead to sustained improvements in living standards. In addition, lumping all services together obscures important differences. The service-led strategy in India has focused on employment in ICTs, but these jobs represent only a small fraction of service employment in the country. The challenge is to better understand the role of services in supporting economic development that leads to higher quality, and more stable, livelihoods over time. For countries with high levels of agricultural employment, it is clear that progress cannot be made without improving the productivity, incomes and well-being of smallholders, whose livelihoods depend on agriculture and who can provide a strong foundation for food security in most poor countries today.

Extending labour laws, and social protections and regulations, to all forms of employment

Typically, employment and labour market policies apply only to formal and not to informal employment, which may be exposed to higher poverty risks. Therefore, part of the transformation of the structure of employment involves the extension of labour law, social protections and regulations to all forms of employment. In some cases, these institutional changes may be as important as the redistribution of labour across economic sectors in improving the average quality of employment and managing risk in a way that safeguards people's welfare.

Finally, despite the potential for an employment-centred development policy to reduce poverty and support human development, it is not enough. Full employment in the strict sense of the term is not possible in market-based economies, and individuals may wish to exit employment to pursue other activities (such as education, care or community organizing). Moreover, not all segments of the population can, or necessarily should, participate in paid employment, such as those with severe disabilities, the sick, children and the frail. These caveats do not diminish the importance of employment as a foundation for inclusive development. However, as Section two of this report will show, complementary social policies are also necessary.

Notes

1 United Nations 1995, Commitment No. 3.

2 United Nations 2009b.

3 Kaldor 1967; Kuznets 1971. For the early European industrializers, the process took much longer than in countries that industrialized later.

4 United Nations 2003.

5 In terms of the individual observations, the highest share of industrial employment observed among all 120 countries is about 40 per cent.

6 Palma 2005.

7 Pilat et al. 2006.

8 Heintz 2009.

9 UN-HABITAT 2010.

10 For data, see Heintz (2009).

11 ILO 2008a.

12 Akyüz 2006; Freeman 2004. Workers producing for the world market are estimated to have increased from about 300 million to almost 800 million by 2000. It is estimated that the global capital-labour ratio has fallen by more than 50 per cent.

13 Akyüz 2006.

14 McCartney 2004.

15 Chang 2003a; Amsden 2001.

16 Kwon and Yi 2008.

17 Grubb et al. 2007.

18 Khoo Bhoo Teik 2008.

19 Oi 2008; Dinh 2008.

20 Oi 2008.

21 Dinh 2008.

22 UNIDO 2002/2003.

23 Seekings and Nattrass 2005.

24 Seekings and Nattrass 2008.

25 Singh 2008; Dasgupta and Singh 2006.

26 Kirby 2008.

27 Chibber 2003, 2008.

28 Nagaraj 2008; Kohli 2008.

29 Singh 2008; Dasgupta and Singh 2006.

30 Chandrasekhar 2007.

31 Nagaraj 2008.

32 Counting the poor has been a contentious issue in India. There are controversies over: (i) the representativeness of the sample; (ii) comparability of sampling procedure over the years; and (iii) deflators used to adjust for inflation that varies across regions and income classes, and varying consumption baskets. See Nagaraj (2008) and Suryanarayana (2008).

33 Nagaraj 2008.

34 Nagaraj 2008; Deaton and Drèze 2002.

35 Mkandawire 2001b.

36 Bangura 2008.

37 Pollin et al. 2008.

38 Jenkins 2005.

39 Humphrey 2008.

40 Jenkins 2005.

41 In 2006, the garment industry provided over 340,000 jobs in around 300 factories. ILO 2008a.

42 Ministry of Commerce, Cambodia 2004.

43 Ministry of Commerce, Cambodia 2004.

44 Yamagata 2006; Kolben 2004.

45 UN 2009a; FAO 2009.

46 Hanlon 2007.

47 The Economist 2008; ActionAid 2008.

48 Deere 2005; UNRISD 2005.

49 Fan et al. 2007.

50 Whitehead 2009.

51 Whitehead 2009; UNRISD 2005.

52 McMichael 2009.

53 World Bank 2007:8.

54 World Bank 2007:8.

55 McMichael 2009.

56 Davis 2006.

57 Hinojosa et al. 2008.

58 Maipose 2008.

59 Selolwane 2006.

60 Selolwane 2008; Nthomang 2007.

61 Siphambe 2008.

62 Indonesia's manufacturing sector was adversely affected by the Asian crisis of 1997. Since then, growth in the sector has been volatile.

63 Cerrutti 2000; Arriagada 1994.

64 Casale 2003.

65 Seekings and Nattrass 2008.

66 Akyüz 2006.

67 Cornia 2006.

68 Cook 2006.

69 Akyüz 2006.

70 Epstein 2007.

71 Sachs 2007.

72 United Nations 2009a.