

Employment and poverty

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The centrality of employment in development & poverty reduction.

- Labour is the most important asset of the poor.
- Labour is, thus, the most important source of income and welfare.
- Sustained reductions in poverty require enhancing the labour productivity of the poor as laborers or self-employed

Growth, employment & poverty reduction.

- Growth does not ensure poverty reduction.
- Growth only leads to poverty reduction when accompanied by rapid growth of productive and remunerative employment.
- When growth benefits the poor more than proportionally one can talk of pro-poor growth.
- The former occurs when there is rapid, productive & well remunerated increases in employment.

Employment: the missing link between growth & poverty reduction

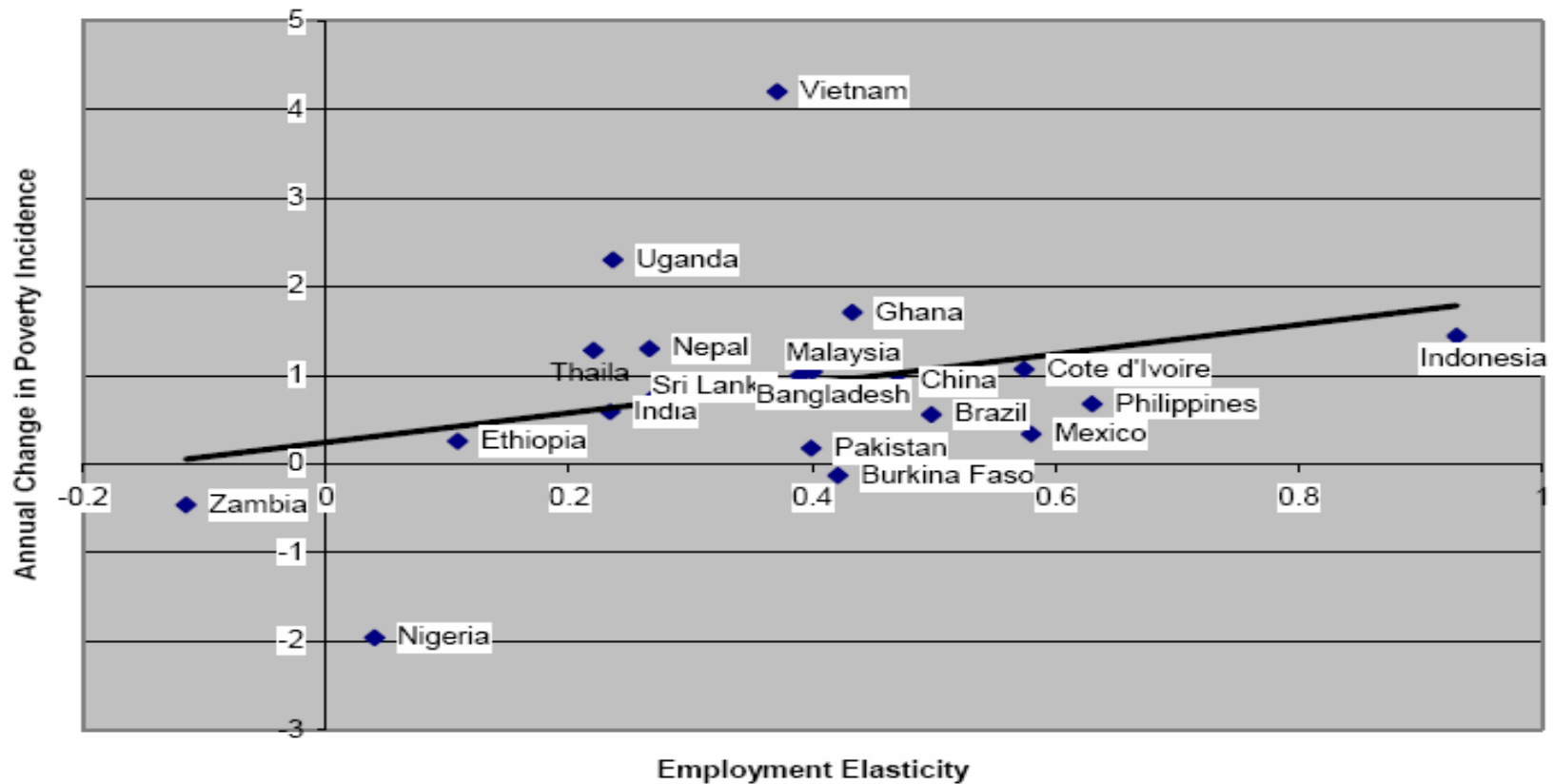
- Most countries that have succeeded in reducing poverty have followed strong employment creation policies.
- The mechanism of pro-poor-employment intensive policies:
 - A high growth rate
 - High employment elasticity of growth
 - Ability of the poor to fill-in the growing labour demand

The elusive association between employment, growth and poverty reduction

- Inappropriate institutions & incentives:
 - Excessive protection of the small formal sector
 - Unduly high capital intensity
 - Excessive concentration of land and/or credit
- Adjustment to excess employment and wages during economic reform
- The poor do not have the skills to perform in jobs demanded in competitive markets (wages increase, wage dispersion increases, and unemployment or under-employment remains)
- Excessive concentration of resources (land, credit, knowledge)
- Global financial and economic instability

Evidence of poverty reduction and intensive employment growth: how strong?

Figure 2: Percentage Decline in Poverty and Manufacturing Employment Elasticity



Mexico's mixed pro-poor growth performance

	Δ gini	Δ poverty	Δ gdp	pro-poor
84-89	1.8	0.2	1.2	NO
89-92	-0.4	-0.3	4.3	YES
92-94	-1.4	-3.3	3.2	YES
94-96	0.6	32.7	-0.7	?
96-98	3.3	-4.4	5.8	NO
98-00	-0.5	-15.6	5.2	YES
00-02	-2.7	-8.4	-0.1	??

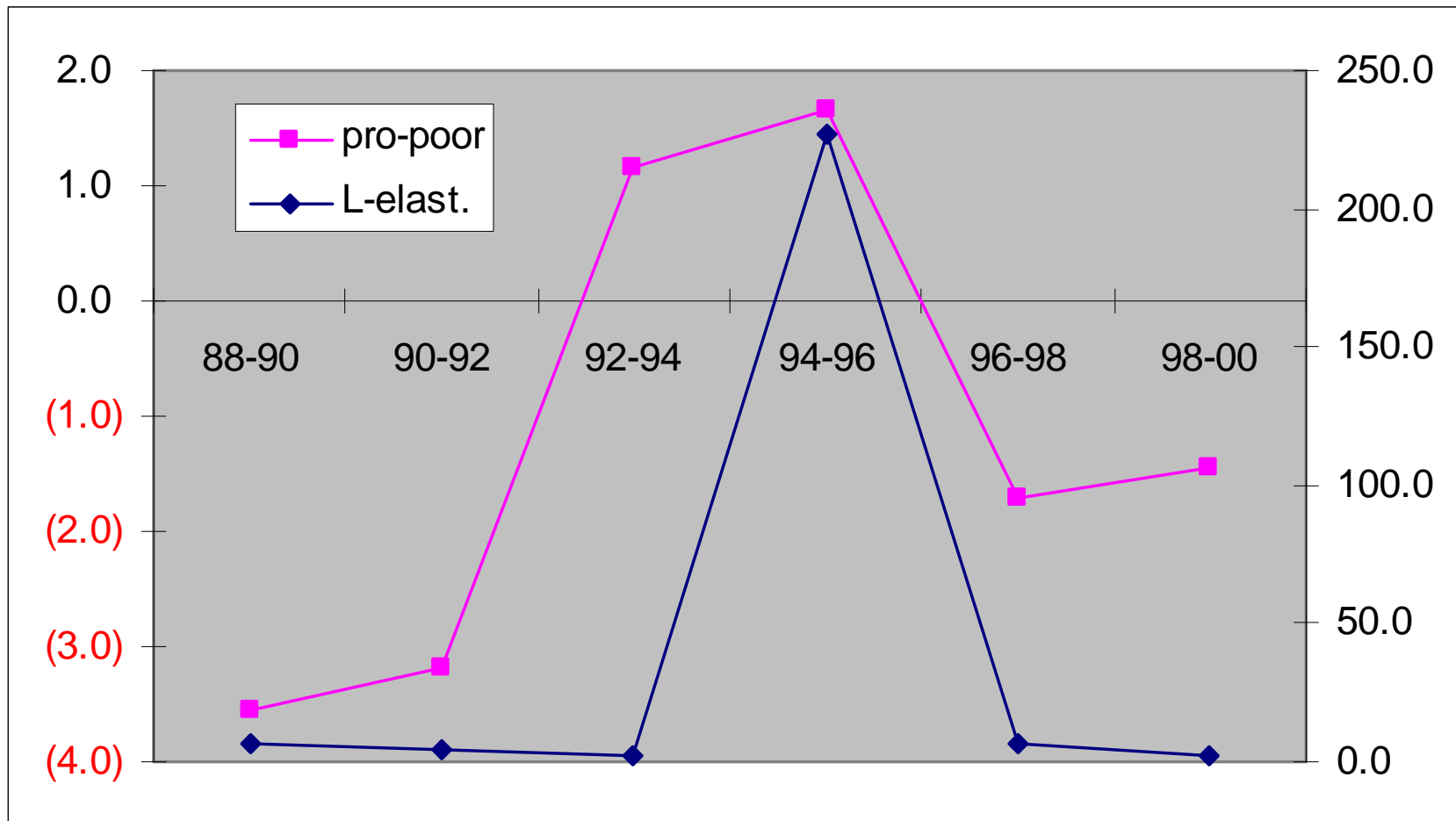
Pro-poor growth and employment performance: Thailand

	Δ gdp	hc-eq-gdp	pro-poor	L-elast.	L(#)	va-ind
88-90	9.06	5.5	(3.6)	6.9	30.5	4.4
90-92	7.49	4.3	(3.2)	3.9	17.8	4.6
92-94	7.65	8.8	1.2	2.6	17.8	6.9
94-96	5.75	7.4	1.7	226.7	18.4	0.1
96-98	-1	-2.7	(1.7)	6.8	-12.9	-1.9
98-00	-0.85	-2.3	(1.5)	2.1	10.1	4.8
88-00	4.68	3.6	(1.1)	5.2	105.8	20.2

Pro-poor growth and employment performance: Thailand

	pro-poor	L-elast.
88-90	5.5	6.9
90-92	4.3	3.9
92-94	8.8	2.6
94-96	7.4	226.7
96-98	(2.7)	6.8
98-00	(2.3)	2.1
88-00	3.6	5.2

Pro-poor growth and employment performance: Thailand



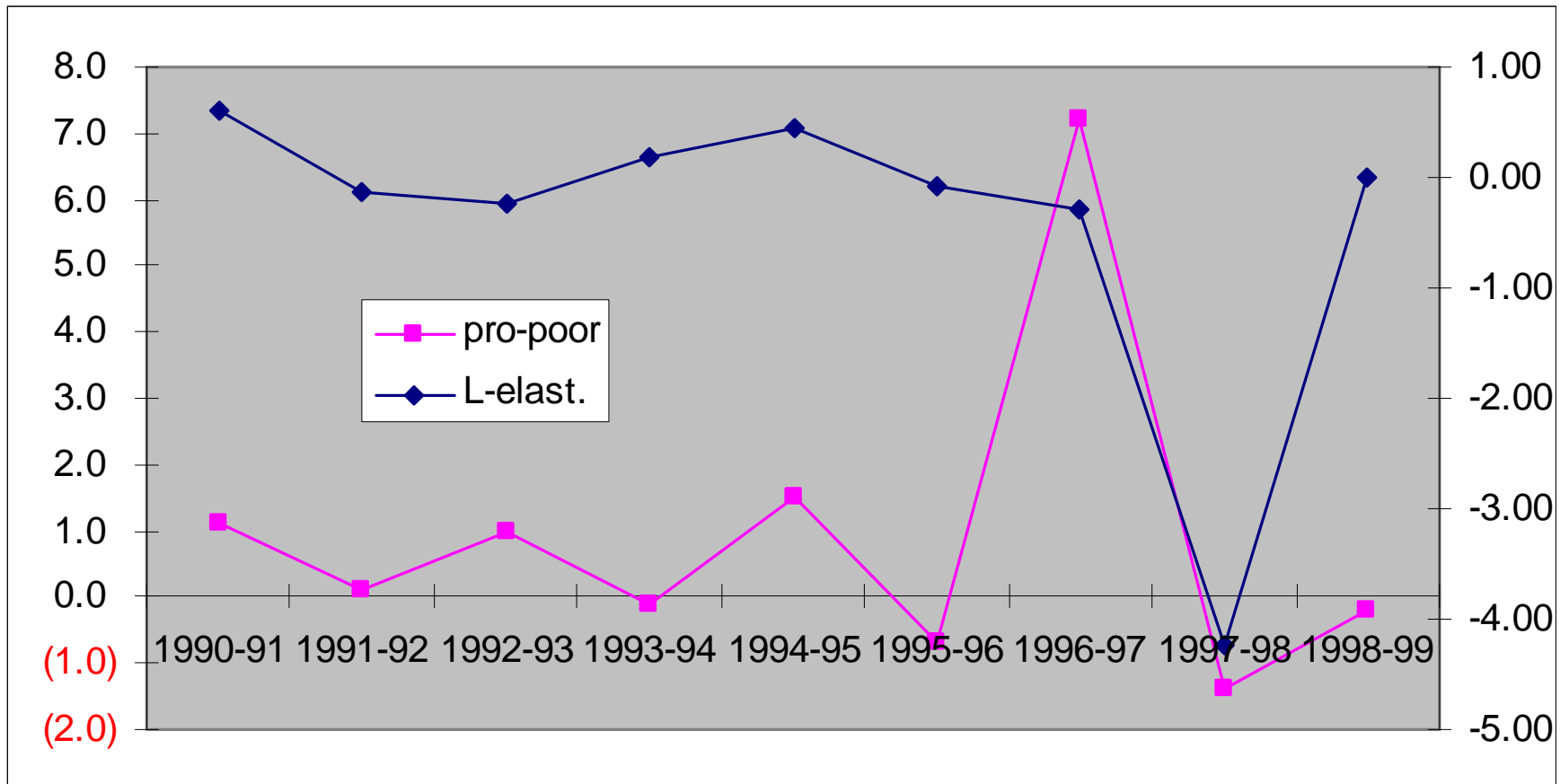
Pro-poor growth and employment performance: Korea

	\hat{gdp}	hc-eq-gdp	pro-poor	L-elast.	L(#)	va-ind	
1990-91	9.6	10.7	1.1	0.61	4.1	6.7	
1991-92	4.0	4.1	0.1	-0.13	-0.5	4.2	
1992-93	4.8	5.8	1.0	-0.24	-2.1	8.7	
1993-94	7.3	7.2	(0.1)	0.17	1.3	7.7	
1994-95	8.2	9.7	1.5	0.44	3.1	7.0	
1995-96	5.8	5.1	(0.7)	-0.08	-0.6	7.7	
1996-97	1.8	9.0	7.2	-0.29	-2.3	7.8	
1997-98	-7.6	-9.0	(1.4)	-4.23	-9.5	2.2	

Pro-poor growth and employment performance: Korea

	pro-poor	L-elast.
1990-91	10.7	0.61
1991-92	4.1	-0.13
1992-93	5.8	-0.24
1993-94	7.2	0.17
1994-95	9.7	0.44
1995-96	5.1	-0.08
1996-97	9.0	-0.29
1997-98	(9.0)	-4.23

Pro-poor growth and employment performance: Korea



Pro-poor growth & employment: Korea, Thailand, Vietnam.

	\hat{gdp}	hc-eq- gdp	pro- poor	L-elast.	$\hat{L}(\#)$	$\hat{va-ind}$
Korea (90-99)	4.9	5.8	0.9	-0.41	-0.7	7.2
(e/97-98)	6.4	7.7	1.2	0.06	0.4	7.8
Thailandia (88-00)	4.7	3.6	-1.1	5.2	105.8	20.2
Vietnam (92-98)	5.0	5.1	0.1	na	-18.6	na

Pro-poor growth Mexico

	Δ gini	Δ poverty	Δ gdp	pro-poor
84-89	1.8	0.2	1.2	NO
89-92	-0.4	-0.3	4.3	YES
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Maquiladora: asymmetries in crisis; propensity to wage inequity

Maquiladora manufacturing

Annual rates of change %

	pro- poor	val.pr d*	ocup *	elastici ty	wage s*	wages- tec*	wages- adm*
89-92	YES	6.1	6.4	1.1	-0.1	-2.6	-2.3
92-94	YES	9.8	7.4	0.8	2.1	2.5	3.6
94-96	?	12.9	13.7	1.1	-5.8	-4.8	-2.6
96-98	NO	22.7	16.0	0.7	2.9	1.3	5.1
98-00	YES	14.3	12.8	0.9	3.3	3.5	2.3
00-02	??	1.6	-8.9	-5.5	7.3	2.4	6.0

Large manufacturing: permanent employment contraction; wage recovery 96-00; no indication here of crisis improving distribution

Large Manufacturing Industries
Annual rates of change %

	pro- poor	val.prd	ocup	elastici ty	wage- blue -c	wage- whit e-c
94-96	?	5.9	-27.9	-4.7	-14.3	-12.8
96-98	NO	4.9	-11.3	-2.3	8.0	5.6
98-00	YES	1.0	-10.5	-10.5	6.0	5.1
00-02	??	-2.8	-9.8	3.5	-1.5	0.1

90-94 pro-poor despite informalisation?; 94-96 worsening in employment; 96-00 pro-poor & pro employment

Informal employment and income from labor (Annual rates of change %)

		Self employed		Employees/micro		Street vendors		Unpaid	Total
	pro-poor	^ #	^ wages	^ #	^ wages	^ #	^ wages	^ #	#
90-94	YES	4.9	-6.3	4.8	-14.3	15.0	-10.2	5.7	3.7
94-96	?	5.5	-12.9	1.6	-11.3	22.4	-5.2	2.7	0.6
96-00	YES	1.9	6.0	-0.4	9.9	-0.6	7.0	-6.4	4.2

Memo: indicators of the order of magnitude of informality

Informal employment and income from labor (Thousand of people & pesos (2000))

	Self employed		Employees/micro		Street vendors		Unpaid	Total
	^ #	^ wages	^ #	^ wages	^ #	^ wages	^ #	#
1990	1,730	1,001	2,230	755	308	826	467	10,404
1994	1,880	1,017	2,605	518	359	596	553	11,896
1996	2,092	772	2,688	408	538	536	583	12,050
2000	2,254	974	2,649	596	526	703	448	14,209

Concluding remarks

- Employment is a necessary component in a sustained pro-poor growth strategy.
- The link between poverty reduction, growth & employment is country specific.
- There are many nuances in the relationship & data is still weak.
- It is not advisable to promote employment regardless of growth.
- However, temporary employment programmes are a good alternative & complement to cash transfers.
- Pro-employment incentives and institutions should be part of any short and medium term poverty reduction policy.