EUROPEAN REPORT ON DEVELOPMENT

Growth Dynamics, Structural Change and Productive Employment to Reduce Poverty and Income Inequality.

Analysis and Policy Recommendations.

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BACKGROUND PAPER

Growth Dynamics, Structural Change and Productive Employment to Reduce Poverty and Income Inequality.

Analysis and Policy Recommendations.

Synopsis

The paper presents and discusses evidence on a number of interrelated issues: poverty, inequality and, especially, employment and growth patterns. A basic premise of this paper is that heterogeneity across and within regions is very important and that the trajectories of individual countries contain more lessons than does analysis of a large number of countries with disparate characteristics. The paper does, however, seek to relate the realities of individual country trajectories to broader patterns of groups of countries, especially regarding the distinction between LICs and MICs.

MOBILISING EUROPEAN RESEARCH
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EUROPEAN REPORT ON DEVELOPMENT

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Contents

Tables & figures

Tables

Figures

Abbreviations

AGOA	African Growth and Opportunity Act
BRICs	Brazil, Russia, India and China
CFW	contributing family worker
CSO	civil society organisation
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
HIC	High-income country
ICT	Information and communications technology
IESE	Instituto de Estudos Sociais e Económicos (Mozambique)
LIC	Low-income country
LMIC	Lower-middle-income country
LPR	Labour participation rate
MDG	Millennium Development Goals
MIC	Middle-income country
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PCD	Policy for Coherence in Development
PRSPs	Poverty Reduction Strategy Papers
R&D	research and development
SE	self-employment
SME	small-to-medium enterprise
SOE	state-owned enterprise
SSA	sub-Saharan Africa
SSC	South–South Cooperation
UNIDO	United Nations Industrial Development Organization
USA	United States of America

1. Introduction

The volume of literature on poverty in developing countries has reached an unprecedented level in the last two decades. In addition, since 2000, many low-income countries (LICs) have embarked on successive series of poverty-reduction strategies, almost as substitutes for development strategies. Some are already in the third round of five-year poverty-reduction plans. Poverty and its reduction are thus on the minds of those who are interested in development issues. There is also an increasing emphasis on poverty in middle-income countries (MICs), including those where it has been significantly reduced since the early 2000s.

Poverty is indeed a significant issue in MICs. In fact, as Sumner (2010) has shown, MICs are home to about 72% of the total number of people living below the extreme poverty line of US$1.25. There are many more if a less extreme poverty line is used. This proportion has increased substantially since the late 1980s, partly because of larger populations in some MICs and partly because of the graduation of several LICs to MIC status (Sumner, 2010). In particular, India and China accounted for about half of the population world's poor in 2007–08, while LICs now host only 28% of the world's extreme poor, most of them in sub-Saharan Africa (SSA).[1] So, while LICs continue to experience the world's highest incidence of poverty, MICs contain a high and growing proportion of the absolute number of people living in poverty. Any discussion about poverty in developing countries must, therefore, consider both LICs and MICs.

Despite the huge expansion of poverty analysis and poverty-reduction programmes, the body of knowledge about the linkages between economic growth and poverty remains undeveloped. Indeed, a major flaw in much of the research and literature on poverty in developing countries is the relative neglect of the 'employment nexus', i.e. the labour-market mechanisms that link growth outcomes with poverty outcomes. It is not very meaningful to estimate the poverty elasticity of growth without having a good understanding of employment dynamics and the different trajectories of the labour market in countries with either a large number of people living in poverty or with a high incidence of poverty. This paper focuses on linkages between the dynamics of employment and growth as a way to understand poverty and inequality trends from a structuralist macroeconomic perspective.

The paper presents and discusses evidence on a number of interrelated issues: poverty, inequality and, especially, employment and growth patterns. It also discusses evidence with regard to other indicators for specific cases as a means to interpret trends in concrete contexts. In order to illustrate the arguments with more specific and reliable evidence, the paper focuses on the experiences of specific countries that are particularly relevant to the discussion. Regional averages may be shown but it is preferable to avoid excessive reliance on these figures since they can mask significant heterogeneity. A basic premise of this paper is that heterogeneity across and within regions is very important and that the trajectories of individual countries contain more lessons than does analysis of a large number of countries with disparate characteristics. The paper does, however, seek to relate the realities of individual country trajectories to broader patterns of groups of countries, especially regarding the distinction between LICs and MICs, which have similarities and differences that can be aggregated to a certain extent.

The paper discusses trends with reference to a small core sample of countries, including nine countries in SSA (mostly LICs but also some lower-middle-income countries (LMICs) and especially relevant cases like South Africa) and four other developing countries, mainly MICs. Most of the contrasts the paper develops are between SSA and dynamic developing countries in other regions that are particularly significant for comparative purposes due to their impressive economic trajectories over the last 30 years. The four selected countries – Brazil, China, India and Vietnam – share some common features but are

[1] In this paper 'Africa' will also refer to sub-Saharan Africa (SSA).

largely very different from one another. Their differences are relevant for the future of LICs, which may not follow a single path towards 'successful' economic development. Indeed, these four countries have been quite successful in some aspects and not so successful in others, and therefore provide a wider range of lessons than is usually acknowledged. While the trajectories of the sample of LICs and MICs in SSA are remarkably different in some respects, they are also very similar in others, as we shall show below.

The paper is organised as follows. Section 2 deals with conceptual issues and argues for a greater focus on the demand side in order to understand employment and poverty dynamics. This section will also link the focus on the demand side with related macro issues: growth, investment, structural change and intersectoral linkages, broadly following a structuralist macroeconomics (and development economics) framework. Section 3 presents an overview of key trends in employment outcomes across regions and focuses on particular cases to illustrate revealing variations and important linkages with different types of growth process. The section starts by warning readers about the paucity and limited reliability of labour statistics in many developing countries, especially in the poorest ones.

Section 4 proposes an interpretation of trends described in Section 3 in relation to the nature of structural change in the past 30 years (the rise and fall of particular sectors and sub-sectors), and therefore more broadly in relation to the nature of growth processes (such as manufacturing-driven, commodity-dependent, or more or less 'inclusive'). The section also discusses policies and contrasting policy frameworks with regard to the growth and development trajectories on which the paper focuses. In particular, it draws a contrast between the policy frameworks mostly dominant in the fast-growing East Asian economies that have achieved significant dynamic structural change and the equally fast-growing but more resource-dependent economies of parts of SSA and Latin America.

Section 5, following the typologies introduced previously, summarises a number of key policy challenges for developing countries with regard to making growth more 'inclusive' and improving employment outcomes and it emphasises policy options to boost labour demand and improve work conditions.

Finally, Section 6 discusses options for donors or external development cooperation partners (aid agencies in particular) to contribute to and engage with the agenda set out in Section 5. In particular, it tackles four issues:

1. The advantages of moving away from a vaguely defined 'poverty-reduction' focus towards a bolder emphasis on employment and inequality in relation to the concept of 'inclusive growth'.
2. The need to shift focus, and the rationale for doing so, towards support for capital formation via public investment and for economic infrastructure in particular, partly following the example of some of the BRICs (Brazil, Russia, India and China) that are now more actively engaged in providing aid to poor countries, or South–South Cooperation (SSC).
3. The imperative of allowing for greater *policy space* and policy experimentation by reducing the extent of policy conditionality to which many aid-dependent countries are currently subject.
4. The importance of monitoring the investment practices of EU (European Union) business partners and the need to provide incentives that are compatible with achieving inclusive growth in the poorest countries.

2. Poverty, employment and the central importance of structural change and the demand side

Poverty remains high in many LICs and also in some LMICs. In SSA in particular, progress on reducing poverty since 1981 has been disappointing. It is indeed the only region where there has not been much progress in 30 years, at least in terms of standard poverty statistics. Nonetheless, there have been some discernible improvements since the late 1990s. This is consistent with a substantial improvement in the average growth rates in much of SSA during the 2000s, as many African economies benefited from the commodity boom, which seems to be continuing despite the global crisis. Martins (2012: 4) presents evidence of countries in Africa that have achieved good growth but have not performed well in terms of poverty reduction: for example '…while Mozambique and Tanzania experienced high average growth rates – at around 7 per cent per year – their poverty trends were very disappointing'. The poverty elasticity of growth in much of Africa has certainly been much less impressive than in successful Asian economies or in countries like Brazil, where even without very impressive economic growth rates in the 1990s and 2000s, there was a remarkable reduction of poverty. Section 3 will provide additional evidence and further discussion on these trends.

An important problem in calculating the growth elasticity of poverty and more generally the relationship between growth and poverty has its roots in the underlying difficulties with poverty statistics and especially in comparisons of poverty rates over time. Mozambique is an interesting case in point. While there was a notable reduction in poverty between 1997 and 2003 (with the headcount index falling from 69% to 54%) and the country was hailed as an example for the rest of Africa, the 2008 survey brought the bad news that there had been no change in the incidence of poverty (and even a slight increase) despite continuing robust growth. The problem is that it is not clear to what extent this is a real trend or how it is affected by the methodological challenge of comparing the results of surveys that may not be strictly comparable because of changes in survey design and different sampling frames (notably in the case of the surveys for 1997 and 2003).[2] So, there is a significant element of 'false precision' in many indicators of poverty dynamics (see Reddy, 2011), which renders the interpretation of the results relating to growth–poverty linkages somewhat unreliable.

The conventional poverty-reduction agenda, largely reflected in the various rounds of Poverty Reduction Strategy Papers (PRSPs) that were prepared and implemented especially in LICs and in SSA, has often established or problematised a direct link between growth and poverty reduction. Although the contribution of economic growth to the reduction of poverty in low-income contexts is undeniable in the long run, it is neither an automatic outcome nor one that clearly manifests itself in the same way across different countries and time periods. In fact, in addition to establishing the empirical relationship between growth and poverty outcomes, it is important to identify the mechanisms that condition this relationship. In this regard, it is clear that employment and labour markets – the 'employment nexus' (Osmani 2006) – is central. Thus a serious gap in much of the conventional literature on growth and poverty is the lack of critical attention to the 'employment nexus', which is the focus of the next sub-section.

[2] See Hanlon and Smart (2008) and Castel Branco (2011). The inconsistencies of these results are such that Sofala, a province that saw little evidence of economic change in the period 1997–2008, experienced huge swings in poverty incidence from 88% down to 36% and up again to 58%. The first period could well be seen as the most impressive poverty-reduction episode in history, although local residents may beg to differ.

2.1 Growth, employment and poverty: the employment nexus and 'inclusive growth'

The concept of the 'employment nexus' refers to the role of employment in shaping the linkage between growth and poverty. Osmani (2006) and Khan (2007) provide a useful framework and discussion based on evidence from various case studies exploring these linkages.

As argued by Osmani (2006), Khan (2007), Taylor (2011) and Ghosh (2011), economic growth can reduce poverty if it brings about a significant increase in workers' purchasing power, particularly of those living below the poverty line. This, in turn, depends on employment dynamics (the 'elasticity factor' or 'the extent to which an upward shift in the production possibility frontier enhances the employment potential'), and how the 'poor' obtain jobs and in what conditions (the 'integrability factor') (Osmani, 2006). Since economic growth is seldom broad-based and balanced, its sectoral composition is a critical aspect. The types of job and remuneration that are more positively affected in a process of economic growth will determine the dynamics and nature of poverty reduction via the 'employment nexus'.

Broadly speaking, in order to understand the link between poverty and employment, it is essential to account for the factors that lie behind it:

- **(Open) unemployment, especially in urban areas, affecting those who can 'afford' to wait for a job that matches their education and skills.** This phenomenon is essentially relevant in MICs where governments provide a modicum of social insurance, i.e. where people can 'afford' not to be employed (e.g. China, South Africa).
- **Underemployment, which is usually associated with people living in poverty who cannot find as much work as they are able and willing to do.** This is perhaps more common than open unemployment, especially in rural areas in LICs, although 'underemployment' could also be associated with those who work for many hours for very low pay – the working poor.
- **Very low and unstable remuneration, scarce opportunities and extremely weak bargaining power vis-à-vis those who offer casual employment.** This is what often characterises the realities of the 'working poor', and tends to go hand in hand with underemployment in terms of length of occupation. Disadvantaged groups such as youth and women tend to be over-represented in the lowest paid and more irregular employment categories. Women who have no partner or external support tend to be particularly disadvantaged and enter the labour market in the worst jobs (Oya and Sender, 2009).

The last two conditions highlight the distinction between 'time-related' versus 'income-related' underemployment. The conditions of women and men often differ in this regard. Women may work many hours within the home or as unpaid family workers. Their entry into the labour market is often prevented by men – for instance, a husband or father – in what continues to be patriarchal dominance of participation in the labour market, especially in rural areas in low-income countries. When women do secure paid employment outside the home, it is usually precarious and poorly paid.

This paper takes these preliminary conceptual considerations as the basis of the arguments and evidence it presents. There is a growing consensus among researchers and international development organisations that securing productive employment in LICs and MICs poses a critical challenge. In this respect, the concept of 'inclusive growth' has served to bridge the gap between the analysis of economic growth and the analysis of employment and poverty dynamics. There are questions, of course, about how useful this concept is in terms of revealing the underlying patterns of growth–poverty linkages, and the extent to which it is just a new term without much new content (Klasen, 2010). Nonetheless, it constitutes a step

forward from the conventional (and dated) view that economic growth is necessarily good for the poor (cf Dollar and Kraay, 2002).

The concept of 'inclusive growth' essentially relates to the dimensions of the 'employment nexus', especially the 'integrability factor' as defined above. There is as yet no consensus about what inclusive growth really means and how it can be measured, nor about the extent to which it is a better concept than 'pro-poor growth', which has hitherto dominated mainstream policy discussion on growth and poverty (Klasen, 2010).

One option is to define it in terms of the ability of the poor and disadvantaged to participate in growth (i.e. the integrability factor). A key weakness of most analysis is the implicit assumption that the problem lies in 'exclusion' of the poor from growth and employment. In reality, the accumulated evidence on the 'working poor' suggests that what matters is the terms of their inclusion in the growth process and in the labour market rather than their exclusion (Marais, 2011; Breman, 2009). The working poor are by definition engaged in work, but on very unfavourable terms.

So our analysis must shift from the fixation on 'exclusion' and focus much more concretely on how the poor are 'included' into the job market, albeit on disadvantaged terms. In this regard, there is no such phenomenon as 'jobless' growth. All growth of output is accompanied by a corresponding growth of income to the factors of production, and the intersection between these two dimensions is always some kind of employment relationship, whether advantaged or disadvantaged. For this reason, we use the term 'job-deficient' growth rather than the common, but essentially meaningless, 'jobless' growth. The working poor are not unemployed or 'excluded' from work, but are usually 'integrated with' 'job-deficient growth'. Their standard terms of inclusion are in low-productivity, low-paid, irregular and precarious jobs.

When the concept of 'inclusive growth' is linked to this perspective, it becomes a more demanding concept than the usual 'pro-poor growth' and, in that sense, also more useful for capturing significant 'inclusiveness' across different dimensions. The central importance of inequality and the linkages between poverty and employment dynamics are therefore the conceptual anchors for understanding 'inclusive growth'. This point takes us to the question of understanding growth processes and the relevance of the demand side in employment dynamics.

2.2 Demand-led growth, structural change and the 'developmental state'

Mainstream theory of economic growth has been traditionally based on the centrality of supply-side dynamics. Indeed, much of the conventional poverty agenda, including the Millennium Development Goals (MDG) agenda, operates on the assumption that supply-side measures (such as the education and health of the workforce) are the key to reducing poverty in the long run. This is, however, disputed by alternative perspectives building on the insights of 'old' structural development economics (e.g. structuralist macroeconomics, whose major exponent is Taylor (2011) and the contributors to the developmental state literature, notably Amsden and Chang). This paper builds on some of these key insights to discuss and interpret empirical trends in growth, employment and poverty.

Structuralist macroeconomics and traditional development-economics perspectives do not differ from the mainstream agenda in terms of emphasising the centrality of growth. They do differ from the mainstream especially in terms of:

a. understanding the drivers of growth, and the central importance of both structural change in long-term development processes and the demand side of the economy (thus the need to understand the dynamics of investment and consumption);
b. emphasising the centrality of distribution (inequality);
c. providing insights into the political economy of different growth paths, by examining the historically contingent institutional and political paths followed by late developers.

Growth Dynamics, Structural Change and Productive Employment to Reduce Poverty and Income Inequality

Taylor (2011) and Rada (2007), drawing on the tradition of pioneers of development economics Gerschenkron (1962), Kaldor (1978) and Hirschman (1958), present a macroeconomic framework within which a modern (say, manufacturing) sector co-exists with a 'subsistence' sector (containing low-productivity and informal activities) that absorbs a significant part of the labour force. This approach basically incorporates the premise that faster output growth in a 'modern' sector generates higher productivity growth across the economy and that this growth will eventually absorb the large pool of surplus labour, which characterises the 'subsistence' sector.

This framework presents various stylised facts about the relationship between productivity growth, output growth and employment, leading to different scenarios depending on the structural conditions of each economy. For example, productivity growth in the 'modern sector', possibly facilitated by prior output growth in that sector – through a demand-side push – could lead either to virtuous (ideal) or to vicious (low-equilibrium trap) scenarios.[3]

In the former, the dynamics of markets, innovation and finance, mediated or led by significant state interventions to coordinate the process, result in the growth of employment alongside fast productivity growth. In the end, 'when feedbacks between the sectors work themselves out, faster productivity growth in the modern sector will still be associated with job creation, and subsistence output per capita will rise. Faster productivity growth in subsistence activities can also lead to better overall performance' (Taylor, 2011). A feature of this virtuous scenario is that the spillover effects of the dynamics of output and productivity growth in the 'modern' sector facilitate the scope for substantial modernisation of agriculture, increasing the scope for private investment and wage labour in farm and non-farm production. This phenomenon has been observed in most experiences of rapid growth followed by demand-led employment growth in a wider range of activities.[4] This dynamic is fundamental in LICs because in the initial stages there will still be a substantial unskilled labour force that could be also employed in higher-productivity activities in agriculture as well as in the non-farm economy.

In the 'vicious' scenario, the process of achieving productivity growth leads to 'job-deficient' output growth in the modern sector, putting greater pressure on the so-called subsistence sector to absorb a growing labour force with slow income growth. This results in a 'low-level equilibrium trap dominated by subsistence activities' (Taylor, 2011). The question then arises of what kind of coordinated set of policies could help the economy out of the trap. In reality there is no single package: each trap would require a different set of interventions, at the macro, sector and micro levels (see Sections 4 and 5 below).

These two 'stylised' scenarios are good guides to the actual processes of growth and structural change often observed in developing countries, and explain some of the stark contrasts to be found in the historical evidence (see Section 3).

The insight into the positive link between productivity increases and production trajectories (output growth) (see Kaldor, 1978) can be linked to interventions that boost output growth via demand creation, perhaps through active state intervention to create new demand and/or finance new private investment. In turn, this can be connected to the strategy of 'discovering or even making winners' (rather than picking established winners), based on insights from the 'developmental state' tradition (cf Chang, 2010). Moreover, manufacturing experience acquired prior to accelerated growth has often turned out to be key for building subsequent competitive advantages, even when this process goes through extended periods of

[3] 'Modern sector' is a theoretical term to refer to higher-productivity activities, usually associated with organised/'formal' manufacturing but not exclusively so. It is defined in contrast to the 'subsistence sector', normally associated with low-productivity informal activities including peasant agriculture.

[4] See the World Bank (2007) report on agriculture and empirical evidence on the contours of agrarian transitions and the transformation of agriculture as a vehicle to 'transform' industrialising countries.

allocative inefficiency (Amsden, 2003). This suggests that a long-term timeframe is often necessary for these virtuous processes to be set in motion (Chang, 2010; Amsden, 2003).

When this process leads to sustained output growth in the 'modern' sector, then the key mechanisms to ensure growth sustainability are the various linkages (production linkages, backwards and forwards, consumption linkages and fiscal linkages), which ultimately result in the expansion of additional activities, expanded demand, employment growth and growing economic diversification (Hirschman, 1958). For example, fiscal linkages expand the fiscal space that is necessary both to boost public investment to further sustain the growth process and achieve concerted fiscal redistribution. If linkages are weak, then the initial virtuous circle might not be sustained and the threat of a low-equilibrium trap might set in. Arguably, manufacturing and other higher-productivity activities (such as Information and Communication Technology - ICTs) hold a great linkage potential, but we should not forget the potential of a more dynamic agricultural sector, which could also unleash powerful intersectoral and consumption linkages if greater product quality and higher productivity were achieved.

This theoretical framework thus brings the demand side back to the development agenda and stresses the essential problem of how to boost labour demand in a context in which 'subsistence' activities prevail, as in LICs. In this regard, Amsden's (2010) critique of conventional poverty-reduction agendas (namely, the 'grass-roots approach to solving poverty') reminds us that historical evidence reveals that 'to increase low incomes, a society can either invest directly in factories that provide employment, or invest in a public good like transportation that supports the rise of factories' (Amsden, 2010: 62). Unfortunately, current policy discourses, Amsden argues, suffer from 'job dementia' and expect too much from investments in expanding the provision of education and health services, driven by MDG goals. The crucial question is whether this dynamic of the supply-driven reduction of poverty can be sustained without a serious and sustained strategy for economic and employment growth. As Chang (2010: 179) boldly puts it, 'what really matters in the determination of national prosperity is not the educational levels of individuals but the nation's ability to organize individuals into enterprises with high productivity'. This is not to deny the value of improving human development through education and health. Its central point is that such human development cannot, on its own, drive economic development.

In sum, the key challenge is to find a path that is based on rapid capital accumulation in order to increase the potential growth rate and sustain growth over time, accompanied by increasing productivity growth and expanding employment opportunities. Moreover, in order to have a stronger impact on poverty outcomes (especially on the poorest entrants to the labour market), it should be a priority to avoid excessively low wages and to adopt policies that improve employment security and social protection. The point to emphasise here is that achieving better employment conditions and providing adequate social protection fundamentally rely on the success of structural change in expanding productive employment. In other words, a dynamic path of sustained growth and employment creation will certainly be far more successful in creating the necessary conditions for improvements in employment conditions than will a low-equilibrium trap of slow, job-deficient growth. The ideal virtuous scenario would be one in which *investment*, *labour productivity*, *labour demand* and *real wages* all grow at faster and sustained rates.

Gerschenkron (1962), Kaldor (1978), Hirschman (1958), Taylor (2011), Chang (2010) and Amsden (2003, 2009) emphasise the state's central role in resolving the coordination and market failures that prevent the 'virtuous' scenarios from happening. The idea of 'developmental state' comes to the fore in relation to the types of state intervention and their political underpinnings, which contribute to the acceleration of capital accumulation, productivity growth and employment creation. These interventions include macroeconomic policies designed to boost growth and achieve stability in combination with industrial policies designed to build industrial 'winners' and maximise intersectoral linkages. Historical evidence certainly shows that strong active states with a coherent long-term commitment to

industrialisation are a common feature of most success stories in developed and developing countries (Chang, 2011; Amsden, 2009; Rodrik, 2011).[5]

A final word of caution is necessary before moving on to the analysis of trends. The proposed framework has its limitations, especially if we focus on the macro level. For example, although not embedded in the framework, an analytical state–market dichotomy implicit in some of these 'models' may be problematic if it disguises underlying social and political forces that work both through the state and the market, as argued by Fine et al. (forthcoming) in their critique of the literature on the developmental state. In addition, and related to this point, methodological nationalism (where the nation/country is the guiding unit of analysis) may also bias the interpretations of certain events and issues.

A consideration of social, economic and political forces and structures, from the local to the global, may help overcome some of this bias. Finally, like in any other approach that essentially relies on secondary (macro and micro) data, and particularly on official statistics on growth, economic structures, employment and poverty, the research requirements may not be met because of significant gaps in the data (for key indicators, across countries and years) and also due to poor data quality (as explained in Appendix 1).

[5] See Fine (2011) for a critical note on the 'Developmental State Paradigm' regarding its limitations in scope and analytical weaknesses. Questioning the usefulness of this concept does not, however, mean questioning the central role of the state in long-term processes of development and structural transformations.

3. Understanding key employment trends and dynamics in developing countries

3.1 Growth dynamics and structural change

The evidence on long-term growth as well as contemporary experiences of rapid growth in developing countries over the last 20 to 30 years confirms the central role of dynamic structural change and industrialisation – as some of the East Asian trajectories have repeatedly shown. The key stylised fact, shown in Table 3.1 below, is that there is substantial divergence in the growth record between our non-African sample of dynamic economies and the SSA sample for the period 1950–2008. Brazil, China, India and Vietnam are included as comparators for the performance in the African countries. The individual countries in Africa have been chosen primarily on the basis of the availability of data on employment and productivity trends for the broad period covering the 1990s to the 2000s.[6]

Table 3.1 GDP per capita growth 1950–2008 - Maddison series

	1950–79	*1980–99*	*2000–08*	*1950–2008*
China	2.9%	5.7%	8.7%	**4.8%**
India	1.3%	3.7%	5.5%	2.7%
Vietnam	0.7%	3.9%	6.3%	2.6%
Brazil	3.8%	0.5%	2.0%	2.3%
Ethiopia	1.7%	-0.2%	4.2%	1.4%
Nigeria	2.0%	-0.7%	3.3%	1.2%
South Africa	1.8%	-0.5%	2.6%	1.1%
Tanzania	1.3%	-0.9%	4.2%	1.0%
Kenya	1.6%	0.0%	0.6%	0.9%
Ghana	0.3%	0.2%	3.2%	0.7%
Uganda	-0.4%	1.1%	3.2%	0.7%
Zambia	1.1%	-1.8%	3.3%	**0.4%**
Senegal	0.3%	-0.3%	1.5%	**0.3%**
Average	*1.4%*	*0.8%*	*3.7%*	*1.5%*
Median	*1.3%*	*0.0%*	*3.3%*	*1.1%*

Source: Maddison dataset, data available at: http://www.ggdc.net/maddison/Maddison.htm
Note: Countries are listed in order of average GDP per capita growth from highest to lowest

The trends show a clear acceleration of growth from the 1970s onwards for the Asian examples and a deceleration for Brazil, which enjoyed its boom in the 1960s and 1970s. Nonetheless, Brazil has substantially reduced poverty and inequality since the mid-1990s, despite relatively unimpressive growth rates (Ferreira de Souza, 2012). Sluggish growth in African countries has been essentially accounted for by poor performance in the 1980s and 1990s (including in South Africa) followed by an impressive recovery in the 2000s, although this has been largely commodity- and aid-driven (often with minerals and oil leading growth processes) and so not yet associated with dynamic structural change and rapid employment creation.

[6] This sample of countries represents 65% of total SSA GDP in 2010 and 45% for tables excluding Kenya and Nigeria due to incomplete data.

Another issue is the extent to which the most sustained growth trajectories have been employment-intensive. While structural change has been critical in order to sustain growth and technological advances in Asia, there is increasing evidence that Asia's employment record over the last 20 years is not impressive, even in the best growth performers, if official statistics are taken at face value. In fact, an important challenge in Asian MICs is that output growth has been dominated by productivity growth, with relatively slow employment growth. Employment elasticities have been positive but below unity (Martins and McKinley, 2011: 10). Ghosh (2011) has also questioned the more recent pattern of growth in China and India, arguing that it has not been sufficiently employment-intensive and has exacerbated the problem of a 'reserve army of labour' ready to leave the countryside for any temporary low-paid job in urban factories. This is an important feature of the past 20 years' growth experience in both MICs and LICs, notwithstanding significant variation across countries. Table 3.2 confirms the relatively slow growth or stagnating levels of employment (ratio of employment to the adult population). Table 3.2 also shows substantial contrasts in both the labour participation rates (LPRs) (and underpinning dependency ratios) and employment to population ratios, with countries like China, Thailand and Vietnam experiencing much higher labour participation and employment rates than India and Sri Lanka, largely because of the much lower recorded female employment. As for African countries, a contrast emerges between South Africa, where the employment ratio is much lower than most other countries, and indeed one of the lowest in the world (a combination of low LPRs – also hiding discouraged workers – and high unemployment). Some African countries have high employment ratios, but this masks a very high incidence of 'vulnerable employment' – both self-employment (SE), plus contributing family workers (CFWs) – consistent with the idea that the 'poor' cannot afford to be unemployed or out of the labour force.

Table 3.2 Key Labour Force Statistics (Period Averages)

	Labour Participation Rate (% population aged 15+)					Employment to Population Ratio (% population aged 15+)			
	1991-1995	*1996-2000*	*2001-2005*	*2006-2009*		*1991-1995*	*1996-2000*	*2001-2005*	*2006-2009*
Asian sample									
China, PR	79.0	78.1	75.9	74.0		**75.4**	**74.5**	**72.6**	**71.3**
India	60.0	59.0	58.0	57.8		**58.1**	**57.1**	**56.2**	**55.6**
Indonesia	65.3	66.7	67.8	68.5		62.6	62.8	60.6	60.9
Malaysia	62.0	62.1	62.6	62.1		59.8	60.0	60.3	60.3
Philippines	65.5	66.1	65.9	63.8		59.6	60.1	59.5	60.0
Sri Lanka	57.2	56.9	55.8	54.9		50.1	52.2	52.7	54.2
Thailand	76.4	74.2	73.5	73.0		75.2	72.6	72.3	71.8
Viet Nam	77.0	74.8	73.1	72.0		74.5	72.4	70.6	69.5
SSA sample									
Ethiopia	81.4	81.2	83.5	84.6		72.1	73.8	77.7	80.2
Ghana	71.9	73.8	74.6	74.5		68.1	67.8	66.0	65.2
Mozambique	86.7	86.7	86.4	85.9		79.7	78.6	78.2	78.0
Senegal	75.8	75.8	76.0	76.3		66.6	66.1	65.7	65.9
South Africa	49.7	51.6	53.2	54.6		**40.9**	**40.0**	**37.7**	**40.5**
Tanzania	89.1	89.0	88.7	88.5		**86.9**	**85.6**	**82.1**	**78.0**
Uganda	85.8	85.2	84.8	84.6		81.9	81.9	82.5	82.9
Zambia	69.9	70.2	69.8	69.2		57.1	60.5	60.9	61.1

Sources: Updated and adapted from Martins, 2012; Martins and McKinley, 2011; and African Development Indicators, 2012

Table 3.3 shows annual rates of growth for key demographic, employment and growth indicators as a basis for the evidence shown in Table 3.4. Table 3.3 shows how employment growth rates are fairly uniform and relatively higher in the SSA sample than in the dynamic economies in Asia. The key difference is labour productivity growth, which has been disappointing in most SSA economies in comparison with most dynamic MICs (in some cases negative or close to zero, i.e. Zambia and South Africa). Another matter is the *quality* of employment created, especially in African economies, a point to which we will return.

Table 3.3 Growth components: annual growth rates

	Timeframe		Population growth	Working age population growth	Employment growth	GDP per capita growth	Output per worker growth
Country	Period	Number of years	Compound annual rate %	Compound annual rate %	Compound annual rate %	Compound annual rate %	Compound annual rate %
Brazil	*1992-2009*	17	1.3	2.0	1.9	2.0	1.4
China	*1992-2008*	16	0.8	1.4	1.1	**9.5**	9.2
India	*1994-2010*	16	1.6	2.2	1.7	5.5	5.4
Vietnam	*1996-2006*	10	1.3	2.7	2.4	5.7	4.6
SSA sample							
Ethiopia	*1994-2005*	11	2.7	2.9	3.4	2.6	1.9
Ghana	*1992-2006*	14	2.5	3.0	2.8	1.7	1.4
Senegal	*2001-2005*	4	2.7	3.1	1.0	1.9	3.6
South Africa	*2000-2009*	9	1.3	1.8	2.6	2.0	0.6
Tanzania	*1991-2006*	15	2.8	3.0	3.0	1.8	1.5
Uganda	*2002-2009*	7	3.3	3.4	3.5	3.9	3.7
Zambia	*1990-2005*	15	2.5	2.5	4.2	**-0.3**	**-1.9**

Source: Authors' calculations based on WDI, 2012 and KILM, 2011
Note: GDP per capita in LCU constant terms

The decomposition of the change in Gross Domestic Product (GDP) per capita[7] calculated for the sample (Table 3.4) confirms that *labour productivity* has been the leading driver of growth in both dynamic and less dynamic economies, in MICs as well as LICs. Table 3.4 decomposes growth into (a) changes in output per worker (labour productivity); (b) employment rates; and (c) changes in the working-age population as a ratio of the total population (demographic effect). In the more successful economies, output per worker has increased substantially but the employment ratio to working age population has declined (not necessarily a bad thing as it could mean more people staying in secondary and higher education). Generally, the demographic trend (i.e. the increase in the relative size of the working-age population) has been positive, as young people begin to move into the labour force while birth rates decline, thereby reducing the dependency ratios that have long characterised LICs. This is the so-called 'demographic

[7] 'Decomposition' refers to a statistical technique designed to calculate the individual contribution of each component of the growth equation (demographic change, employment change, productivity change) in percentage terms. This technique allows us to determine the extent to which output growth has been led by changes in labour productivity or by the addition of labour inputs (via increases in the working-age population or in the rate of employment of active population). See JoGGS (2012) for more details.

dividend' that many developing countries need to take advantage of while it lasts. The data suggest that some African countries may be starting to enjoy the 'demographic dividend' as many Asian economies did in the 1980s and 1990s, but the question in Africa is whether there will be jobs for the growing working-age population. In terms of its quantitative significance for growth, the data in Table 3.4 suggest that the contribution of the 'demographic dividend' to growth in the periods under analysis has generally been only marginal, Vietnam, Senegal and South Africa being the countries where it has contributed rather more (between 18% and 27%). However, while in Vietnam this contribution was instrumental to achieving a high output growth rate (5.7% in GDP per capita growth) in South Africa and Senegal, annual economic growth rates did not exceed 2% (Table 3.3). Paradoxically, in South Africa the *employment rate* is the main contributor to per capita growth for the period 2000–09 (accounting for 41% of economic growth). However, employment growth has not been sufficiently rapid to reduce the very high (though probably underestimated) unemployment rates (see more on South Africa in Section 4).

Table 3.4 Decomposition of growth in GDP per capita in core sample

	Timeframe		GDP per capita (LCU constant) % change)	% Contribution of		
				Output per worker	Employment Rate	Demographic Change
	Period	Number of years	Δ(Y/N)	Δ(Y/E)	Δ(E/A)	Δ(A/N)
Brazil	*1992-2009*	17	40.3	**69.6**	-4.6	35.0
China	*1992-2008*	16	327.08	**96.90**	-4.60	7.70
India	*1994-2010*	16	133.82	**99.63**	-11.42	11.78
Vietnam	*1996-2006*	10	74.68	**79.90**	-4.60	24.69
SSA sample						
Ethiopia	*1994-2005*	11	32.2	**72.4**	19.2	8.4
Ghana	*1992-2006*	14	27.4	**97.8**	-1.2	3.4
Senegal	*2001-2005*	4	10.0	**188.1**	-105.9	17.9
South Africa	*2000-2009*	9	19.6	**32.4**	40.6	27.0
Tanzania	*1991-2006*	15	30.0	**87.8**	2.4	9.8
Uganda	*2002-2009*	7	30.3	**94.9**	3.3	1.8
Zambia	*1990-2005*	15	-4.5	**623.9**	-529.6	5.7

Notes: a/ Sum of percentage contribution is 100; GDP p/c growth accumulated during the selected period.
b/ Percentage contributions were computed using JoGGs (2012).
c/ Δ(Y/E) = increase in output per worker; Δ(E/A) = increase in the employment rate (to working population); Δ(A/N) = increase in ratio of working age population to total population
Source: Own calculations using JoGGs and data from WDI, 2012; KILM, 2011

So, for most countries in the sample, labour productivity remains the main contributor to growth particularly in cases of fast economic growth but also in slower growing economies. However, the positive story about increases in labour productivity needs to be analysed more closely, since these contributions to growth mean different things in different contexts. The growth in labour productivity could in fact result from a combination of *intersectoral* shifts that increase productivity (dynamic structural change) and productivity increases *within* sectors. In this respect, Rodrik's (2011) decomposition of productivity growth across regions and countries gives compelling evidence that Africa and Latin America have suffered from 'reverse', or growth-reducing, structural change, which has offset gains in productivity

within sectors, while Asian economies have had both 'dynamic' intersectoral shifts and within-sector productivity increases. In the former, 'labor has tended to move from high-productivity activities such as manufacturing and tradable services to low-productivity services, informality, and in some cases even agriculture' (Rodrik, 2011: 29). In other words:

a. Labour productivity has increased *within* sectors in almost all cases, for reasons ranging from the disappearance of inefficient industries to the widespread adoption of new technologies.
b. Intersectoral shifts have been positive and dynamic in fast-growing economies (especially China and Vietnam) and 'regressive' in much of Africa and Latin America, as labour has moved towards less productive sectors (a reflection of informalisation and manufacturing stagnation).

This means that the growth in output per worker in Asian success stories (especially China and Vietnam) has been driven by the movement of labour to more productive sectors, both manufacturing and some services, but especially the former, as well as to dynamic export industries where there is greater scope for productivity growth. According to Rodrik (2011), intersectoral shifts in China account for almost 50% of the growth in GDP per capita, while in Vietnam the contribution is 64%. In contrast, in Uganda intersectoral shifts account for only 30% of the growth in GDP per capita while increases in within-sector productivity account for most of the rest (Rodrik, 2011). As will be argued in Section 4 these differences in structural dynamics are essential for understanding differences in economic growth and labour market performance.

To corroborate this finding, most of the exercises in decomposition of change in GDP per capita and GDP per worker in our sample also show a bias towards 'services', a sector that in the contexts of LICs includes a vast array of heterogeneous activities, although many of them are characterised by widespread informality and low productivity.[8] Even in countries like China and Vietnam, where manufacturing growth has been a key catalyst of economic transformation and intersectoral shifts from agriculture to industry have been productivity-enhancing, the service sector recorded the fastest employment growth for the period analysed – a trend that seems to be shared globally by countries at different levels of development, which will also be discussed in Section 4. Indeed, Table 3.10 shows that manufacturing output declined as a proportion of GDP in both China and Vietnam between the 1980s and 1990s, only to improve in the last decade but still relatively lower than the 1980s average. Therefore, while manufacturing growth and manufactured export growth in China have certainly been impressive, especially compared to other economies (Tables 3.9 and 3.10), it has not outstripped the growth in services.[9]

The significance of tertiary activities from LICs to the richest economies also reflects a global phenomenon and one of the core features of contemporary capitalism since the 1970s, namely the processes of 'financialisation'. As Fine and Milonakis (2011) argue, 'financialisation', albeit understood in different ways by heterodox political economists, refers to the process through which global capital accumulation has been dominated by finance capital and economic policies are increasingly subordinated to the operation and speculative actions of financial markets. As many critical authors have argued, the process of financialisation ties into the emergence and dominance of financial elites worldwide, the

[8] These are based on calculations generated by the authors for the selected countries on the spreadsheet tool provided by JoGGs (2012) and using World Development Indicators (WDI) 2012 and ILO-KILM 7th edition databases, available online. They are not explicitly presented here for reasons of space.

[9] Another issue is how much of the growth in services is linked and due to manufacturing growth, which is bound to vary across countries (Chang, 2010). Aggregate data mask important distinctions within sectors. A contrast could thus be established between growth in higher-productivity services linked to industrial development and urbanisation and growth in lower-productivity services of the kind predominating in informal activities (personal services, petty trade, transport, etc.).

influence of financial decision-making on broader policy-making and the growing inequality worldwide, especially between the top and the bottom incomes. The proliferation of financial assets and the dominance of speculation and complex financial products for short-term profit vis-à-vis real investment have gradually detached finance from its core role of financing sustainable productive investments, which remain indispensable for the promotion of employment and the reduction of inequality and poverty. An indication of this is the unprecedented expansion of financial services as proportion of GDP and the ever-growing ratios of financial transactions in relation to GDP despite sluggish real investment (fixed capital formation) recorded in most OECD (Organisation for Economic Co-operation and Development) countries and a majority of developing countries, especially LICs. Finally, the recent financial crisis and the enormous difficulties it has generated, despite astonishing bail-outs, attest to both the current power of finance and its dysfunctions (Ashman et al., 2011).

Table 3.5 Employment shares by sector, world and regions (%)

	Agriculture		Industry		Services	
	1999	2009	1999	2009	1999	2009
World	40	35	21	22	39	43
Developed Economies and EU	6	4	28	23	67	73
Central and South Eastern Europe	27	20	25	25	49	55
East Asia	48	37	24	28	28	35
South-East Asia and the Pacific	49	44	16	18	35	38
South Asia	60	54	15	19	25	28
Latin America and the Caribbean	22	16	21	22	57	62
Middle East	22	19	26	26	52	55
North Africa	29	28	21	23	50	50
Sub-Saharan Africa	**62**	**59**	9	11	29	30

Source: ILO, Global Employment Trends, 2011

These structural trends are also reflected in *sectoral employment dynamics*. The growing 'tertiarisation' in developed and developing economies is also reflected in employment trends by sector, with an increasing significance of services irrespective of levels of development. Table 3.5 shows global trends in the share of total employment in agriculture, industry and services, by region. It shows that between 1999 and 2009 there has been a remarkable expansion of services, especially in East Asia and developed economies. Even in SSA, where most employment is still concentrated in agriculture, the service sector employs more people than industry. There is clearly considerable variation between different regions at different levels of development but the trends are fairly consistent. Tables 3.6–8 document trends in employment in agriculture and manufacturing for different groups of countries, showing:

a. the extent to which dynamic economies (Brazil, China, India and Vietnam) differ from LICs in Africa in terms of the speed of the decline in the share of agricultural employment associated with structural change (Table 3.6); and
b. the extent to which the share of *manufacturing* in total employment is much higher in Asia and Latin America compared to African economies (a sample average of 17% compared to less than 7%), with the particular exceptions of Mauritius and South Africa, and the vast majority of SSA countries not even reaching 10%.

Table 3.6 Employment in agriculture (%)

Country	Period	Y_0	Y_1
Brazil	1981-2009	**29.3**	**17.0**
China	1980-2008	**68.7**	**39.6**
India	1994-2010	61.9	51.1
Vietnam	1996-2006	**70.0**	**51.7**
Ethiopia	1994-2005	89.3	79.3
Ghana	1992-2005	**62.0**	**57.2**
Nigeria	1983-2006	**33.6**	**44.6**
Senegal	2001-2005	45.6	33.7
South Africa	2000-2009	15.6	5.1
Tanzania	1991-2006	84.2	76.5
Uganda	2002-2009	**65.5**	**65.6**
Zambia	1998-2005	**70.0**	**72.2**

Sources: ILO, Global Employment Trends, 2011; KILM, 2011

Note: Y_0 refers to first year of quoted time period

Y_1 refers to final year of quoted time period

Table 3.7 Employment in manufacturing (% of total)

Selected Asian and Latin American countries post-2000		
Country (sorted by %)	latest survey	% of total employment
China	2007	28.8
Taiwan	2008	27.7
Malaysia	2009	16.6
Mexico	2008	16.5
Singapore	2009	15.7
Brazil	2009	13.8
Thailand	2009	13.8
Colombia	2008	13.4
Vietnam	2004	11.7
India	2010	11.0
Sample average		*16.9*
Sample median		*14.8*

Sources: ILO, Global Employment Trends, 2011; KILM, 2011

Table 3.8 Employment in manufacturing (% of total)

All Sub-Saharan Africa with available data post-2000		
Country (sorted by %)	latest survey	% of total employment
Mauritius	2008	19.7
South Africa	2008	14.3
Ghana	2006	10.9
Nigeria	2004	9.8
Senegal	2006	7.8
Botswana	2006	6.7
Namibia	2008	6.3
Uganda	2009	6.0
Zimbabwe	2004	5.9
Ethiopia	2005	4.8
Zambia	2005	4.0
Kenya	2005	3.6
Tanzania	2006	3.1
Madagascar	2005	2.8
Burkina Faso	2005	2.0
Rwanda	2005	1.8
Mozambique	2003	0.8
SSA extended sample average		*6.5*
SSA extended sample median		*5.9*

Sources: ILO, Global Employment Trends, 2011; KILM, 2011

Structurally the low contribution of manufacturing to employment in much of Africa mirrors the low share of manufacturing value-added in GDP (see Table 3.10). Senegal shows a relatively high proportion of such value-added by African standards, although this statistic might be misleading. While the World Development Indicators database records an average for the 2000s of around 14%, UNIDO (United Nations Industrial Development Organization) data suggest it declined from 13% to 10.7% of GDP between 2000 and 2010. Our basic knowledge of the manufacturing sector in Senegal suggests that these figures reflect the significance of cement and processed sugar production (only the former having grown steadily in recent years) in addition to one major chemical company, which was a capital-intensive industry on the verge of collapse during the 2000s. Thus, data are inconsistent and, at best, this sector has not registered a strong performance.

Other African LICs have tiny manufacturing sectors, though informal manufacturing has probably expanded as a result of urbanisation and growing informalisation (see Meagher, 2010 on informal manufacturing clusters in Nigeria). There is a stark contrast between African LICs and dynamic transforming economies in Asia, as Tables 3.9 and 3.10 show. This contrast is not only in terms of current levels of manufacturing value-added per capita, but also as a proportion both of GDP and even more so of total exports. The contrast across global regions is clear when we examine growth rates of manufacturing production since the 1990s (Table 3.9).

Table 3.9 Manufacturing VA per capita trends across regions

	1990	1995	2000	2005	2010	% change 1990–2010	annual % change
World	827	848	948	1036	1052	27.2	1.2
Developing Countries	171	211	254	321	430	151.5	4.7
China	100	199	303	480	820	720.0	11.1
Latin America	591	608	656	680	711	20.3	0.9
Asia	130	159	177	221	270	107.7	3.7
North Africa	157	163	193	206	242	54.1	2.2
Sub-Saharan Africa	30	26	28	30	35	16.7	0.8
Industrialised Countries	3575	3722	4239	4548	4267	19.4	0.9

Sources: UNIDO, 2012; WDI, 2012

Table 3.10 Key indicators for the manufacturing sector: core sample

	Manufacturing VA % GDP			**Manufacturing exports % total**			**High tech as % manufactured X**		
	1980-89	*1990-99*	*2000-10*	*1980-89*	*1990-99*	*2000-10*	*1980-89*	*1990-99*	*2000-10*
Brazil	**32.7**	**20.3**	**17.0**	44.3	54.7	49.4	..	6.6	13.7
China	**36.0**	**32.9**	**32.1**	49.0	81.8	**91.5**	..	11.3	26.3
Ethiopia	4.9	4.4	5.1	..	7.0	**9.4**	..	0.3	2.7
Ghana	8.7	9.9	9.1	0.8	13.3	21.6	..	3.4	1.9
India	**16.6**	**16.3**	**15.3**	60.1	74.2	70.3	..	5.2	6.6
Kenya	12.0	11.5	11.5	11.6	26.8	30.1	..	3.4	4.8
Nigeria	..	..	3.1	0.1	1.6	3.0	..	3.8	1.7
Senegal	14.0	16.1	14.9	21.7	38.7	40.2	..	5.3	5.8
South Africa	22.8	21.0	17.7	18.5	46.5	53.9	..	6.4	5.7
Tanzania	..	8.3	9.0	10.8	15.6	19.9	..	3.2	1.5
Uganda	5.5	7.2	7.6	..	7.6	15.2	..	5.0	9.4
Vietnam	**19.7**	**15.2**	**20.3**	..	44.4	51.5	..	0.1	6.7
Zambia	25.1	21.2	11.1	..	10.7	9.8	..	6.2	1.2

Sources: UNIDO, 2012; WDI, 2012

Countries like Brazil, with apparently less impressive figures – namely, a significant drop in the percentage of manufacturing in GDP since the 1980s – did, however, go through a process of industrial take-off in the 1960s and 1970s and its exports contain a larger proportion of processed goods than the average for LICs in Africa (Table 3.10). These data suggest an enormous potential for manufacturing growth in Africa, given the currently low base. At the same time, it will be an enormous challenge to develop this potential in view of the region's weak fundamentals such as the lack of infrastructure, e.g. power supply and ports, the shortage of skills, low technology and a lack of previously acquired manufacturing capabilities. Correcting these problems should be a clear policy priority for governments as well as for development cooperation, as will be discussed in Section 5.

Taylor (2011) and Rada (2007) also point to the importance of foreign exchange in determining growth paths and structural change scenarios. The foreign-exchange constraint may reduce potential growth and use of capacity, especially through its effect on domestic investment, vital imports (including technology) and even resources for processing. China's success story underscores the importance of running trade surpluses to expand fiscal space and finance rapid industrialisation. Structuralist macroeconomic models, which have been built upon the stylised facts discussed in Section 2, suggest that the shortage of foreign exchange is often the binding constraint on the increase in the rate of capacity use in LICs (thus, on effective demand and current output). This is because of significant import dependence on non-agricultural tradable sectors and relatively poor export performance, including in commodity exports (especially from agriculture). Many LICs and some MICs, even those achieving strong growth, tend to face chronic trade deficits, and their potential growth is structurally compressed by the lack of foreign currency to pay for the required inputs, especially in initial stages of industrialisation.

In our sample countries, there is a widespread foreign-exchange problem, which is reflected in fairly large trade deficits, especially in LICs but also even in fast-growing dynamic economies like Vietnam (Pincus, 2009). Most African LICs still experience foreign-exchange constraints, only partly attenuated by the commodity boom and the expansion of ODA since 1999. Having a large trade surplus does not mean the same thing in structurally different contexts, however. For example, China and Nigeria, the two countries in the sample with a large recorded surplus, represent opposing realities: the former, with a diversified economy and a very strong manufacturing export performance advancing towards higher-technology sectors (thus having a sustainable current account); and the latter, representing a typical case of commodity dependence, i.e. oil, and therefore subject to the vagaries of commodity markets. The challenge for a country like Nigeria is to use its foreign exchange revenue to support industrialisation and economic diversification. But, as the history of successful transforming economies shows, foreign-exchange constraints are often binding in LICs and even their resolution does not guarantee ensuing dynamic structural change, which requires a broader combination of policy interventions and economic circumstances (Ocampo et al., 2009; Felipe et al., 2010).

3.2 Employment dynamics: employment structures, trends and inequality

The previous section anticipated a number of key trends and differences across countries in terms of *employment* indicators. One of the key arguments concerned the relatively sluggish employment growth in most cases, albeit with different consequences depending on the degree of structural transformation. Thus, while fast-growing East Asian economies have generated substantial employment in higher-productivity sectors, output growth has clearly outpaced employment growth, resulting in the growth in labour productivity being the main engine of GDP per capita growth. The *composition* of employment appears as a key differentiating factor, as we saw in the discussion on sectoral patterns and the dominance of low-productivity services in LICs, especially in Africa, where there have been instances of 'reverse' structural change (Rodrik, 2011).

So, a key stylised fact in terms of employment dynamics, especially in LICs, in SSA and in parts of South Asia, is a change in employment structures towards informal activities and an increase in or persistence of the proportion of workers who are self-employed or are contributing family workers, i.e. in so-called 'vulnerable employment', despite some reduction in the proportion of workers in agriculture in most countries. *Recorded wage employment* has barely increased in most LICs, especially in Africa, and the proportion of SE in total employment remains excessively large even taking into account GDP per capita levels (Table 3.11). This is partly a real trend, related to the lack of industrialisation and growing informalisation, and partly a statistical artefact derived from the biases in favour of SE in household surveys, which conceal the true significance of casual wage employment (as argued in Appendix 1 on issues of data quality). Put simply, employment growth in a dynamic context like China or Vietnam means something very different from employment growth in a sluggish LIC that has little structural change and widespread informal labour relations.

Table 3.11 Employment status - key variables for selected regional samples (latest surveys)

	Wage & salaried workers (employees) (%)		Total self-employed workers (%)		Share of vulnerable employment in total employment (%)	
	average	***median***	*average*	***median***	*average*	***median***
SSA (34 countries)	28	**20**	70	**80**	69	**79**
South Africa (data for five years in 2000s)	83	**82**	17	**17**	13	**13**
Asian MICs	43	**45**	57	**55**	54	**53**
Latin America (six countries)	57	**58**	42	**42**	37	**37**

Source: Calculations based on KILM, 2011
Note: 'vulnerable employment' includes own-account workers and contributing family workers (usually in agriculture and informal activities), excluding employers.

Evidence on *labour force participation rates* and employment to population ratios, briefly discussed in the previous section, also reflect structural differences *between* regions as well as some striking contrasts *within* regions. Between regions, there is a significant difference between MICs, Asian economies and SSA contexts: in the former there has been a downward trend in LPRs while in the latter they have remained high (except for South Africa) or increased. While a reduction in LPRs in East Asia can be interpreted as an increase in the share of the 'economically inactive' population, especially students (i.e. more access to education because of increasing income levels) and retired workers (partly a sign of ageing populations), a very low LPR in South Africa partly reflects a substantial proportion of 'discouraged' workers, who are unemployed but are no longer actively seeking jobs because of the lack of success in finding decent paid employment (see Table 3.2).

The data on employment growth and employment elasticities (relatively low in China, India and Vietnam and around 0.5 in the African countries in our sample) confirm that growth dynamics in relatively successful cases like China, India, Brazil and Vietnam have not generated impressive rates of employment growth *relative* to economic growth (although quite positive in absolute terms). In contrast, employment elasticities of growth and generally employment growth rates for our sample of African countries are significantly higher. Is this a cause for optimism? Not really. Many of these countries experience the 'wrong' type of employment growth: employment is expanding in less productive and lower-paid sectors, often in the context of overall slow growth. Zambia exemplifies this situation. It is one of the countries in our sample with the lowest GDP per capita growth, the lowest rate of poverty reduction and the most obvious form of 'reverse' structural change, from more productive industrial activities back to agriculture or low-productivity informal services (see also UNECA, 2011 for other examples of such a contrast

between SSA and East Asia). Paradoxically it also has the highest employment elasticity in the sample (although in a context of stagnation). This was especially the case until the late 1990s and before the copper sector recovered moderately from two disastrous decades.[10] In contrast, China and Vietnam may not have recorded impressive employment growth (although their annual rates of 1.1% and 2.4% growth respectively, which is based on lower population growth than other developing economies, is not a poor performance per se) (see Table 3.3). But they have both managed to shift enormous proportions of their labour force from low-productivity activities to higher-productivity and better-paid activities.

The previous section already discussed some of the evidence on *sector* shifts in employment. Here we summarise the key points:

a. The variation in the proportion of workers in agriculture vs. manufacturing is very substantial. There are strong structural differences between higher-income and more dynamic economies, on the one hand, and LICs and LMICs in Africa, on the other. Manufacturing employment in many African countries, even including some of the most industrialised in the continent, is still paltry in the 2000s, with the exception of South Africa, whose economy depends heavily on the mineral-energy-complex (which comprises some sub-sectors classified as manufacturing but which are not labour-intensive).
b. Even in some of the most dynamic and transforming economies, like China, Vietnam, India and Brazil, the record in manufacturing employment has not been impressive in the past ten years. In fact, it has either stagnated or declined in proportional terms, largely because most of the increases in the labour force has been absorbed by the service sector. Generally, Asian economies (especially East Asian) have experienced a sharp decline in the share of agricultural employment but this has not markedly reduced the proportion of people classified as own-account workers or in 'vulnerable employment' (Table 3.11). Apart from the poorer self-employed, large masses of casual workers, many considered a class of habitually 'footloose' labour straddling rural and urban areas and shuttling among cities, abound in Asian MICs.[11] Transient urban migrants certainly constitute a challenge for China's development prospects since the rural 'reserve army of labour' (i.e. workers potentially available for employment in urban, non-agricultural activities) is estimated at more than 200 million people (Bramall, 2008; Glyn, 2006b; Breman, 2009).[12]
c. The emergence of 'services' as a key pool of labour absorption is also a reflection of the process of informalisation that has characterised many developing economies since the 1990s. This has to do with growth dynamics, as discussed earlier, but also with the weakened bargaining power of workers in both organised and unorganised sectors (Standing, 2009).

The realities of which sectors absorb most labour closely relate to the dynamic of *wage employment*, which tends to be more represented or 'visible' in high-productivity organised sectors. In LICs and also in some MICs, the dichotomy self-employment versus wage employment, as argued in the discussion on data issues in Appendix 1, is problematic. Given the importance of the expansion of wage employment in processes of structural transformation and industrialisation it is imperative that LICs substantially improve their statistical systems to capture the dynamics of wage employment, as suggested in Sender et

[10] See Weeks et al. (2006) for a deeper account of Zambia's trajectory of failure, at least until the early 2000s.

[11] See Breman (2009) and Martins and McKinley (2011) on Asian MICs.

[12] In countries like Vietnam and China it is very hard to obtain reliable estimates of these masses of footloose labour who reside often illegally in urban and peri-urban areas, in dormitories, labour camps, informal rented accommodation, out of view from census and household survey enumerators. Their contribution to casual and seasonal employment in urban areas is obvious but very hard to accurately capture. See Pincus and Sender (2008) on Vietnam and Breman (2009) on China.

al. (2005).[13] While taking this into account, we note that some significant patterns emerge from the official statistics.

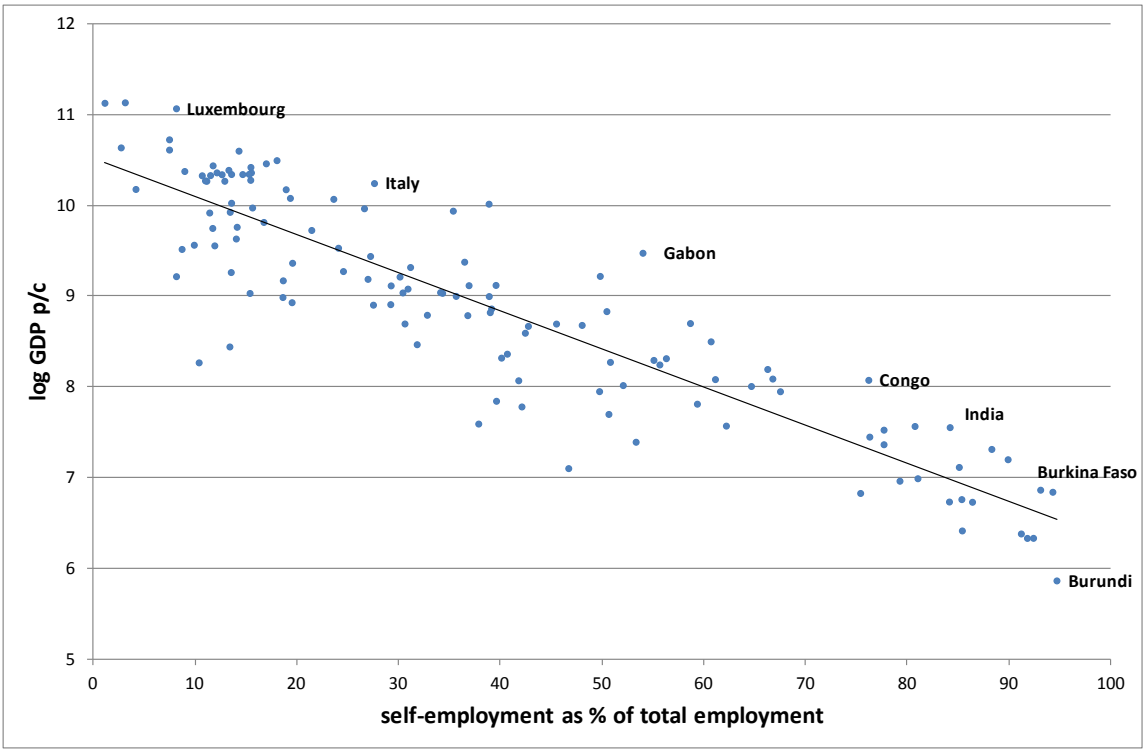
a. Generally the proportion of *self-employment* remains very large in various countries, but especially in SSA, where proportions in excess of 70–80% are the norm (Table 3.11).[14] In South Africa and some neighbouring countries like Swaziland, Botswana and Namibia, wage employment accounts for more than 70–80% of total employment,[15] and the 'standard employment relationship' is more common and systems of social insurance allow for higher unemployment rates. In contrast, official statistics show a small proportion – often less than 20% – of the workforce as being in paid employment in a large number of other African countries, where wage employment generally corresponds to salaried work in the 'formal' (urban) sector, especially the public sector. In most African LICs, informality in labour relations is as widespread as in India, and it cuts across sectors and types of enterprise (see Table 3.12 for data on non-agricultural employment).
b. The share of 'vulnerable employment' in total employment has also risen substantially in this region. Such trends have been reinforced since the 1990s as a result of slow growth in formal employment and the growing casualisation and informalisation of labour, which has often been accompanied by a substantial incidence of recorded self-employment (as the cases of India and some Latin American countries seem to suggest) (Ghosh, 2011).
c. Despite these recent trends, cross-country comparisons confirm that there is a strong negative association between GDP per capita and the incidence of self-employment. Figure 3.1 shows the plot of the log of GDP per capita to SE as a share of total employment. As countries grow and structural change accelerates, SE gradually declines, as in many parts of East Asia or even in MICs like Mexico (Figure 3.2), where the rise of employment-intensive manufacturing activities and better labour data-collection have resulted in a much lower incidence of self-employment. The latter may complicate the interpretation of trends since small changes in how certain forms of employment are classified may have a substantial impact on the recorded incidence of self-employment or informal work.

[13] Arguably, the relative incidence of wage employment is probably underestimated, for reasons discussed above and in other documents (Sender et al. 2005; Cramer et al., 2008).

[14] These data include agricultural employment, which in LICs is overwhelmingly dominated by own-account farming, in part because of the biases discussed earlier and the limitations of statistical categories like 'main occupation' in rural contexts in poor developing countries. The impact of such agricultural self-employment data along with the high proportion of people in agriculture exaggerate the incidence of self-employment and obscure the significance of wage employment in non-agricultural informal activities.

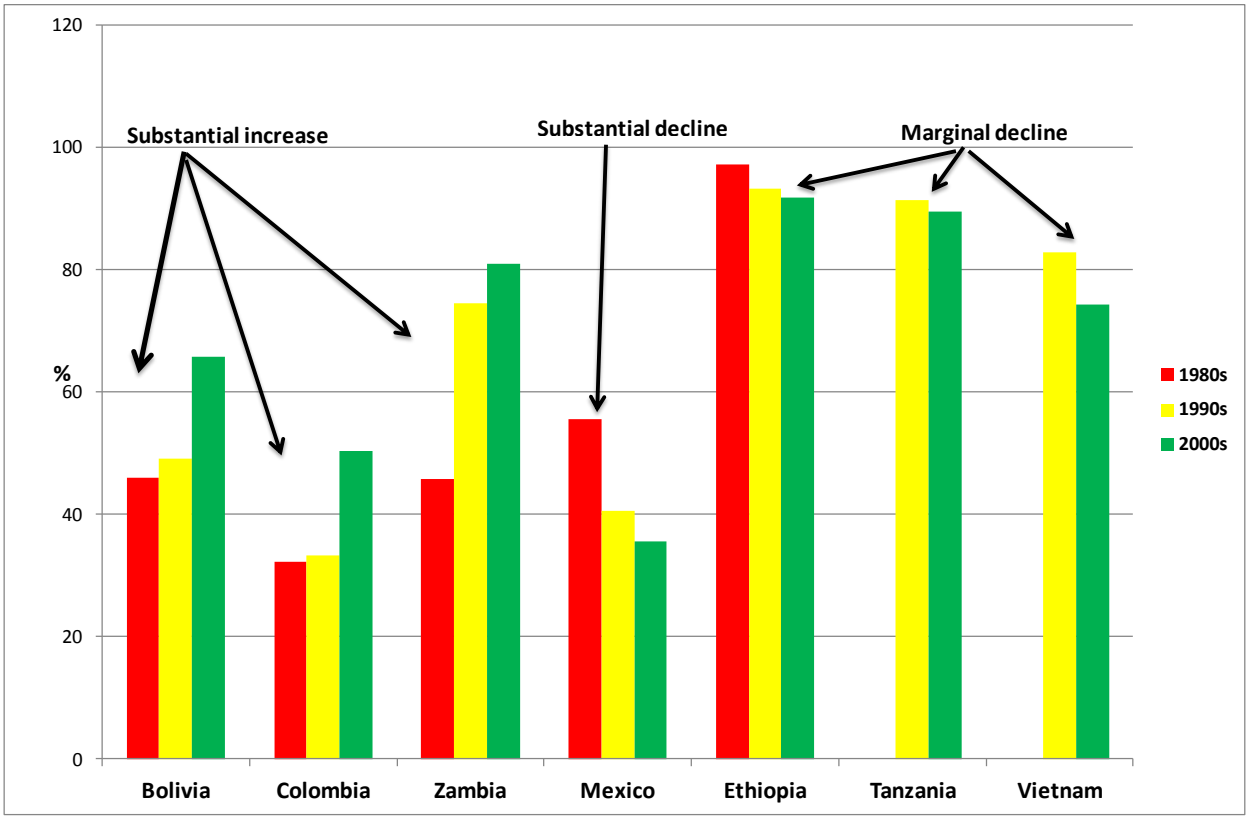
[15] In countries like Zimbabwe and Botswana, wage employment in private households (i.e. based on domestic workers) is a substantial employment category in official statistics (almost 5% of total employment in these countries (see Luebker, 2008: 32, and Central Statistical Office [Botswana], 2008: 20). In contrast, domestic workers do not seem to be captured by labour statistics in many other African countries.

Figure 3.1 Self-employment and log-GDP per capita plot



Source: Calculations based on KILM, 2011; WDI, 2012

Figure 3.2 Self-employment trends: selected countries 1980–2010 (% of total employment)



Source: Calculations based on WDI, 2012

What explains the relatively high incidence of SE and CFWs, especially in LICs? The high incidence of self-employment is strongly associated with high levels of *informality* in employment, because many who are employed in informal activities are often assumed to be self-employed since they are not in a 'standard employment relationship'. The phenomenon is also the result of employers shedding/out-sourcing peripheral activities and concentrating on their core business, thereby increasing reliance on out-workers in contexts such as India, i.e. forms of disguised wage labour which are, however, classified as self-employment (Ghosh, 2011; Wuyts, 2011). Informal labour comprises many forms of disguised wage labour that are often classified as self-employment (Breman, 2006). The huge extent of informal labour in both LICs and MICs is perhaps not too surprising after two decades of reforms and liberalisation in several countries, which have pushed large segments of the workforce into precarious conditions in irregular, insecure and badly paid employment (Breman, 2009; Standing, 2009).

A recent major study on labour and work conditions in the unorganised and informal economy in India estimated that 'unorganised or informal workers', defined as those who do not have employment security, work security and social security, constitute 92% of people in employment (NCEUS, 2007). The study also highlights that the slight recovery in employment growth between 1999 and 2004, after a decade of relative stagnation, was entirely due to the growth of informal labour in both organised and unorganised sectors. In other words, labour informality cuts across both formal and informal 'sectors', a reminder that it is more accurate to talk about *informality in labour relations* as opposed to informality by 'sector'. The same picture is found in a country with a fairly different labour market and where unemployment rates are among the highest in the world: South Africa. Employment growth since the early 1990s has been unimpressive and driven mainly by the rise in labour force participation rates (based on changes in the working-age population and the greater incorporation of women into the formal labour market). Since the 1990s, there has been a sustained shift towards casual and subcontracted labour (and from manufacturing to agriculture and to services), resulting in a reduced core of skilled full-time workers, while other workers have become more informalised and insecure (Marais, 2011). This has happened even in the mining industry, which is the backbone of the South Africa economy, where the outsourcing of several services started in the 1980s and spearheaded a process of labour and economic restructuring that has increased the proportion of vulnerable employment in the economy. As Marais (2011) puts it, and in a description all too similar to that for many other LICs and MICs, the working poor straddle sectors, formal and informal, and are poor essentially not because they are 'excluded' but because of the adverse terms of their inclusion (see also Breman, 2009; Standing, 2009). This fact underscores the need to go beyond the objective of creating jobs, or 'incorporating' the poor in growth processes, and paying more attention to trends in working conditions, real wages and employment security.

Table 3.12 Incidence of informality in non-agricultural employment: selected cases

Country (sorted by % A)	Year	Share in total non-agricultural employment (%)	Share in the informal sector in total non-agricultural employment (%)	Share outside the informal sector (%)
India	2005	83.5	68.8	15.4
Mali	2004	81.8	71.4	11.3
Bolivia	2006	75.1	52.1	23.5
Zambia	2008	69.5	64.6	11.7
Uganda	2010	68.5	59.2	13.5
Viet Nam	2009	68.2	43.5	25.0
Ecuador	2009	60.9	37.3	24.0
Mexico	2009	53.7	34.1	20.2
Thailand	2010	42.3	..	..
Brazil	2009	42.2	24.3	18.0
South Africa	2010	32.7	17.8	14.9

Source: Calculations based on KILM, 2011

Even in most East and South East Asian economies, and despite the positive dynamics of structural change based on the growth of high-productivity sectors in manufacture and tradable services, underemployment and informal employment remain stubbornly high (Martins and McKinley, 2011: 32). The employment intensity of growth in these countries has been declining, especially since the 1990s (Khan, 2007). Growing spatial and vertical inequalities in most Asian MICs, particularly in China, reflect growing labour-market fragmentation and wage inequalities, particularly between rural and urban areas and between regions, but also within dynamic pockets where high barriers to social mobility for the most vulnerable workers are important, especially for 'illegal' migrants in the most dynamic, yet most unequal, cities (Pearson and Kusakabe, 2012). This means that the challenge is no longer to achieve sustained rates of growth (as is still the case for many LICs), but rather to *redistribute* the gains from growth and avoid a descent into a cycle in which labour-market structures (i.e. forms of segmentation by skill, seniority and gender, for example, distribution of jobs by sector, predominant contractual arrangements, labour hiring and firing processes, relative power of different segments of the workforce) increasingly reproduce inequalities and pose formidable obstacles for poorer workers who seek more secure, better-paid jobs in higher-productivity activities. The mismatch between the growth of productivity and real wages should certainly be a cause for concern globally, but particularly in many Asian MICs, where the political costs may be higher than anticipated.

These trends in labour-market structures result in relatively regressive inequality dynamics, both in terms of ratios between the top and the bottom of income distribution, and in terms of wage inequality between the poorest casual earners and those with skilled and stable jobs. For example, the dynamic structural change that has occurred in China has certainly enabled millions of people to overcome poverty, albeit unevenly (Ravallion and Chen, 2007), especially through the shift from agriculture to industry, but this trend does not imply that manufacturing wages have emulated the success stories of other Asian industrialisers like Japan and Korea. In fact, historical trends support the view that China's remarkable transformation path since the 1990s has been strongly associated with a low-wage development trajectory, in which there has been widespread exploitation of workers, despite the significant reduction in absolute poverty (Glyn, 2006a).[16] 'Profit-led' growth in China, especially since the 1990s, has contributed to the relatively harsh conditions facing workers, with low wages and long hours, phenomena reflected in the rapid decline of labour's share in national income (to around 40%). Micro-level research shows that Chinese factory wages are low and working hours are excessive, particularly in sectors where piece-rate payments dominate, since this enables managers to manipulate the wage packet (Chan and Siu, 2010). The lack of transparency in remuneration is an important issue and undermines monitoring through tracking monthly wages. The question now is whether this long-established pattern is sustainable. Recent episodes of workers' unrest as well as growing government rhetoric against inequalities and in favour of higher wages (social and economic) seem to suggest that the pendulum is swinging back in favour of labour rather than capital (Riskin, 2009).

Low and stagnant real wages are common among factories in other developing countries too, and especially in the informal manufacturing units of most LICs and many MICs. Micro-level studies in a wide variety of contexts provide ample evidence of the power of employers' discretion and their ability to squeeze wages and reduce employment security in times of prosperity (1999–2008) and more so in times of crisis. In South Africa, for example, employers took advantage of recession to embark on a process of massive retrenchment – an 'opportunity to trim and restructure their workforces' (Marais, 2011: 178). As a result, 870,000 jobs were lost in 2009 alone, with low-paid workers in precarious jobs the worst hit in a

[16] There are different interpretations and this feature may apply to the export sectors, which may not constitute the largest segment of China's productive economy. Some argue that real wages, while not catching up with wages in HICs fast enough, have certainly increased in a context of rapidly expanding domestic markets, which have provided a sustained engine for growth in productivity and real wages for skilled labour (Fine, 2011).

country that has reached almost a 25% unemployment rate, based on a 'narrow' definition, or of 40% using an expanded definition. Such developments in labour-market structures and conditions of work are associated with contrasting trends in inequality and poverty.

The dynamics of the labour market are thus consistent with growing evidence of the rise of inequality within countries, albeit at different rates (see Table 3.13). This has happened in both very dynamic and rather stagnant economies, regardless of the initial levels of inequality or the region. However, variation in the rate of change of inequality is very significant (Table 3.13). Gini coefficients (ranging from 0 for perfect equality to 1 for absolute inequality) change little in the space of 10–15 years but top income *shares* do register some significant increases, with the proportion allocated to the middle-classes (the middle 60%) being remarkably stable across countries and over time (Palma, 2009). Apart from the effects on the ratios between the top and the bottom in the income distribution, employment dynamics relate to inequality trends in complex ways, but wage inequality seems to have increased in both rapidly growing economies and in LICs (Ghose, 2003). The implication, as will be discussed in Section 5, is that a 'pro-poor' employment-centred development strategy should pay special attention to those in the lowest-paid employment.

Table 3.13 Inequality trends – Gini index

Country	Period	earliest	latest	% change	percent point change
Brazil	*1981-2009*	57.9	54.7	-5.6%	-3.2
China	*1981-2005*	29.1	**42.5**	**45.9%**	13.4
India	*1978-2005*	35.1	33.4	-4.9%	-1.7
Vietnam	*1993-2008*	35.7	35.6	-0.3%	-0.1
Ethiopia	*1982-2005*	32.4	**29.8**	-8.0%	-2.6
Ghana	*1988-2006*	35.4	42.8	**21.0%**	7.4
Kenya	*1994-2005*	42.1	47.7	13.3%	5.6
Nigeria	*1986-2010*	38.7	48.8	**26.2%**	10.2
Senegal	*1994-2005*	41.4	39.2	-5.4%	-2.3
South Africa	*1993-2009*	59.3	**63.1**	**6.4%**	3.8
Tanzania	*1992-2007*	33.8	37.6	**11.1%**	3.8
Uganda	*1989-2009*	44.4	44.3	-0.1%	-0.1
Zambia	*1993-2006*	52.6	54.6	3.8%	2.0
Average SSA sample		***42.2***	***45.3***	***0.1***	***3.1***
Median SSA sample		***41.4***	***44.3***	***0.1***	***3.8***

Source: Authors' calculations from WDI, 2012

At the economy-wide level, there are macro-systemic stylised facts that underpin the observed relationship between employment, inequality and growth. Historically, as suggested above, uneven but steady transitions towards capitalism entail the coexistence of growth (e.g. increases in production and productivity, expansion of the consumption frontier and improvement in living standards) with inequality, partly along the famous inverted Kuznets curve. For example, the recent sustained economic growth in China has been accompanied by growing inequalities at different levels (Bramall, 2008). It is difficult to find situations in which periods of rapid capitalist transition and industrialisation are not characterised by increasing levels of inequality, gauged by a range of measures, and such connections may have been strengthened during the globalisation period (Sutcliffe, 2005). These dynamic contexts encompassing urbanisation and industrialisation generally create a large wage-earning class through labour-market formation, historically via processes of primitive accumulation by both economic and

non-economic coercion. However, urban-based (and perhaps 'formal') industrial sectors are not the only creators of wage employment, and the dynamism of other sectors (especially agriculture) is critical in expanding employment opportunities, relieving pressure on urban areas and reducing wage inequalities, since agricultural employment (especially casual wage labour) is generally associated with much lower levels of remuneration (Breman, 2006; Sender, 2003). In contemporary capitalism, the increases in inequality levels, especially in terms of wage inequality and income ratios between the top and the bottom, are also connected to globalising forces of finance, the rise of super-paid managers and executives, and the growing concentration in global business across different sectors (Nolan, 2012; Ghose, 2003). In sum, global financialisation and growing business concentration exacerbate the 'normal' dynamics between capital accumulation, growth, labour-market dynamics and inequality in increasingly contradictory ways – not least in terms of reductions in absolute poverty alongside rapid increases in inequality.

Most countries in the core sample analysed in this paper have seen an increase in inequality, with China leading the pack in terms of the speed of change in inequality (both vertical and horizontal), although starting from a very low inequality level in the immediate post-Mao period (see Table 3.13 and Ghosh, 2011: Table 5.1 and Figure 5.1). China has experienced rapid increases in the ratio of urban–rural levels of income per capita since the mid-1990s. In contrast, India is one of the few countries in the sample with a recorded decline in inequality levels on aggregate. India's Gini coefficient experienced a very small decline between 1978 and 2005, from 0.35 to 0.33. However, trends within this period are highly contested and variable. For example, many studies have shown increases in national inequality and between rural and urban areas in the 1990s and have documented the fact that the urban Gini has increased more rapidly than the rural Gini over the same period (Ghosh, 2011). While India is one of the MICs with the lowest levels of inequality, disparities are not negligible and the record in the 1990s and 2000s points to a relative deterioration of outcomes. This is not surprising in light of trends in employment patterns, especially the extensive and growing levels of informalisation and the sluggish performance in agricultural wage labour, both of which concern the poorest segments of the working population in India, and reflect the institutional failure to overcome entrenched inequalities and social exclusion (Ghosh, 2011; Saith, 2008).

Another way to look at inequality trends in relation to employment dynamics is the share of labour incomes and profits in national income. The history of the post-1980 globalisation period gives clear indications that the decline in labour's share is a global phenomenon. Glyn (2006a) provides compelling evidence of the substantial reversal of trend in labour's share in OECD economies since the late 1970s. In the 2000s, China had probably the lowest labour share of any major country in the world at around 45–50% (Qi, 2011) and lower according to *The Economist*'s estimates. Other studies (Guscina, 2006; Rodriguez et al., 2010; Onaran and Galanis, 2012) confirm this pattern worldwide. The evidence on informalisation and reverse structural change in some African LICs suggests that they are experiencing the same phenomenon, since wages cannot have grown at the same rate as GDP per capita. In South Africa, some estimates suggest that all paid employment as a share of GDP declined from 56% to 51% between 1994 and 2010 (Liebbrandt et al., 2012), spanning the period when supposedly a pro-labour government should have addressed inequality and empowered labour (Marais, 2011). These trends were consistent with drops in average real wages of 10% or more during the 1995–2005 period (Banerjee et al., 2007), and growing wage inequality, as formal-sector wages for white South Africans were rising while informal-sector wages for black South Africans fell by 20% or more (Marais, 2011). Unfortunately, it is difficult to obtain accurate data for such trends in most LICs, especially in Africa, because they are usually estimated on the basis of data from formal sectors and the exclusion of self-employment and wage employment in unrecorded activities would introduce a great bias. But the fact that, especially in the 2000s, increases in real wages and in agricultural incomes are generally smaller than growth in GDP per capita suggests that labour's share in national income has been declining from an already very low base.

Growth Dynamics, Structural Change and Productive Employment to Reduce Poverty and Income Inequality

Overall, despite the marked differences in growth dynamics between success stories and sluggish performers, this section has also shown some striking similarities across developed, dynamic and sluggish developing economies in what appear to be globalised trends in labour-market structures and internal inequality. Of course, differences between MICs and LICs persist, especially in relation to the incidence of self-employment, the sector composition of employment and LPRs, but the tendency since the 1970s towards informalisation, increasingly precarious working conditions and weakening of labour's bargaining power seems to be rather robust and is not being reversed in the current crisis. In all cases productivity growth has been a major contributor to GDP per capita growth but in the more successful trajectories, especially in East Asia, productivity growth has been much faster and driven by rapid capital accumulation (see below) and intersectoral shifts, while in the LICs and SSA sample, productivity growth has been mainly driven by changes within sectors and has been slowed down by 'reverse' structural change, i.e. a move away from manufacturing and into lower-productivity activities in services, especially within the informal economy.

4. Towards an interpretation of trends: financialisation, structural change and the nature of national growth processes

This section presents a brief interpretation of the trends described above organised around key 'stylised facts' underpinning 'success' and 'failures', focusing on two levels of analysis and dynamics:

a. The role of *global* structures, agencies and processes in shaping the pace of accumulation (and growth) and its composition, especially 'financialisation' and the dominant role of financial markets and finance capital in contemporary capitalism.
b. The role of *national*-level structures, agencies and processes that underpin variation between countries and growth/employment trajectories.

Global financialisation, a process that has been consolidating since the 1970s, has come in tandem with a substantial decline in the wage share of GDP (as noted above). According to some recent studies (e.g. Onaran and Galanis, 2012), this is directly linked to the slowing down of growth at global level, as, on aggregate, declines in the wage share led by an international 'race to the bottom' depress domestic demand (private consumption and investment) more than the positive effects of increases in profit shares on net exports. This is particularly true in large economies where the net exports constitute a smaller proportion of total output. Global financialisation also reduces the scope for faster output and productivity growth by concentrating profits and investments in lower-productivity activities, often disconnected from the 'real economy' (where physical output is produced) (Fine and Milonakis, 2011).

In addition to the long-term effects of these global forces that affect developed and developing countries alike, a preliminary conclusion to be drawn from the analysis in previous sections suggests two points with regard to the contrast between successful and disappointing growth trajectories in relation to the samples used in this paper:

1. **Structural change towards dynamic labour-intensive and high-productivity sectors**, driven by fast capital accumulation (via investment in *real* sectors), is central to a dynamic process of growth, productivity increase, employment creation and poverty reduction. This is, however, becoming more difficult than in the 1950–1980 period as a result of financialisation of global capitalism, the slowdown of the global economy and the frequency of global financial crises.
2. **There is still significant *variation* across countries**, both between good and bad performers and also within groups of countries. It is particularly interesting to look at the specificities of and variation among 'success stories', which underscore the importance of the political economy context. In other words, politics, history and specific circumstances are differentiating factors and defy generalisation beyond some of the basic 'stylised facts' characterising most success stories of growth, structural transformation and welfare improvements. It is thus important to avoid new 'blueprints' and problematic references to country 'models'.

We now briefly discuss some of the key macro stylised facts underpinning successful growth-employment-poverty reduction trajectories, while considering the specificities and variations across countries.

4.1 Structural change and economic diversification

It is easy to contrast SSA's trends on structural change, employment and inequality with those of East Asia's 'success stories', as we have shown in previous sections. While production and export structures have been substantially transformed in many countries in East Asia, in most LICs in SSA they remain

stubbornly undiversified and resource-dependent. In fact, Page (2012) notes that the post-1995 growth 'boom' in much of SSA, also celebrated by *The Economist* and McKinsey in recent years,[17] has not been accompanied by key long-term 'growth determinants' such as investment, export diversification, and productivity. Rather the African 'emergence' results from a combination of favourable trends (commodity boom, terms of trade improvements, increased ODA, greater macroeconomic stability and decline in the frequency of violent conflict) that do not, however, significantly reduce the latent fragility of current growth trajectories. These also resemble similar commodity-driven bonanzas in the 1970s that Jerven (2010) dubbed 'recurrent growth' in Africa.

An important question is how to interpret more recent evidence of structural change in developing countries, especially since the 1990s. As we saw in Section 3, the growth of services is a global phenomenon, even in rapidly industrialising countries in Asia, where manufacturing is already losing its share of GDP. This raises the question as to whether de-industrialisation is a 'normal' phenomenon (i.e. we live in a post-industrial age) and thus LICs can skip the industrialisation phase altogether. In this regard, Dasgupta and Singh (2006) discuss two stereotypical types of de-industrialisation:

a. The Indian case, where the decline in formal manufacturing employment is compensated for by both higher manufacturing employment in the informal sector and by higher-productivity service sectors acting as engines of growth (e.g. in ICT and telecommunications);
b. The African/Latin American cases in the 1980–2000 period, of 'pathological deindustrialization', where considerable reverse structural change becomes entrenched in static sectors of comparative advantage that are becoming increasingly vulnerable and more commodity-dependent.

Evidence to date does not necessarily support the 'post-industrial' hypothesis, as cogently argued by Chang (2010) and Amsden (2010). In Chang's view, it is not clear that the development of high-productivity services can occur without a concomitant development in manufacturing capacities (Chang, 2010).[18] Perhaps the question is not one of industrialisation versus services as drivers of structural change, but rather one of dynamic high-productivity activities versus low-productivity activities as contrasting drivers of structural change. The key is to understand the employment and poverty implications of these different scenarios. Historical experiences demonstrate that *dynamic* structural change is most likely to significantly reduce poverty and improve labour market performance in the long term.

In relation to the de-industrialisation observed in both high-income countries (HICs) and MICs, Chang (2010) makes some important points that call into question the significance of observed declines in the manufacturing share in GDP. One observation relates to statistical reclassification, whereby activities that were previously integrated in manufacturing companies (e.g. catering and cleaning) have become outsourced (a global phenomenon) and thus reclassified as 'services'.

Notwithstanding the persistent relevance of industrialisation and manufacturing development, the evidence analysed in Section 3 shows that changes in employment structures are not always as rapid as changes in output composition especially in contexts with rapid growth in labour productivity. The examples of growth described in Section 3 in fact demonstrate that manufacturing activities cannot absorb all the surplus labour that is generated in the process of structural change. In China, India and Vietnam, the growing 'reserve army of labour' in the countryside remains a huge challenge. Even the growing and heterogeneous service sector has been unable to absorb much of the surplus labour from

[17] See http://www.mckinseyquarterly.com/Whats_driving_Africas_growth_2601 and http://www.economist.com/blogs/dailychart/2011/01/daily_chart

[18] In fact, some of the rise in the significance of services is a result of statistical reclassification of activities previously embedded in manufacturing processes and now outsourced in the form of independently provided services. In other words, these are not necessarily growing activities, but rather reclassified ones after these are detached from factory work (Chang, 2010).

agriculture. Hence, it is important to place more emphasis on the huge potential for creating productive and well-remunerated agricultural employment, which is possible especially if labour-intensive crops are promoted and if substantial investments in irrigation increase productivity, harvest frequency and therefore also labour demand (see the section below on sector policies).[19] A significant expansion of agricultural wage employment in LICs would carry the double benefit of (a) benefiting some of the poorest unskilled workers and contributing directly to the eradication of poverty and (b) relieving cities and the emerging non-agricultural sectors from the pressures of a huge supply of low-skilled surplus labour with low purchasing power.

4.2 Rapid capital accumulation

Investment rates are much lower in Africa than those in dynamic Asian economies, especially China and Vietnam, which have reached investment rates that are even higher than rates experienced by previous Asian newly industrialised countries (NICs) at their peak of take-off (Japan, Korea and Taiwan).[20] The contribution of capital accumulation to GDP growth and productivity growth is well established. China, a country that is characterised by a vast pool of labour resources has followed a capital-intensive capital-deepening trajectory especially in the past 20 years, which has allowed the country to make a massive leap in terms of infrastructure, urbanisation, industrial equipment base and technological catching up. What distinguishes China from the other cases, including the 'success stories', is that it has sustained such high rates of domestic investment (between 35% and 40%) for over 30 years, while Table 3.14 shows that most other countries in the sample increased these rates only in the past 10–15 years.

High and increasing ratios of capital to labour have been a key driver of productivity growth, especially since the 1990s. But the foundations of Chinese growth can be traced back to the Maoist period when equally high levels of investment in agricultural and rural industrialisation established the basis for future growth accelerations (see Maddison, 2012). China reflects the critical importance of *public investment in agriculture* in the processes of structural change. While there is much emphasis on the post-1978 reforms and the system of household responsibility as key drivers of agricultural productivity (since farm labour productivity grew at an annual rate of 5% between 1978 and 1987 according to Maddison data), it is difficult to understand this growth without considering the significance of capital investments in the Maoist period, when collectivisation was accompanied by huge investments in capital and rural infrastructure. Capital stock in agriculture grew in China by almost 8% per annum between 1952 and 1957 and by 4.5% between 1957 and 1978 after the land reform. The ability of Chinese smallholder agriculture to survive and modernise cannot be explained without reference to the growing capitalisation and expansion of basic infrastructure during the collectivisation period (see also Bramall, 2008).

In contrast, the investment record in SSA is disappointing and inconsistent, as generally rates have been very low for the level of income per capita and the potential for catching up in the region. A significant reason for low investment rates was neo-liberal structural adjustment in the 1980s and 1990s and the associated fiscal squeeze (self-imposed, as in South Africa, or donor-driven as in Ghana, Senegal or Uganda). Moreover, public investment in agriculture has reached unprecedented lows in most African countries, including South Africa, with serious negative consequences for the capacity to generate wage employment for the poorest entrants to the labour market and sufficient incomes for small farmers (see World Bank, 2007 for figures). It is therefore hard to ignore the central importance of capital accumulation in growth processes (led by public investment), especially when it is instrumental to

[19] Wage employment creation in agriculture can be compatible with capital-intensive farming. Horticulture and floriculture are examples of this, as their capital needs per ha are substantial and act as barriers to entry for smallholders but the labour intensity of many operations is such that capital investments in these agricultural sectors create a lot of employment.

[20] See http://www.economist.com/node/21555762

dynamic structural change rather than to the deepening of commodity dependence or the booms in financial services and housing.

Table 4.1 Investment rates (gross capital formation as % of GDP)

	1980s	*1990s*	*2000s*
Brazil	21.0	18.8	17.6
China	36.0	39.1	41.9
India	21.9	23.6	31.6
Vietnam	15.1	23.5	36.1
SSA sample			
Ethiopia	15.7	16.5	22.5
Ghana	7.8	19.9	23.9
Senegal	16.5	12.5	24.9
South Africa	23.4	16.7	18.3
Tanzania	n.a.	21.8	23.9
Uganda	8.5	16.1	21.5
Zambia	16.1	14.6	22.3

4.3 Labour productivity growth and structural change

One of the outcomes of growing investment rates is labour productivity growth. As shown in Section 3.1, this was the main driver of growth in the period between the early 1990s and the mid- to late-2000s. However, while in East Asia this represents a virtuous combination of dynamic structural change and sector productivity growth, in many LICs in Africa it mainly reflects within-sector productivity growth combined with no or 'backward' structural change. An examination of successful developing trajectories in Asia also highlights some important variations, a finding that questions the existence of a particular 'Asian model' of development (as documented in Amsden, 2003). Thus, in comparison with other fast-growing East Asian economies like Korea, Japan and Taiwan, China has not experienced the same speed of structural change in relation to *employment*. While structural change is clearly visible in production (with fast increases in the importance of manufacturing and services), this trend is less clear-cut in employment. For example, while in Japan farm employment dropped by more than half, from 43% in 1952 to 19% in 1978, in China there was a decline from 64% in 1978 to 45% in 1994, during its take-off period. In addition, convergence between Japan and the United States of America (USA) in terms of GDP per capita and manufacturing wages was far more rapid than that between China and the USA during its own take-off period (Glyn, 2006a: 93, Figure 4.7). This also means that the scope for wage increases in China is very important and, should a wage-led growth trajectory emerge in the near future, this may attenuate the increase in inequality observed in recent decades.

4.4 Intersectoral linkages and flows: the importance of agriculture-industrialisation linkages

A careful reading of the historical trajectories analysed in this paper, as well as the theoretical literature in the Kaldor-Hirschman-Kalecki tradition, also places strong emphasis on the interdependence between sectors and the importance of intersectoral resource flows for dynamic processes of growth and structural change (Karshenas, 1995). For example, while accepting the centrality of manufacturing in driving dynamic structural change, it is easy to overlook the role of agriculture. Is agriculture simply, for example, the sender of hitherto unproductive labour to 'modern' dynamic sectors? In reality, the history of capitalism in today's rich countries and in contemporary industrialising economies shows that the process of structural change depends both on technological upgrading (through investment, research and

development (R&D) and Foreign Direct Investment (FDI), for example) and development of manufacturing capabilities, and the transformation of agriculture into a productive and diversified sector that contributes to such objectives as employment creation, foreign-exchange generation and food security. Again, China and Vietnam are good examples in this regard. For it is not only their industrial activities that have grown at unprecedented pace, but also agricultural output for domestic markets and exports has experienced extraordinary dynamism and capacity to increase productivity. So, there is consensus that agriculture is critical for the prospects of growth, poverty reduction and employment in LICs. However, one of the weaknesses of conventional approaches to agriculture (also reflected in World Bank, 2007) is its silence on the centrality of agriculture–industrialisation linkages, which was an important theme in the 'old' structuralist tradition of development economics. In other words, the challenge is not simply to increase agricultural productivity so that small farmers receive higher incomes and poverty is reduced. The critical challenge is to transform agriculture into a more dynamic and productive sector that provides higher incomes to farmers, more opportunities for wage employment, and significantly contributes to industrialisation and economic diversification through intersectoral linkages and through generation of foreign exchange via exports. It is therefore misleading to analyse agriculture in isolation. For example, Ravallion and Chen (2007) argue that most of the poverty reduction recorded in China is due to improvements in rural areas and especially the initial period in the early- to mid-1980s. This implies that the contribution of structural change to poverty reduction is less significant than usually thought. However, trying to detach trends in rural poverty from the dynamic of migration to industries and urban areas, and how that feeds back into higher rural incomes and better agricultural performance, is misleading and may give the impression that increasing agricultural incomes through achieving higher productivity is the key to reducing the levels of extreme poverty. Likewise, trying to trace rural poverty reduction in China (and other successful Asian economies, like Korea, Japan and Taiwan) mainly to land reform (and low land concentration) and price incentives to small farmers (hence to the intrinsic advantages of smallholder family farming) largely ignores the central role played by the massive injection of resources into the farming sector in the form of physical investments and input distribution, which allowed East Asian governments 'to maintain production and keep imports within politically acceptable limits' in the aftermath of land reforms (Bramall, 2004: 136).

4.5 Labour-market institutions and policies

The above-mentioned factors are critical for dynamic structural change and the creation of more and better jobs generally, and the expansion of wage employment in more productive activities. However, as argued in Section 3, these processes and outcomes do not necessarily translate into decent working conditions in terms of real wages, job security and the social wage. Both success stories and less dynamic economies have experienced high and/or growing levels of casualisation, informalisation, insecurity and wage inequalities (Standing, 2009; Breman, 2009; Ghose, 2003, Chang, 2009b). The latter have been exacerbated by greater competition on a global scale and various forms of 'race-to-the-bottom' practices, directly affecting labour relations, through the segmentation of the labour force (e.g. the use of less collectively organised migrant labour, or women's labour) and the increasing practices of sub-contracting and recourse to work agencies to circumvent labour laws (Chang, 2009b; Standing, 2009). These processes have often been facilitated by the weakness of labour institutions in developing countries and the by weakening of workers' organisations worldwide. In most LICs, the existence of any kind of legal protection for employment and the labour market rarely translates into real protection since enforcement mechanisms are very weak (Martins, 2012). Indeed, especially for the poorest agricultural wage workers in Africa, unionisation is extremely rare and labour laws regarding job security and formalisation are easily circumvented by large-scale formal and also by smallholder employers as a result of weak inspectorates and the lack of government commitment to enforcing labour laws (Cramer et al., 2008). Unsurprisingly, most business surveys in Africa and other LICs do not regard labour regulations as serious impediments to their competitiveness.

The record in MICs in Asia and Latin America is mixed. While there are similar weaknesses regarding regulations and their enforcement, there are instances in which working conditions have greatly improved as a result of well-designed policies and workers' demands. There are two interesting examples. First, in Brazil in the 1990s and 2000s, the government took a bolder stance in favour of labour and took measures to promote labour formalisation while other labour institutions such as unions and minimum wages were also being strengthened and expanded (Berg, 2010). This saw real minimum wages significantly increase and working conditions generally improve at the same time as employment became more formalised. This was possible because of a virtuous combination of factors at different levels: macroeconomic policies that boosted export growth and internal demand through redistributive transfers and a more competitive exchange rate, all leading to a significant increase in private demand for formal labour; a reduction in youth labour supply (generally more likely to find informal jobs) because of demographic shifts and more inclusive education policies; and micro-level policies to incentivise firm formalisation and improving labour inspection. In other words, stronger labour laws and bolder application of minimum wages did not result in greater formalisation as is the conventional wisdom, but quite the contrary. Devereux (2005) has also provided examples of situations where adequate minimum wages have had positive effects on wages for the poorest segments of the workforce without increasing unemployment or informalisation. The key is to combine incentives for business to formalise, register and comply with labour laws with reasonable minimum wages and labour regulations accompanied by adequate enforcement mechanisms, in particular the expansion and reinforcement of labour inspectorates. In northeast Brazil there is another example of positive synergies between the strict quality and time requirements of global horticultural export chains, the emergence of dynamic capitalist entrepreneurs in agriculture, substantial private and public investment in agriculture, new employment creation in high-productivity export agriculture, and strong labour institutions. In this case, the emergence of new private investment interests and the characteristics of the value chain (strict standards, high productivity, technological dynamism, dependence on reliable unskilled and semi-skilled workforce, etc.), combined both with the government's efforts to invest in rural infrastructure and with the strength of local unions in collaboration with national federations, and with the capacity of the government inspectorate services, created a pocket of agricultural dynamism that generated jobs, improved working conditions, and saw the structural power of workers transformed into associational power, which led to an effective collective bargaining and constructive labour relations (Selwyn, 2012; Damiani, 2003).

Korea also provides an example of the central importance of workers' movements and their demands for creating better working conditions in a dynamic context where the state had hitherto repressed labour demands. Chang (2009a) gives evidence of the rise in demands for workers' rights as a result of their growing structural power linked to fast GDP growth, technological catching up, steady productivity growth and the emergence of a skilled workforce with rising demands and more potential to gain associational power through joining trade unions. The significant rise in manufacturing wages in the mature phases of Korea's industrialisation and growth (Glyn, 2006a) have much to do with the rising power of trade unions in connection with growing pressures towards democratisation.

4.6 Country specificities, contradictions and political economy

Variations within Africa and among 'success stories' in Asia and elsewhere offer some interesting lessons for the interpretation of growth dynamics in relation to poverty reduction and employment dynamics. For example, in the case of Africa, it is helpful to compare and contrast Ethiopia, Ghana and Mozambique, which share some structural characteristics (underdevelopment of manufacturing, dominance of informal employment and agriculture). Martins (2012) reports that Ethiopia and Ghana have made important strides in reducing *extreme* rural poverty, an achievement that can be attributed to stronger investments in agriculture and fairly high agricultural commodity prices. These countries are still largely agrarian-based in terms of their employment structures but their economies have undergone

different processes of transformation since around 2000. While Ethiopia has actively sought diversification and proto-industrialisation (if horticulture is included as a semi-industrial sector), albeit with mixed results, Ghana has failed to achieve a process of dynamic structural change in times of higher growth and has experienced an excessive expansion of low-productivity service activities. Meanwhile, Mozambique has registered impressive growth rates accompanied by inconsistent trends in poverty reduction (substantial reduction in 1997–2003 and stagnation of poverty incidence in 2003–2009). Sustained growth accelerations in Mozambique are obviously related to the peace dividend brought about by the end of the war and the recovery of agricultural production, but its dynamic of structural change has deepened commodity dependence rather than fostered diversification towards labour-intensive sectors. Castel-Branco (2010) argues that Mozambique's growth trajectory has in fact deepened a resource- and rent-driven model of accumulation, centred on the extraction of minerals and natural resources that makes an inconsistent impact on poverty, little effect on employment and an unsustainable path that can be reversed if there is a change of trends in commodity markets. Mozambique therefore displays contradictory outcomes combining positive ones like fast economic growth, substantial increases in FDI, low and stable inflation and slight improvement in the trade balance, with negative ones, in the form of sluggish food production per capita and inflation in food prices, no improvements in nutritional status indicators, inconsistent poverty-reduction trends and capital flight. A feature of Mozambique's political economy is the dual strategy of maximising FDI in resource extraction, in which the political elite has important interests, and maximising ODA to maintain improvements in social infrastructure and buy political stability (Hanlon and Smart, 2008; Castel-Branco, 2010).

Success in reducing poverty may also depend significantly on (democratically-driven) judicious policies aimed at the poorest segments even when capital accumulation and structural change slow down, as in the case of Brazil (Tables 3.6 and 4.1). In Brazil, the share of manufacturing value-added and manufacturing employment declined substantially between the early 1980s and 2009, yet despite this and the unimpressive economic growth and investment rates from the 1990s, there has been substantial progress in reducing poverty. The growth and policy trajectory of Brazil in the past 30 years presents interesting contrasts and contradictions. At the macro level, Brazil's growth and productivity trends shows cyclical patterns, with productivity growth accelerating in the late 1980s and 1990s as a result of the 'creative destruction' of small, less efficient companies in a period of relatively low investment (Bonelli, 2005). Capital accumulation had been a major force for GDP growth in *previous* periods in Brazil, when GDP per capita growth was fastest. In the 2000s, however, Brazil's export composition became more agriculture-oriented, with sugar and meat products increasing their share significantly (from around 8% to over 23% between 2000 and 2009) and agricultural wage employment expanding fast in some pockets of dynamism (Selwyn, 2012). In terms of sector dynamics, there was an acceleration of the agrarian transition, especially since the early 1990s, leading to rural outmigration and a further decline in the share of employment in agriculture. This has happened at the same time as some successes in Brazilian agriculture, where wage employment has expanded and improvements in working conditions have been notable in some important regions, particularly in the northeast and also in parts of the Cerrado, where there has been rapid expansion of capitalist farming (Damiani, 2003; Selwyn, 2012; Balsadi, 2007). Overall, the decline in agricultural wage employment has been much slower than the decline in agricultural self-employment, while real agricultural wages have improved significantly since 1992, in marked contrast with substantial falls in the period 1977–1990 (Balsadi, 2007). But the impressive record in reducing poverty and inequality since the 1990s has also much to do with the fiscal redistribution, labour policies and anti-poverty programmes that have proliferated since then (see section above on labour-market policies). Remarkably, in an era of informalisation, jobs in the 'formal' sector grew faster than informal labour at a time when real minimum wages were rising significantly (Ferreira de Souza, 2012). The combination of improved agricultural performance, increases in real minimum wages, fiscal redistribution (through targeted cash transfers and other social welfare measures) and stronger collective action on the part of workers has been critical for reducing poverty and inequality even though capital

accumulation and growth slowed down. The fact that the Brazilian economy was already somewhat diversified and technologically dynamic in some sectors, a legacy of previous policy regimes, also contributed to making the above policy changes feasible and more effective.

Brazil's experience contrasts with that of South Africa, comparable in its very high initial levels of inequality at the time of liberation from apartheid and its relatively sophisticated productive capacities. South Africa suffered sluggish growth in the 1990s and part of the 2000s, with low investment rates underpinning weak employment creation and greater unemployment, as noted in Section 3. This outcome is not just a result of the advent of majority rule and the reaction of capital to new forms of labour protection. In fact, and also in response to the growing power of organised labour after the 1980s, South African capital engaged in more capital-intensive investments to save labour and, when this strategy was exhausted because of foreign-exchange risks, applied a squeeze on the wages and security of the most vulnerable workers and increased their proportion of the total labour force – to the detriment of core unionised workers. This trend has not been resisted by the post-apartheid regime (Marais, 2011). It is not surprising, then, that inequality, unemployment and poverty have not significantly improved since 1994. Moreover, South Africa exemplifies the kind of perverse structural change that comes with the financialisation of capitalism, associated with growing capital flight partly offset by short-term capital inflows from financial markets (Ashman et al., 2011). While most productive sectors declined in terms of their shares of GDP between 1990 and 2009, 'Finance, insurance, real-estate and business services' experienced a remarkable increase from 13.7% to 21.7% of GDP (South African Reserve Bank, 2010). This kind of 'restructuring' towards services, finance and away from productive sectors, especially those employing the country's poorest workers, lies behind the unsustainable path that the South African economy has taken over the last decade, with the failure to address the key challenges faced in 1994, namely high unemployment, sluggish poverty reduction and high levels of inequality. A feature of the South African labour market is the significance of discouraged workers, which partly explains low LPRs and high open unemployment, especially of young people. The existence of informal, family-based safety nets and of state-led social transfers has maintained this 'reserve army of labour' out of work and ready to move. If discouraged workers were also defined as unemployed, the unemployment rate would be close to 40% (Marais, 2011). The deficit of jobs, especially unskilled jobs, in the South African labour market can be linked to disappointing investment rates, partly related to capital flight (Ashman et al., 2011). Uncertainty after the 2008 financial crash has made investors far more wary of suggesting unfeasible policy options. The dysfunctions of the South African labour market could be traced back to an economic structure centred on minerals, energy and capital-intensive ventures and a growing and powerful but parasitical financial sector. The challenge for South Africa is to create huge numbers of jobs to enable the poorest in the labour market, in particular women, youth and rural-based workers, to secure more stable incomes and reduce their dependence on pensions, grants and remittances.

Although 'success stories' are frequently linked to East Asian development trajectories, there is also important variation among them. For example, both China and Vietnam have achieved economic growth, structural change, productivity increases, export growth, attracted FDI and so on. However, while export growth in China has been associated with substantial trade surpluses and accumulation of foreign reserves, in Vietnam trade and fiscal deficits have worsened in the 2000s, and impressive export growth rates have been offset by the excessive dependence of large investment projects and state-owned enterprises (SOEs) on imports. The problem lies in the relative contribution of import-dependent investment projects, which have led to substantial leakage of foreign exchange, offsetting the positive results in merchandise export growth in different sectors. Furthermore, the performance of SOEs in Vietnam compares unfavourably with those in China, where they have been a source of expansion in aggregate demand, productivity growth and scale economies, leading many Chinese SOEs to become globally competitive in a very demanding environment (Nolan, 2012). Excessive import dependence, tendency towards financial-sector activities and construction are factors underpinning the relatively

disappointing role of SOEs in Vietnam since the 1990s (Pincus, 2009). Moreover, Vietnam does not seem to have experienced the same kind of virtuous linkages between centralised planning, agricultural development and decentralised SOEs (such as Town and Village Enterprises), whose contribution to rural industrialisation and employment creation has been key to sustaining such impressive performance since the early 1980s (see Bramall, 2008; Knight, 2012). Finally, another important source of difference among success stories is the extent to which, once a sustained growth dynamic settles amidst growing inequalities and new social problems, the government responds by shifting focus towards internal demand and the creation or expansion of a welfare state. China seems to be heading in this direction, as are other countries – albeit at different speeds (Malaysia, Thailand, India, Brazil, etc.) – in adopting bold measures to achieve universal health coverage, expand pension schemes and generally enhance social protection. What is remarkable is that the speed of creation and expansion of welfare states in developing countries exceeds the process experienced in HICs, where the emergence of a welfare state was a far more gradual and piecemeal process. In this sense, rapid 'catching-up' in social development is occurring in fast-growing developing countries.[21]

The success stories described above do not, however, conceal the systemic global tendency towards more precarious and casual labour, and its implications for future growth and poverty reduction. Standing (2009), for example, presents a rather pessimistic account of how globalisation and emerging growth patterns worldwide have led to new class configurations. These new configurations have had a significant impact on labour-market structures in a wide range of countries, thus acquiring a global dimension. The 'old' working class (typically men in manual jobs, stably employed, on relatively high wages and frequently unionised) is becoming an endangered species, while in the advanced capitalist economies in particular, the 'precariat' has become a 'new' class of people with little labour security, no clear occupational trajectory or career path, and few or no benefits. Statistically this trend is reflected in the growing casualisation of work in the growing reliance on labour contractors, agency workers and outworker schemes, which render 'welfare state' benefits and labour regulation fairly ineffective.

This emerging insecure working class can also be found in rapidly transforming (industrialising) countries in Asia, and undoubtedly in the vast unregulated labour markets of SSA. Known also as the 'flexiworkers', or 'footloose labour' (Breman, 1996), this kind of labour is also associated with the high and growing incidence of informal labour relations in countries at very different levels of development. This phenomenon reflects mutually reinforcing trends in production dynamics on a global scale: on the one hand, formal enterprises (including many of the biggest transnational corporations) have gradually reduced their core labour force by increasingly relying on temporary workers or on newly defined 'self-employed' (or 'outworkers'); and on the other hand, conventional informal activities (especially in LICs) continue to attract a growing pool of (often young) workers unable to find regulated and secure employment.

Although these trends are worrying and systemic they are not necessarily inevitable. As we have shown, there are important exceptions and counter-trends, which underscore the importance of progressive policy packages designed to improve conditions for capital accumulation that both creates jobs and also strengthens labour institutions that can counteract the excesses of unregulated capital and enhance workers' bargaining power, especially among the most vulnerable entrants in the labour market. The following section summarises some of the key policy options and lessons that can be considered with these objectives in mind.

[21] See a fascinating account in *The Economist*, September 8-14, pp. 11–12 and 22–24.

5. Policy implications

This section presents a selected list of key policy lessons and recommendations at two levels. First, we organise specific policy recommendations around *sets* of policy tools (e.g. macroeconomic and industrial policies) derived from experiences described in Sections 3 and 4 and lessons from success stories that could be considered, particularly for LICs in Africa willing to pursue a long-term development strategy. Second, a set of concrete policy implications focuses on the actions of development partners (aid agencies, EU governments) that have various cooperation programmes in LICs.

5.1 Policy implications from success stories in developing countries

Taylor (2011: 68) summarises what a development-oriented policy framework for structural change and employment generation would aim to achieve: 'the policy agenda should promote changes in production and trade structures towards higher productivity sectors and utilization of idle resources, while at the same time, it advances the development of financial structures and the adoption of counter-cyclical macroeconomic interventions to manage both positive and negative external shocks'. More broadly, a successful strategy should aim to (a) increase investment rates; (b) expand employment; and (c) simultaneously increase overall productivity, particularly in sectors that tend to employ poor, unskilled workers in order to maximise the poverty-reduction impact.

If labour markets are tightened and labour productivity grows at the same time as the demand for labour, this also enhances the likelihood of growth in real wages. The growth in employment combined with structural shifts towards higher-productivity sectors coupled with growing real wages is likely to have a major impact on reducing poverty in the long run. In a demand-led framework such a virtuous process would result in the expansion of domestic and external demand, albeit with different intensities and focus depending on the phase of structural change the economy is undergoing.

How might such an ambitious agenda be achieved? The analyses emerging from the cases discussed in this paper suggest that there is no single path, although some common features, presented as 'stylised facts', characterise the heterogeneity of experiences. Here is a list of some of the most significant policy similarities:[22]

a. **Macroeconomic policies.** The key is to support demand-led growth without jeopardising stability. This implies that inflation should be kept at a manageable level in order to maintain low real rates of interest to promote public and private investment and to maintain competitive exchange rates to support a country's export potential. This also implies the use of capital controls to avoid the kind of short-term speculation movements that may threaten the effects of demand-boosting policies. If private capital is volatile and subject to panic behaviour, uncertainty can undo the potentially positive effects of bolder industrial policies. This is particularly relevant in countries where the contribution of foreign savings (in the form of FDI or portfolio investment) is strong. Careful management of capital flows is likely to generate adequate levels of long-term investment and minimise financial shocks. In sum:
    - The core objectives of monetary policy should be economic growth and employment creation, not focused only on inflation. Different growth processes may be compatible with different inflation rates so it can be dangerous to keep inflation too low at the expense of other objectives.

[22] The various policy options briefly discussed here are informed by the case studies analysed in the paper, the relevant literature also cited in relation to growth, employment and poverty reduction and in particular the contributions by Taylor (2011), Ocampo et al. (2009), Chang (2011) and UNCTAD (2006, 2007 and 2011), among others.

- The exchange rate should contribute to the overall competitiveness of the economy especially in countries facing foreign-exchange constraints. However, stability is also important to floating exchange rates to avoid sudden devaluations that may create perverse macroeconomic effects that would offset the positive effects of export competitiveness. Competitive but relatively stable exchange rates are more likely than orthodox packages to contribute to export growth and employment generation.

b. **Financial policies.** As most success stories show, finance plays a major role in supporting long-term development and structural transformation. However, the contemporary processes of financialisation, as argued above and by Fine and Milonakis (2011), for example, have widened the disconnection between financial markets and institutions and 'real' productive sectors. Three sets of measures could begin to reduce the perverse effects of financialisation and unregulated financial liberalisation:
   - Financial institution-(re)building and restructuring designed to support long-term credit. In LICs, this probably means the creation of *state/national development banks* or parastatal credit institutions with a mandate to provide direct support to productive sectors, especially agriculture and manufacturing, which are often starved of credit in these contexts. The lack of collateral and the focus of private institutions on quick returns mean that large segments of potentially dynamic activities lack credit and so are unable to increase investment and labour demand. Therefore, restoring institutional arrangements to address risk and the need for long-term investment may to help direct credit to where the long-term impact in terms of productivity and employment growth is greatest. The successful examples of the role of state development banks in China, Vietnam and India, as well as Brazil's growth processes and structural transformation, should be examined in terms of how these institutions emerge, use resources and grow.
   - Avoidance of excessive growth of financial services that do not serve long-term productive interests through tighter licensing regulations and measures to curb the abuse of products focused on short-term gains at the expense of stability and long-term investment. Thus, there should be *tighter regulation* of commercial financial institutions engaged in highly leveraged speculative financial activities. In other words, re-regulation of financial institutions and markets may contribute to reducing volatility and the avoidance of excessive booms, bubbles and busts that have become so frequent in the recent history of finance capitalism.
   - Promote *access to credit for the 'missing middle'*, i.e. the large and growing segment of small-to-medium enterprises (SMEs) (rather than micro-enterprises) that employ substantial number of workers, although very poorly recorded in official statistics. The 'missing middle' has particularly suffered from the combination of
     i. processes of financial liberalisation, which have tended to concentrate banking sectors and squeeze credit for agriculture and manufacturing, where returns were perceived to be uncertain and relatively low; and
     ii. the emergence of microfinance, comprising much less sustainable business which created little wage employment and bias development interventions towards ahistorical and unrealistic micro-solutions (Bateman, 2010, Sender, 2003; Amsden, 2012).

c. **Fiscal policies.** *Public investment* in economic infrastructure is essential to support economic restructuring and establish the basis for dynamic growth alongside structural change. In the absence of basic infrastructure, it is difficult if not impossible to develop a sustainable and dynamic manufacturing sector and its associated services. The 'crowding-in' effects of public investment are well established in dynamic industrialising economies in terms of the viability

and profitability of future private investment and also in terms of its sector composition, which is so critical for structural change.

- Public investment should increasingly concentrate on *economic infrastructure* and the creation of conditions for the emergence of dynamic and sustainable private business that is more likely to create large-scale employment in the long run. While the current poverty agenda essentially focuses on public investments in social infrastructure, particularly in education and health, and without denying their critical importance in improving living standards, renewing a focus on the 'demand-side' of the employment equation, as argued in this paper and by Amsden (2010), is imperative in order to promote employment-focused growth. In this respect, there are some areas where large-scale public investment can make a substantial long-term contribution:
    i. Irrigation, which is essential for increasing agricultural productivity, production and labour demand in the farming sector.
    ii. Rural electrification, to boost viable farm and non-farm activities and reduce irrigation maintenance costs.
    iii. Roads and communication infrastructure, essentially to contribute to the articulation and growth of domestic markets, and, in particular, to facilitate workers' mobility within 'transforming' countries, i.e. those undergoing rapid urbanisation, structural change and economic diversification. In contexts where 'footloose' mobile labour is very significant, reducing the costs of mobility and job-seeking, would strongly contribute to employment growth and living conditions of very poor workers (Sender et al., 2005).
- *Redistributive measures* of the kind carried out in Brazil (via cash transfers, pensions and other benefits for the poor) are also essential in contexts where high inequality hinders sustainable capital accumulation, especially insofar as a growth path based on low wages and high inequality can reach a dead-end if effective demand is constrained by low consumption and the drying up of investment opportunities. Redistributive mechanisms should also include a range of labour-market interventions that may help to raise real wages for the poorest segments of the workforce (see below).
- *Domestic resource mobilisation.* This essential ingredient depends on achieving growth in the short to medium term. As growth accelerates, a more aggressive tax strategy is needed to (a) broaden the tax base (including to cover informal activities) and (b) apply a more progressive framework (particularly by increasing taxes on capital and on the top 10% of the income distribution). In resource-dependent LICs it is imperative to expand the tax base, either through formalisation or taxation of informal activities. More importantly governments should be far bolder in applying more effective and substantial taxation of mineral-resource extraction, which could bring enough fiscal revenue to reduce aid dependence significantly and would not necessarily reduce foreign investment in a context of high and growing demand for primary commodities. Many African countries have exceptional scope to increase taxation of natural resource sectors/businesses and expand the tax base (Di John, 2011). This also includes the possibility of taxing dynamic export sectors in order to expand the fiscal space that may allow for dynamic intersectoral flows, via fiscal policy, and sensible reinvestment in the same export sectors to maintain their dynamism and contribute towards their technological upgrade (e.g. by boosting R&D capacities and global market outreach). The key challenge is overcoming the

political costs associated with such a bold policy change (see also UNCTAD, 2007; UNECA, 2011).

d. **Sector-level policies** (industrial/agricultural policy) or 'structural transformation' policies. Here we focus particularly on the two key (potentially) productive sectors in LICs:

- *Agriculture.* For structural change and agrarian transitions to be economically and politically viable, it is crucial to adopt policies that make labour demand expansion a priority as well as across sectors (not policies that just move labour from one sector to another). Squeezing agricultural sectors in the name of industrialisation is likely to fail if it results in agricultural stagnation and insufficient surplus to transfer to high-productivity sectors. Although new dynamic sectors may emerge, there is still insufficient demand for the potential surplus labour in rural areas, which means giving serious consideration to strategies to boost better remunerated agricultural employment. Some of the policies mentioned above (investments in irrigation, electrification etc.) would certainly improve the viability of farming and contribute to productivity growth, as experiences in China and parts of Latin America demonstrate. This could help make segments of the smallholder-farming sector more viable and less vulnerable to shocks. The main challenge, however, is to increase the demand for unskilled wage labour on plantations, in agribusiness and on dynamic medium-scale farms in contexts of land abundance and chronic underemployment. In particular, targeting benefits and incentives on sub-sectors with the highest employment-creation potential, within sectors that employ poor workers, and in products that are likely to become dynamic markets with rising international prices (e.g. non-traditional agricultural exports, horticulture, and some food products) can pay off significantly. For example, Ethiopia's support to the development of cut-flower exports has created substantial jobs for very poor and vulnerable workers, especially women. Agricultural success stories in Brazil, as discussed in Section 4, also show the central importance of public policy and public investments in driving the emergence of these dynamic sectors (Selwyn, 2012). Evidence of the employment potential of irrigated agriculture and horticulture is abundant: in South Africa 'irrigated crops require at least five times more labour on average than non-irrigated crops and that crops such as papaya, guava, avocados, tobacco and chillies use between 4,000 and 10,000 hours of labour per hectare, compared to dryland maize, oats, ryegrass and wheat, which according to COMBUD require less than 15 hours per hectare in many areas' (Sender et al., 2005: 80). In Asia the difference in labour-day requirements between horticultural crops and cereal staples ranges from ratios of 2:1 to more than 5:1 (Weinberger and Lumpkin, 2005: 5). Over recent decades, most middle-income dynamic developing economies adopted policies to increase their support for agriculture, in defiance of the assumptions of the Washington Consensus that dominated the 1980s and 1990s.
- *Industrial policy.* Industrial policy comprises a wide range of interventions, but core issues are the need to protect infant industries and for strategies to promote exports in contexts of important technological gaps. Underlying this approach is the need to (a) promote innovative activities that generate positive domestic spillovers; (b) aim to promote higher value-added overall and within sectors; (c) facilitate intersectoral linkages; and (d) contribute to the expansion of demand by aggressively promoting external demand growth. Successful industrial policies are an essential ingredient in so-called 'developmental states' (Chang, 2011; Amsden, 2003, 2009). In countries where there was no strong developmental state, 'champions' were created essentially by a combination of government actions and the right mix of incentives. Most

successful export industries in developing countries in fact emerged from various forms of direct industrial support. Chang (2011) gives useful examples that add to the well-known cases of Korea and Taiwan, from developing and high-income countries. Turning to Latin America, when Brazil had exhausted its import-substitution industrialisation phase in the 1980s, Embraer, the aircraft company, became a leading global competitor – prior to privatisation – through effective state management and sensible use of export subsidies linked to reciprocal control mechanisms of the kind documented in the case of Korea (Amsden, 2003:7). Chile also developed a very competitive agricultural and forestry export sector, in which the highly successful salmon industry was 'largely the creation of Fundación Chile, a quasi-public agency that acted as a venture fund and developed and disseminated the relevant technology' (Rodrik, 2011: 41). Given the wide range of policy tools, the specific configuration of industrial policy will depend on the structural conditions, economic imperatives, political dynamics and the nature of the domestic and international capitalist sectors in each country. Industrial policy is also closely tied to policies mentioned under the headings of financial and fiscal policies above. Apart from those mentioned, other typical options include (Amsden, 2009; Chang, 2011; Rodrik, 2011; Ocampo et al., 2009):

i. Effective investment promotion agencies/boards with deep knowledge of sectors and their relevant markets.
ii. Direct conditional subsidies to specific sectors/industries with effective monitoring and control mechanisms and clear and achievable performance standards.
iii. Subsidised provision of licensed technology to certain activities, sectors and/or firms.
iv. Local content regulation to maximise intra- and inter-industrial linkages and reduce import dependence.
v. Well-targeted investment in R&D, focused on sectors with the highest growth potential in the medium and long run.
vi. Temporary monopolies to boost learning-rents and develop productive capabilities are likely to be effective once the monopoly rent is removed.
vii. 'Pro-trust' measures through tax incentives and subsidies to promote horizontal and vertical mergers and integration as a way to create large-scale integrated businesses that can achieve scale economies and 'learning by doing'.

e. **Labour market policies.** Two main instruments usually improve the bargaining power of vulnerable workers and their prospects in terms of job quality.

- One instrument, which is not dependent on direct government actions, is an effective *collective-bargaining system* with *trade unions* that operate beyond a limited realm of a few formal enterprises, and with a sufficient affiliation base to extend demands beyond economic enclaves of formality. The presence of active and independent unions with deep knowledge of each sector helps to create conditions for more effective mobilisation and better dialogue with the private sector. Well-resourced and intellectually confident trade unions are more likely to enable workers to achieve associational power and to engage in constructive tripartite dialogue with the state and the private sector.
- The other instrument is a credible and well-monitored *minimum wage policy* that helps to push up the lowest wages and reduce the extent of poverty among the lowest-paid workers. Minimum wages may not have the same positive effect in all

contexts and their impact will depend indeed on the level of wages for the unskilled and poorest entrants to the labour market compared to average wages. The effectiveness of minimum wages obviously also depends on existing enforcement capacities in LICs, where the standard employment relationship applies to a minority of workers. Nonetheless, even with weak enforcement capacities, a minimum wage may be effective for particular types of job (especially those provided by larger-scale employers, which are more exposed to bad publicity, and can easily afford to pay more than the existing minimum wage).[23] Establishing minimum wages closer to the median wage, if this can be achieved, could reduce wage inequality quite rapidly. Strengthening and empowering labour inspectorates should be a solid accompanying measure.

- In addition, and depending on the country context, *public employment guarantee schemes*, where the government (central or local) offers very poor workers a minimum number of days' employment in public works and various state-funded activities. If appropriately funded, these schemes can help to tighten local labour markets, especially in rural areas, since they can release existing jobs to some of the poorest in the labour market, who can benefit in having more work, as research on India has shown (e.g. Sen and Ghosh, 1993).

The policy options presented here do not constitute another shopping list of policies that all governments should follow. In reality it will be *combinations of some of these policies* that may catalyse growth with long-term transformations, and the sequencing and trade-offs between different policy options will be critical for success in each context. In other words, policy must be context-specific and respond to the specific structural characteristics and constraints of a late-developing country that is faced with rapidly changing global conditions. Thus, an appropriate package at a given point for a particular country may include only some of the policy options listed above, in addition to other measures that are not mentioned. A long-term policy horizon may also allow for sequences of combinations of policy measures along distinct phases in the process of demand expansion, industrialisation, productivity and employment growth. Each phase may face different economic and political obstacles at the domestic and global level. In this sense, it is critical to develop governance capacities for policy adaptation, experimentation and correction.

In order to specifically inform a range of policy choices for specific economies, the key is to identify:

- Where there are potential (greatest) increasing returns;
- Key bottlenecks constraining investment in real productive sectors;
- Determinants of domestic consumption and the implications of redistributive policies for aggregate demand;
- The key areas/sectors where learning by doing can be most growth-enhancing;
- The central sources of rents that can generate in the short and medium run the necessary surplus and foreign exchange for initial take-off and the re-investment of resources in potentially dynamic sectors;
- The economic and political feasibility of promoting particular sectors and the most promising instruments in view of the constraints to progress. In essence, the feasibility of different combinations of policies and their effectiveness will depend on the specific political settlement of each country, thus the balance of forces between the state and private

[23] For deeper analysis and illustrative cases, see Devereux (2005) for the general picture, and Cramer et al. (2008) for a study of agricultural wage labourers in Mozambique.

capitalist sectors, and relations between the state, different factions of capital (merchant, financial, industrial and landed) and civil society organisations (CSOs) (Khan and Blankenburg, 2009);

- Gaps and strengths in basic skills;
- What sectors are more likely to generate linkages given existing productive, employment and trade structures.

5.2 Policy implications for aid agencies and EU development

In this section we address some of the implications of the above analysis and the policy recommendations sketched in the previous section for donor countries, or as they are now also referred to, 'external development partners', especially in LICs where their influence is more significant, sometimes decisive for key economic policy decisions. In fact, although many LICs worldwide including in SSA reduced their aid dependence in the 2000s (Action Aid, 2011), many remain highly dependent. In particular, the dependence on ODA for a significant proportion of fiscal expenditure as well as the importance of aid as a source of foreign exchange still apply in most of the world's poorer countries. In other words, aid policies and donor priorities have an impact on policy content and processes in LICs to the extent that revision of existing policy frameworks and processes in many African LICs can hardly happen without a concerted effort involving donors (Oya and Pons-Vignon, 2010). In addition, EU policies regarding migration, trade and the promotion of FDI, for example, can also directly affect LICS's policy frameworks depending on the circumstances (e.g. relative importance of migration to EU, of FDI from EU countries and on trade flows between LICs in Africa and the EU). Our focus, however, centres on ODA and its associated policies and practices as having special relevance for LICs in Africa and for the policy options discussed in the previous section. It is much harder to link policies on migration, FDI and trade to the substance and outcomes of employment-focused policies in LICs, though we suggest some possible linkages below.

5.2.1 Enhance policy space and rethink conditionality

The first major lesson to be drawn from the sustained engagement of poor countries (especially in Africa) with mainstream ODA agendas (such as the so-called 'Washington Consensus' and the 'Post-Washington Consensus' agendas) is that these made no significant contribution to the sustained growth, the creation of jobs and structural transformation discussed in previous sections. In addition, the lessons from the East Asian and other successful experiences of transforming MICs confirm the need for alternative policy options and the importance of *policy experimentation* away from over-generalised, rigid and ahistorical policy blueprints (such as the broad 'good governance' agenda that currently dominates thinking on development aid). These lessons underscore the importance of providing developing countries with the *policy space* necessary to own and drive the processes of dynamic structural transformation and inclusive growth. This is certainly one characteristic found in some of the dynamic and successful development processes in countries like China, Brazil and Vietnam as described in Section 4. Despite the strictures imposed by international and regional agreements, the World Trade Organization and other initiatives, there is still scope for a wider range of policy options within the current framework (Amsden, 2009; Ocampo et al., 2009), but aid-dependent countries appear to face additional constraints driven by the dominant agenda on aid policy.

This implies that a priority for traditional donors should be to contribute to the opening of policy space in LICs and to engage in more active dialogue with new donors such as China, Brazil and India on their own aid practices – especially since these seem to be following practices that were common among many OECD donors during the pre-Washington Consensus era (Zimmermann and Smith, 2011). A notable example of such aid practices was Japan's assistance to China in the late 1970s (Brautigam, 2009). Of course, discussions between 'traditional' and 'new' donors are fraught with political constraints and

resistance to change aid practices in a way that questions the status quo. However, it may be the only option in the long run given the rising importance of 'new' donors in LICs in Africa.

As an OECD (2008) report notes, some reforms in the prevailing aid agenda are well overdue. First, it argues that aid recipients still lack real choices among policy frameworks because the production of knowledge for development is still largely dominated by a set of like-minded OECD institutions. A partial solution would be the promotion of more home-grown knowledge, or at least exposure to alternative policy narratives (from other historical experiences or current examples in other fast-developing countries). This could be done through support for university research institutes and independent think tanks, with a priority placed on independent research rather than consultancy assignments and on developing young local talent. Instituto de Estudos Sociais e Económicos (IESE) in Mozambique is an example of such an institution.[24]

Second, conditionality must be reformed and transformed. The OECD proposes performance-based conditions attached to loans rather than broader policy conditionality. Their application, however, will depend on the nature of the performance criteria and how the risks of failure in implementation are incorporated into the monitoring. A key issue is to what extent current conditionality frameworks, including conditions both for outcomes (e.g. fiscal targets, poverty reduction targets, bureaucratic reforms) and process (how policies are designed and monitored, i.e. nature of consultations with civil society, institutional architecture of policy-making dialogue for design and implementation, elaboration of PRSPs) constrain: (a) the range of policy options available to LICs, reducing the scope for policy experimentation; and (b) bias policy focus to particular goals, e.g. governance reforms and investments in education and health. A key point for our discussion, as Taylor (2011) clearly puts it, is that 'international rule making should leave enough "policy space" for developing countries to adopt strategies and policies to manage external shocks and promote their structural transformation. This is an area where there has been a clear regression in recent decades'.[25] While reclaiming policy space depends much on negotiations between African governments and donors, perhaps much more depends on their capacity to mobilise domestic resources through taxation to reduce aid dependence or to mobilise capital from alternative sources internationally.

5.2.2 Reduce transaction costs and advance on reform of aid-delivery systems

One of the most striking aspects of the 'aid industry' since 2000 is the mismatch between the bold commitments to improve aid architecture and aid practices set out in the Paris Declaration (2005) and the Accra Agenda for Action (2008) and the woeful lack of progress towards the declared targets. Many of these targets essentially aim to reduce the transaction costs associated with aid flows, and align the practices of donors with the systems of aid-recipient countries. Unfortunately, as argued in Oya and Pons-Vignon (2010), aid has often resulted in a process of gradual state capacity 'de-building' through various mechanisms. The most notable are: fragmentation in delivery, lack of coordination, emigration of skilled civil servants, short-term horizons and the reproduction of the logic of aid maximisation in a context of uncoordinated and fragmented flows.[26] Why is this relevant to the arguments made in this paper? The recovery of state capacities for long-term strategic thinking and planning, hitherto impaired by the perverse effects of aid mentioned above, is critical for the feasibility of most of the policy recommendations set out in the previous section. In other words, a successful industrialisation and development strategy aimed so spur productive investment, employment and real-wage growth that

[24] See resources at http://wiki.ikmemergent.net/index.php/Documents. See also Mamdani (2007) on the perverse effects of consultancy culture in African universities.

[25] See also extensive discussion on policy space and state capacity problems in aid relations in Oya and Pons-Vignon (2010) and UNCTAD (2007).

[26] See also Herbert (2012).

combines a carefully selected set of macroeconomic, financial, sectoral and labour-market policies, would require a strong, capable, organised and centralised state that had overcome such perverse effects of aid dependence.

Since little progress has been achieved towards the declared targets, the question arises as to whether the commitments in the Paris Declaration are politically feasible. If not, then aid-recipient countries in Africa in particular might well accelerate their efforts to reduce aid-dependency, in order to expand policy and fiscal space and be able to engage in the kinds of interventions that are necessary for structural change and sustained inclusive growth. For this purpose, as previously suggested, both the mobilisation of domestic resources through taxation and recourse to alternative sources of foreign finance could become priorities for some governments.

5.2.3 From a poverty-centred to an employment-centred aid agenda

As argued above, there are analytical, methodological and policy advantages in moving away from a vaguely defined 'poverty-reduction' focus, which has dominated aid and development policy agendas since 1999, towards a more concrete and bolder emphasis on productive employment and reducing inequality as part of achieving 'inclusive growth'. Since long-term poverty-reduction processes hinge largely on the achievement of a virtuous dynamic of productivity-enhancing structural change along with enhanced employment intensity, it is not enough to focus on the supply side (i.e. human capital) of the employment equation. While investments in education and health will always be important, their effectiveness will depend on the capacity of the economy to create broader and more productive employment in higher value-added and higher-productivity sectors with greater potential for future growth.

Therefore, at the very least, donors could commit to ensuring that a much greater proportion of ODA goes to paying *new public investment* that has strong 'crowding-in' effects, and minimise what goes into recurrent expenditures and administration costs. Since many poor LICs are either foreign-exchange or fiscally constrained, donors and aid-recipient governments should prioritise the effective absorption of aid into large-scale investment programmes with long-term maturities. This approach could also imply a return to more funding for *economic infrastructure* and could in this sense also follow the example of some of the aid flows coming from new donors (notably China), which have essentially focused on building large-scale economic infrastructure. Aid for economic infrastructure in the current context of little or 'backward' structural change could be a catalyst to removing the binding constraints on economic growth and employment generation. While support to improvements in health and education remains important, there is a strong call to shift towards interventions that are more likely to create the space for expansion in private investment and associated employment creation. For some agencies, notably the World Bank, but also for the European Commission, this would mean a return to 'basics', to financing the 'hard' forms of aid, perhaps politically less popular but more effective in terms of their impact on employment creation, industrialisation and structural change. Within the current aid framework, and beyond issues of progress towards the principles set out in the Paris Declaration, this shift in the focus of aid allocation should be realistic and feasible.

Moreover, support to productive sectors and technological upgrade should be given renewed emphasis if the objective is to promote structural change towards generating higher productivity employment, namely to agriculture and industry in the form of contributions to:

- expansion of irrigation
- increased public expenditure in R&D
- creation of centres of innovation
- subsidies for the adoption and import of new technologies

- funding postgraduate studies in key areas of growth linked to high productivity sectors (engineering, ICT and development planning)

While some of these contributions may not be seen as having such a direct effect on the poor as fashionable interventions like microfinance or small-scale vocational training, they are in fact central to the achievement of long-term strategies for economic and social transformation, which, as historical experience has shown, are more likely to have a sustained impact on reducing poverty in the long term through creating sustainable and better-paid employment.

5.2.4 Beyond aid flows

Aid is certainly not the only form of engagement between rich countries in the EU and poor LICs in Africa, although it has a more *direct* impact on policy-making. For example, the management of migration flows has a major impact on the development prospects of poorer countries. Likewise, what EU companies do in LICs in terms of investment, technology transfer and so on, and what they do *not* do, has consequences for the growth and employment outcomes in these countries. Thus, it should be a priority for donors to monitor the investment practices of EU businesses and provide incentives that are compatible with the goal of inclusive growth in the poorer countries. The legal framework in place for Policy for Coherence in Development (PCD) facilitates progress in monitoring investment practices and the compatibility of trade policies with development objectives in LICs. However, the question is whether political constraints on the achievement of policy coherence are even greater than those affecting the reform of aid architecture. Here we briefly suggest some aspects of these policies that more directly affect the prospects of achieving the policy objectives in an employment-centred strategy, without going into the big debate on their political feasibility and the specific instances of making, or failing, to make progress.

1. **Migration policy.** The current global recession is having an adverse impact, particularly in Europe, on migration policies, with controls apparently becoming more restrictive or at least with trends in public opinion that are driving policy choices towards a tougher stance on controlling migration (the UK is a good recent example). A large body of evidence suggests, however, that neither the theory nor the evidence supports the feared negative effects of migration. Research is needed to assess the impact of restrictions on the migration of unskilled labour on poor economies that benefit significantly from remittances. Countries like Senegal, Cape Verde, Ethiopia – and indeed the unrecognised Somaliland – are good examples of the growing significance of remittances from unskilled migrant labour and might therefore merit more systematic research on the actual impact of restrictive migration policies on their economies and employment prospects (since job creation may also be linked to increasing remittances and generally to domestic demand expansion). Since the growth in employment is unlikely to keep up with the rapid growth of the labour force in most LICs, imbalances in the labour market are likely to intensify over the medium term. Migration offers a 'vent for surplus labour' that not only relieves pressure on already underperforming labour markets, but also contributes to easing the binding foreign-exchange constraint that afflicts many LIC economies. One of the key challenges, however, is that making a credible economic case for migration does not solve the political problem of dealing with large migration flows. Current political trends suggest that electorates do not accept sensible economic arguments on this particular issue. Despite these political constraints, however, EU economies could indeed benefit from absorbing more unskilled labour from poor countries. Another option would be to cooperate with LIC partners in devising institutional mechanisms that maximise the use of foreign exchange derived from migrant remittances for long-term developmental purposes, such as the financing of public goods necessary for economic restructuring. However, this would require strong commitment on the part of LIC governments to intervene and manage these flows without creating incentives for parallel informal channels of remittances.

2. **Investment policies and domestic resource mobilisation.** OECD governments rightly want to encourage private companies from their own countries, especially 'champions' in particular sectors, to go global and succeed internationally. The encouragement of domestic private interests in foreign policy and even in aid policies is a well-known practice. The central development challenge is, however, to ensure that the incentive system in this area works in a way that motivates OECD companies to undertake more and higher-quality investment in LICs. Unfortunately, most FDI going to LICs is very concentrated in a few countries and a few sectors, typically in extractive industries. This is not surprising given the economic trajectory many LICs have followed in recent decades and the resulting reinforcement of a dependence on commodities. Some research suggests that much of this investment is severely under-taxed (Di John, 2011). While it might not be in the short-term interests of private companies to pay their fair share of taxes in LICs, it is clear that governments in Africa and other LICs could obtain a much fairer deal without necessarily jeopardising further investment. Increased taxation on extractive sectors, through royalties and taxes on profits, would be a priority, as suggested in Section 5. If OECD governments and their bilateral agencies are seriously committed to reducing aid dependence and helping recipient countries to define an exit strategy from aid, they must give more support for domestic resource mobilisation beyond the establishment of tax authorities or the reform of custom agencies (which have been the typical interventions in this domain). Indeed, much more could be done to create the right incentives so that foreign investors pay a higher level of taxes. This improvement would help expand the fiscal space necessary to finance long-term 'transformational' development policies. This could, of course, be another area of wishful thinking. Why, for example, would EU governments work against the short-term interests of their own private capital, even if such objectives were incorporated in the EU treaty? But such an approach would clearly be in the long-term interest of donors and aid recipients.
3. **Trade policies.** Given the lack of dynamic high-productivity structural transformation in LICs, a clear challenge is how to assist them in moving up the technological ladder, diversifying into and producing higher value-added commodities in order to reduce their continuing dependence on unprocessed commodities or low-technology primary processing. Certainly, the achievement of these objectives would depend much on the capacity of LIC governments to develop the kind of policy packages that contribute to the 'creation of winners' and enhance productive transformation and technological upgrading, as discussed in Section 4. The key point here is whether EU countries can assist LICs to expand their access to developed-country markets for new high-value exports if they succeed in producing them. A question that deserves further reflection is whether current initiatives like the Economic Partnership Agreements (EPAs), Everything But Arms, in the EU or African Growth and Opportunity Act (AGOA) in the USA, are more effective tools to contribute to the expansion of external demand for exports from LICs in Africa than, for example, special preference systems that prevailed in previous EU–Africa trade frameworks. It is still too early to reach any substantive conclusion in this regard. The key danger, however, comes from the associated promotion of wholesale trade liberalisation in some of these initiatives (notably in EPAs). As argued by Ocampo et al. (2009) and Rodrik (2011), trade liberalisation may have damaged the prospects for long-term structural change and industrialisation in too many LICs.

In sum, in an ideal world, there is substantial scope for improvements in aid policies and in the realm of PCD towards a more historically informed and long-term strategy to foster employment-centred growth and structural change in LICs. The question is whether the balance of economic and political forces in EU countries and in LICs is and will be adequate to achieve these objectives. The current global economic climate and its political consequences in EU countries probably do not help in moving in such direction. However, the review of the MDGs with a view to articulating a possible post-MDG agenda does create the space for rethinking along the lines suggested in this paper.

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Appendix 1 – Data problems

Various types of problem with official statistics affect any analysis of growth-employment-poverty linkages. First, the reliability of basic indicators such as GDP is far from uniform. In the case of LICs in Africa in particular, data from national accounts are of poor quality and systematic biases may render inter-temporal comparisons questionable (Jerven, 2010). Second, there is a significant degree of 'false precision' in poverty figures, especially in international poverty estimates based on PPP dollars and international poverty lines.[27]

An important implication is that it is probably better to look at the continuum of wellbeing indicators rather than relying on dichotomous categories such as poor or non-poor. For example, devising combinations of indicators in terms of 'degrees' without arbitrary cut-off points could help to identify more relevant statistical categories for poverty analysis: different types of 'working poor' such as casual agricultural labourers, food-insecure agricultural producers, slum-based casual workers in low-paid activities (e.g. street vendors, poorer transport workers, construction manual labourers and domestic servants). Such categories could be defined by measures such as the levels of remuneration, insecurity of employment, range of sources of income, housing conditions, and so on. A different statistical agenda for poverty analysis would be needed for this purpose, placing much more emphasis on labour market data.

Third, the quality of labour statistics is low, especially in LICs, where data gaps are extensive, but also in MICs where some trends are difficult to interpret with precision. For example, the adoption of a 'narrow' definition of unemployment in South Africa, which effectively disregards discouraged workers who have stopped seeking employment, implies an artificial decline in the published unemployment rate and complicates analysis of trends (Marais, 2011: 176). Meanwhile, the standard statistical category of 'unemployment rate' is not a useful indicator for poor countries that have no social safety nets because the 'poor' cannot afford to be unemployed (Standing, 2006). A further source of statistical bias is the tendency towards overestimating the incidence of self-employment and underestimating wage employment in poor countries. This results from social prestige bias (meaning that many poorly remunerated wage jobs are easily unreported), sampling deficiencies, the use of conventional fuzzy categories like 'main occupation', and inadequate timeframes like the seven days recall period before the interview.[28]

In addition, researchers often forget that aggregate 'representative' statistics on employment and poverty depend on the quality of sampling frames (derived from censuses). The reality is that very often population censuses are too distant from the time of surveys; hence, projections based on their data are not reliable. Moreover, censuses usually apply official rules of residence that may exclude large numbers of people living in less stable conditions, such as seasonal migrants, or in informal settlements. This introduces an important bias since many of these missing categories tend to be particularly poor and vulnerable. These problems affect the reliability of statistics on employment rates, employment status and the sector composition of employment. Hence, these issues make the interpretation of comparisons of employment status across countries and over time difficult and sometimes misleading. Therefore, considering the multiple data limitations briefly described above, the reader should take the macro and micro-level evidence discussed in this paper with the necessary degree of caution.

[27] See Reddy (2011) for an up-to-date systematic critique of the conventional approach to poverty measurement and the global poverty figures. See also Toye (2007) about the uses and abuses of 'poverty' and poverty lines in the current development literature.

[28] See Oya (2010) for a discussion of some of these problems. Beegle et al. (2011) also discuss survey limitations in labour market data collection.