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WORLD DEVELOPMENT REPORT 2013

JOBS

OUTLINE

OCTOBER 25, 2011

Moving Jobs to the Center Stage

Recent world developments have put jobs at the center of the policy debate. The global financial crisis has resulted in massive job losses in both emerging and industrial countries. In the latter, there is concern about a jobless recovery; in the former, a comeback cannot hide workers' vulnerability to shocks. Political upheavals in the Arab world highlight the discontent of educated youth whose employment opportunities fall far short of expectations. The political upheavals could boost transparency and accountability in the region, but if jobs do not follow they could lead to greater instability.

These developments create a sense of urgency, but they remind us that jobs are the cornerstone of economic and social development. Most development work is related to jobs, even if we, as development practitioners, do not always articulate it in that way. We approach jobs from different angles: infrastructure development, competition, innovation policies, or skills upgrading. But we tend to do so in silos.

Confronted with massive demographic shifts, a global migration of jobs and deep changes in the very nature of work, policy makers ask difficult questions:

- In which ways would focusing on jobs affect the design of a country's growth or poverty reduction strategy?
- Should efforts to improve the investment climate ever target the areas, activities or firms with greater potential to create good jobs?
- How to build skills, including for those already in the workforce, so that they match the needs of the economy as it develops?
- Can entrepreneurship be fostered, both in the modern sector of the economy and among microenterprises?
- How to facilitate the reallocation of workers from areas, activities and firms with low productivity to those with greater potential?
- Do some jobs contribute more to social cohesion than others, and what are the implications when addressing youth unemployment?
- When confronted with short-term shocks and major restructurings, are there circumstances under which it is advisable to protect jobs, and not just people?
- Are we witnessing a global competition for jobs, in manufacturing but also increasingly in services, and if so what to do about it?

The available answers are not always satisfactory. While policy makers say that the most pressing issue they face is jobs, our support to them is not structured with that centrality of jobs in mind. In our macroeconomic work, we tend to assume that jobs will be created if growth materializes. At a more disaggregated level, we often approach jobs from a sectoral point of

view, emphasizing policies directly related to the labor market. The greater attention that jobs are receiving around the world offers an opportunity to break the silos and take a more integrated approach.

The last time the World Bank took a view on labor markets was 16 years ago, with the 1995 World Development Report (WDR) on *Workers in an Integrating World*. Back then, the issue was globalization and whether international trade and capital inflows would hurt employment. By now we are in an inexorably integrated world and the questions have evolved. What happens to jobs in one part of the world has implications for others. East Asia's moving up the value-added ladder and shedding jobs in light manufacturing opens up opportunities for countries in poorer regions to fill that slot; it also challenges countries in more advanced regions. Technological innovations may now result in a global migration of jobs in services. As employment opportunities are created in developing countries, global demand expands and employment prospects improve in the industrial world. Gaps between labor market conditions in different parts of the world open new avenues for international migration.

The challenge is to articulate a framework that cuts across sectors, considers the dynamic links between development strategies and jobs, and provides analytical tools to consider policies and programs from a jobs perspective. This is not to say that the jobs lens should replace the focus on overcoming poverty and raising living standards but jobs clearly are an important intermediate outcome.

This outline presents the structure and approach of the 2013 WDR. The Report aims to improve our understanding of the connection between jobs and important dimensions of economic and social development. It also intends to provide analytical tools to identify the obstacles to sustained job creation. In so doing, the Report will also emphasize differences in the nature of jobs which can affect their potential to raise living standards, increase aggregate productivity, or enhance social cohesion.

Although the Report will discuss policies to address immediate job shortfalls from short-term crises and downturns, it will emphasize the fundamentals of job creation in a longer timeframe. It will deal with job losses because short-term fluctuations and structural transformation are integral parts of the development process. In particular, the Report will explore how that the initial conditions and the existing institutional arrangements, as well as labor market functioning and policies, impact on jobs responses to major shocks and downturns.

The Report will generate new data on employment, earnings and labor market policies and institutions around the world. It will also discuss global labor trends and summarize and interpret the evidence on the effectiveness of specific jobs-related programs and interventions, highlighting the most promising examples. But its main contribution will be to provide a framework to address the most difficult jobs-related questions facing policy makers in developing countries. The Report will present evidence, including that supporting counter-intuitive answers to those questions, leading to a reasoned discussion of when conventional wisdom may hold, and when it may not.

WDR 2013 on Jobs—Main Parts and Messages

Part I: Jobs are transformational. We tend to neglect jobs when thinking about growth, while in reality they are at the center of development. Jobs connect improvements in living standards, productivity gains and social cohesion.

Part II: What is a “good job”? Some jobs do more for economic and social development than others, because they reduce poverty and inequality, strengthen value chains and production clusters, or help build trust and shared values.

Part III: Policies through the jobs lens. Understanding how labor markets interact with government and market imperfections, and how this interaction affects development goals, is the key to identifying and evaluating policies for the creation of good jobs.

The Jobs Challenge

Everyday discourse associates jobs with wage employment, but the latter is less prevalent in the developing world than in industrial countries, and formal wage employment even less so. The very notion of unemployment loses some of its usefulness when only a fraction of the labor force works for a wage or salary and income support is not available. For this Report to be relevant to developing countries, it has to consider a broad variety of forms of labor, including farm employment, unpaid family work in household enterprises, self-employment, and casual labor.

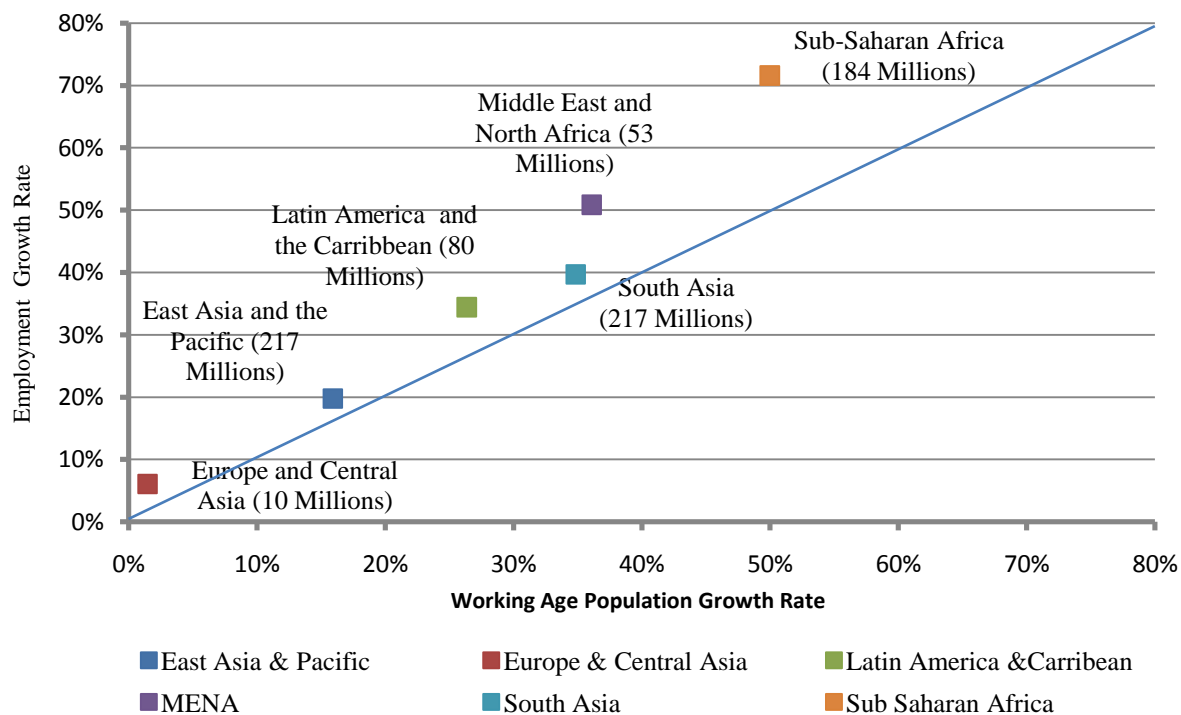
The time-use literature defines work as non-leisure and non-idle time allocated to household production activities (for example chores, child-care, care of the elderly), non-market income activities (home production for own consumption), human capital accumulation (studying, training and health care), and market activities (Juster and Stafford (1991), Ramey and Francis (2009)). Jobs, in turn, are defined as a subset of work, including market and non-market income activities performed voluntarily. Excluding forced labor and child labor, this definition may leave some gray areas say at the border between the time allocated to household chores and child and elderly care on the one hand, and that to home production for own consumption on the other. But it encompasses what people in developing countries actually do for a living, and is consistent with the ILO approach. Under this definition, fewer than half of those who have a job in developing countries are wage earners.

The world of work confronts tectonic shifts: among them, dramatic demographic transitions; labor-saving technological breakthroughs; growing trade in goods, finance and increasingly services; the emergence of China and India; and deindustrialization in most regions, with the exception of Asia. Life-time employment had been the norm for the working elites of some countries, but no longer. Workers are expected to shift jobs and sectors several times over their lives. Contracted work is much more common. So too is the decline of benefits associated with employment as workers bear a larger share of their cost and risk.

Some countries had massive inflows of new entrants to the labor market: nearly 10 million new workers a year in China and 7 million in India since the mid-1990s. Others face population losses: Ukraine’s annual population growth is -0.65 percent. Yet other countries endure large reallocations because of migration. Around 25 percent of Salvadorians live abroad while more than 60 percent of the population in the Arab Emirates, Kuwait, and Qatar is foreign-born. Some countries struggle with a shortage of jobs. Youth unemployment rates in Spain and in the Dominican Republic are around 40 percent. Meanwhile others create jobs at a rapid pace. Brazil, China, and India are among them.

What rapid demographic transitions mean for jobs can be illustrated in a simple conceptual exercise. Consider the projected growth of working-age populations between 2005 and 2020 and for simplicity assume that participation rates remain constant. If the target is to reduce the unemployment rate by half over the 15 years, it would necessary to create more than 400 million new jobs in Asia and the Pacific and to increase the number of jobs in Sub-Saharan Africa by 70 percent (figure 1).

Figure 1 Significant employment growth will be needed in South Asia, the Middle East, and Africa to reduce unemployment by half

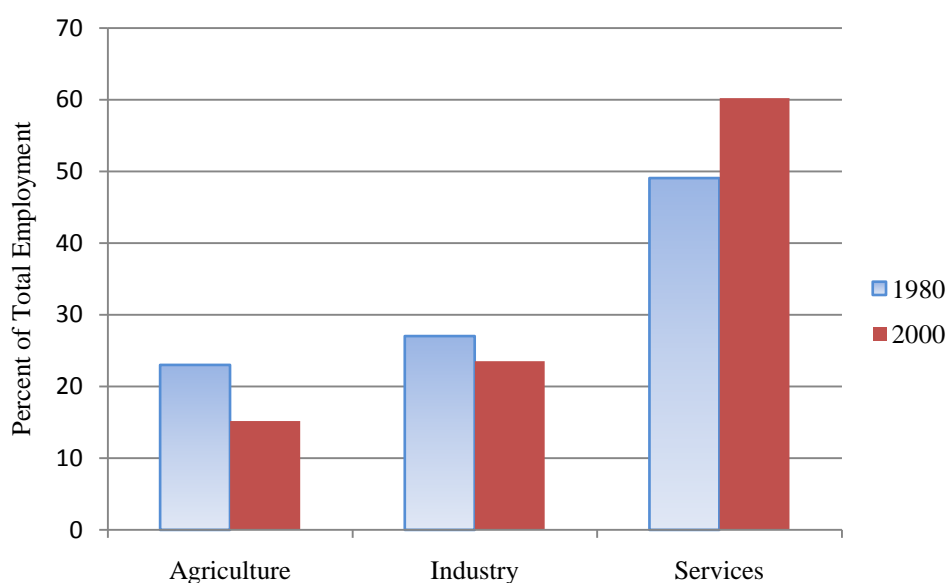


Source: Based on data from ILO and WDI. The figure assumes a constant activity rate and no migration.

These demographic pressures are accompanying a process of structural transformation through which manufacturing and services replace agriculture as the predominant sectors in both the stock of jobs and flows of new job creation. This well-known process is generally

interpreted in shares of value added (Chenery and Syrquin (1975), Hansen and Prescott (2002), Ngai and Pissarides (2008)). But it holds in terms of employment too, and has accelerated in recent decades through urbanization and globalization, making services the largest employer in the majority of world economies (figure 2).

Figure 2 More than half of all employment in developing countries is now in services

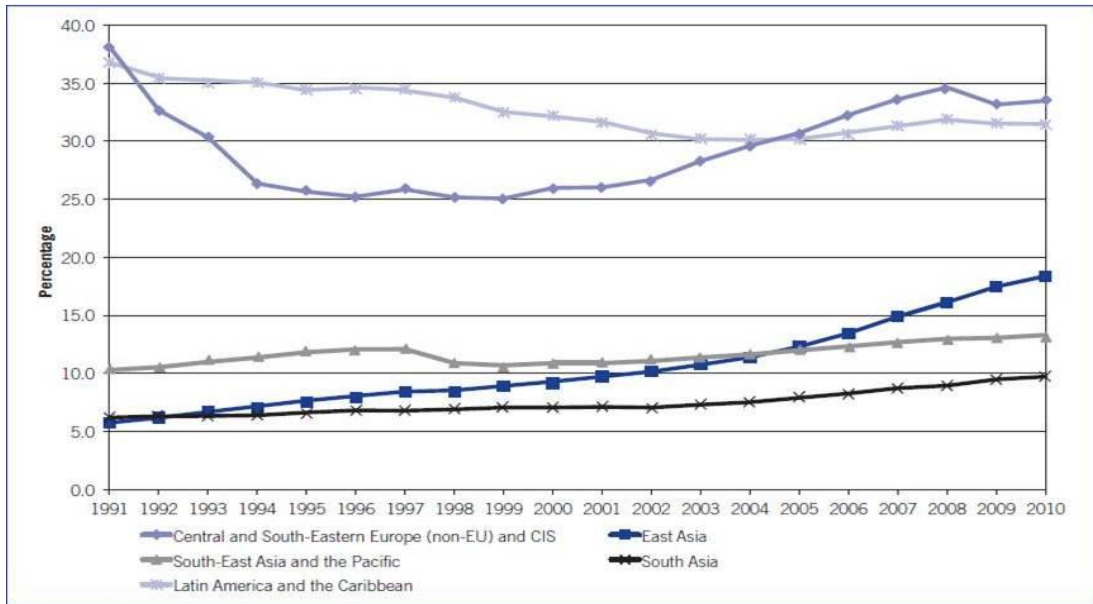


Source: Based on data from ILO and WDI for 62 developing countries.

Globalization and structural transformation have brought about remarkable changes in productivity and living standards. Some countries have managed to narrow the productivity gap with industrial countries over just a few decades, while others have stagnated (World Bank (1992), Pagés (2010), ILO (2009)). But the gap remains considerable for all developing regions (figure 3). Given the close link between productivity and labor earnings, unleashing productivity growth is critical to improved living standards. Policy makers debate what limits productive growth. Is it insufficient skills, inefficient labor markets, a lack of entrepreneurship, or an inadequate business environment?

Many countries have failed to create a positive dynamism of higher productivity, greater labor earnings, and better living standards. In those countries, scarring effects ranging from slow growth in labor earnings to job-related dissatisfaction may affect a sizeable proportion of the labor force (Farber (2011), Bell and Blanchflower (2011)). Some tentative evidence relates social unrest and even open conflict to the inability of a society to organize and provide honest means of living for its population, particularly its youth (Collier (1999), World Bank (2011f)). So, job creation is a matter not only of material sustenance. The lack of jobs directly affects life satisfaction and might also undermine social cohesion and the peaceful building of a society.

Figure 3 Developing country labor productivity is far below that in industrial countries

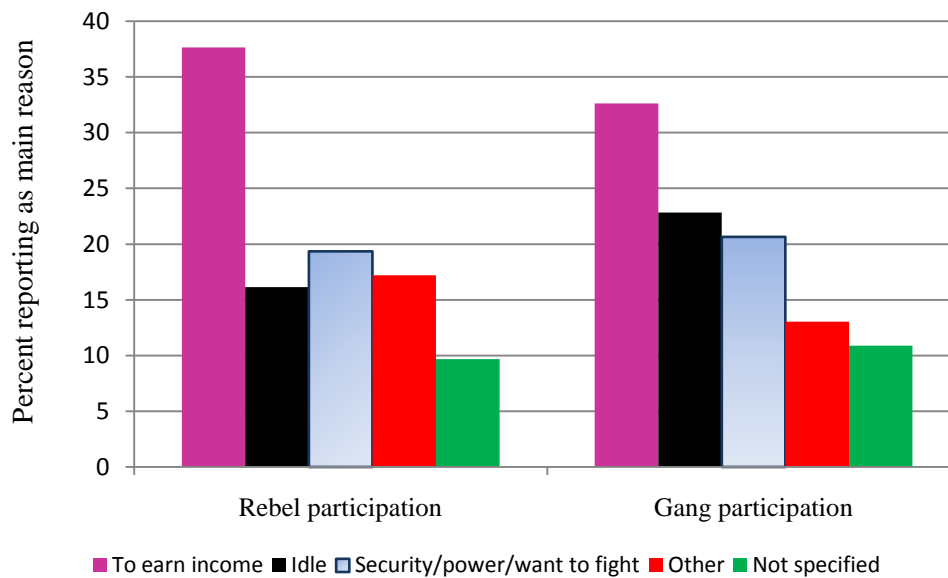


* 2010 are preliminary estimates.

Source: ILO, *Trends econometric models*, October 2010.

Note: In ILO's Global Employment Trends 2011 labor productivity is measured as output per worker. The reference is the productivity of developed economies, which include Europe, Northern America, Australia, New Zealand and Japan.

Figure 4 Potentially explosive situations



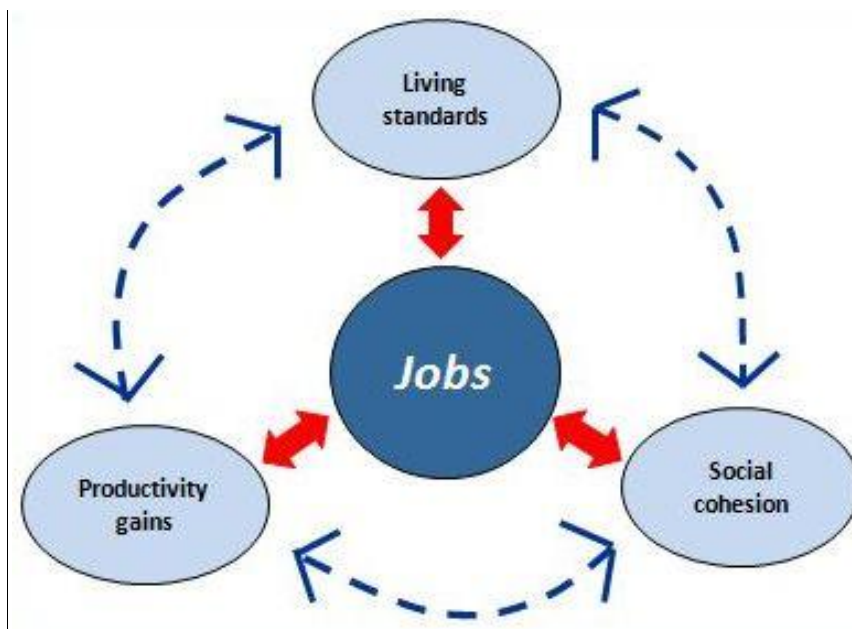
Source: FAFO (2011) background study for World Bank (2011e).

High youth unemployment is often a manifestation of this malaise (ILO (2011)). But with other indicators of unemployment, the figures should be interpreted with caution for they may underestimate the magnitude of the problem, as the formal definition of unemployment misses idle youth who may be neither in the labor force nor attending school (Fares, Montenegro, and Orazem (2006)). Youth unemployment can be particularly disruptive for societies and in some settings can contribute to participation in violent activities (figure 4).

Part I: Jobs are Transformational

Economic development is about improvements in living standards supported by productivity growth. It also involves social change associated with urbanization, the emergence of a larger middle class and the drive toward greater gender equality. All these transformations are related to jobs. The development process is about some jobs becoming better and others disappearing, about people taking jobs and changing jobs, and about jobs “migrating” to other places, within and across countries. Development as structural change often entails the movement of labor from rural, agricultural, and mostly subsistence activities to urban, non-agricultural, and mostly market-oriented activities. This movement involves transformations in the lives of families, the organization of firms and the norms and values of societies. This process can boost productivity and improve living standards, but also affect the cohesiveness of society. Jobs can thus be seen as the “hinge” connecting three transformations at the center of economic development (figure 5).

Figure 5 Jobs as the “hinge” of development



- *Living standards*: From an economic perspective, jobs provide earnings opportunities to lift households out of poverty, raise their living standards, and reduce the variation of their main income source. Higher yields in farming, access to off-farm small enterprise activities, migration of family members to cities, and transitions to formal sector employment are milestones on the path to improved material and subjective well-being.
- *Productivity*: Through job creation and destruction within sectors, and reallocations across sectors and countries, jobs are also at the root of aggregate productivity gains. Because of gaps in productivity across sectors, reallocating labor across them can contribute to growth (or hinder it).
- *Social cohesion*: Over the course of development, the structure of the labor force changes in ways that affect societies: by sector of activity, location, type of occupation, and gender. Jobs are linked to our identity, our beliefs and our values. This is mirrored in evidence suggesting connections between employment status, and trust in institutions and a willingness to participate in civil society.

Distinguishing the three transformations offers a clear analytical framework to analyze jobs, even if in reality they are not always completely distinct. Besides, each of these three transformations is multidimensional, as reflected in the numerous alternative indicators to capture living standards, productivity, and social cohesion.

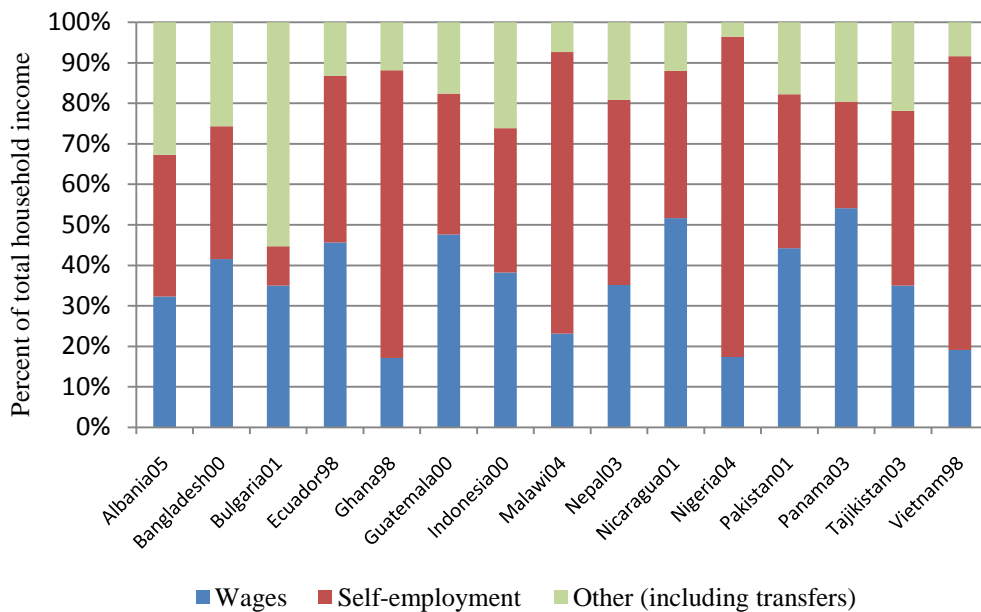
Ultimately, people's well-being is the goal of development, and the transformation of living standards above captures this link directly. But the other two transformations are also intimately linked with jobs. Sustained improvements in living standards are impossible without productivity growth—resources are wasted in confrontational societies. That is why we need to look jointly at the three transformations.

Jobs and living standards

For the vast majority of people, labor activities are the main source of earnings (figure 6). Employment opportunities, including those in microenterprises and in the informal sector, offer households the means to escape poverty (figure 7). Conversely, a lack of employment reduces the ability of households to improve their well-being (see studies cited in Baulch (2011), Fields and others (2003), Fields and others (2007)). In a large set of qualitative studies in low-income countries, two of the main reasons that people gave for moving out of poverty were finding jobs and starting businesses (Narayan, Pritchett, and Kapoor (2009)).

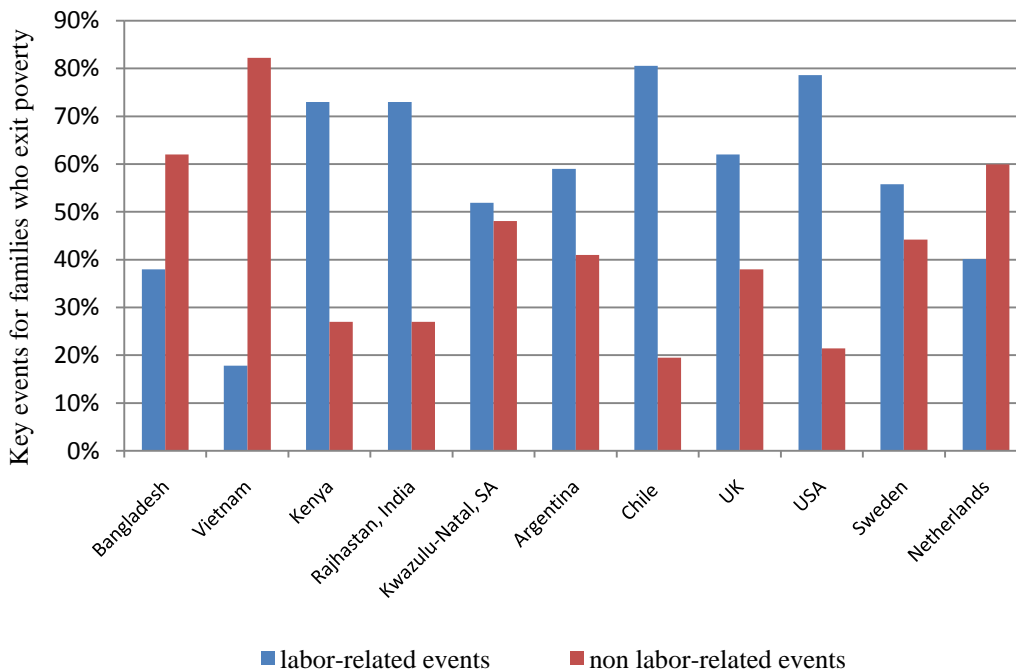
There is a stereotypical progression in living standards associated with different types of jobs. Work in agriculture is generally the least remunerative, with most laborers engaged primarily in simple activities such as weeding and harvesting. For households in rural areas, the agricultural sector dominates employment (Haggblade, Hazell, and Reardon (2010)). But there are differences, with commercial crops providing better opportunities than subsistence crops. The growth in income from agriculture can reduce poverty, as was dramatically shown in China's experience in the last two decades of the 20th century (Ravallion and Chen (2007)).

Figure 6 Labor is the dominant source of household income across countries



Source: FAO, 2011.

Figure 7 Jobs can trigger exits from poverty

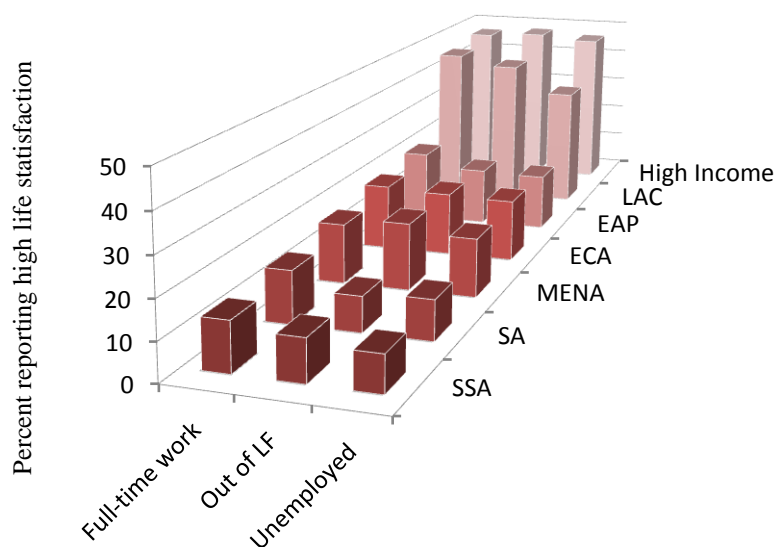


Source: WDR team compilation; details available upon request.

Although farming is typically the largest source of income for rural households, on average it accounts for only half of the total, showing why off-farm employment offers an important avenue for poverty reduction (Davis and others (2010)). The stereotypical progression includes increasing the share of earnings from off-farm employment and having family members move out of rural areas to work in manufacturing or in services. Eventually, most jobs become urban ensuring greater stability in earnings and increasing access to mechanisms that can protect against risks and help cope with shocks.

Beyond their immediate contribution to earnings (and thus to consumption), jobs affect other dimensions of well-being. There is a correlation between life satisfaction and employment status across regions and incomes, although there is not one dominant pattern that emerges (figure 8). There are valid concerns on how to compare self-reported subjective outcomes across countries and cultures (King and others (2004)). Nevertheless, a large literature shows that unemployed people report lower happiness and life satisfaction than their employed counterparts (Blanchflower and Oswald (2011)).

Figure 8 Jobs and life satisfaction are connected



Source: 2013 WDR team calculations using data from Gallup 2009 and 2010.

Not all jobs are equal, and who gets the earnings can matter for the living standards of both the current and the next generation. As the 2012 WDR on *Gender Equity and Development* shows, jobs influence women’s bargaining power within households and their participation in society. Women continue to earn only a fraction of what their male counterparts do (World Bank (2011f)). But when their income increases relative to men, household spending on food, health and education rise, investments in children are greater, there is more use of prenatal care, and women’s risk of domestic violence is lower (Beegle, Goldstein, and Rosas (2011)).

Living Standards—Planned Work

In exploring the role of jobs in livelihoods, the Report will draw on a wide range of literature and expand on available data to explore a broad set of employment measures. Despite the availability of labor statistics globally, characterizing jobs in low-income settings is complex. International approaches to defining labor market indicators are often not relevant in developing country contexts (Sen (1975), Lugo (2007)). The strong focus on unemployment and wage employment can overshadow other traits that may be more relevant, including multiple jobs, seasonality and underemployment. Measuring earnings in farming, household enterprises and informal employment is particularly challenging.

The Report will rely on standardized data from the International Income Distribution Database (I2D2), which is being expanded as part of the WDR effort to include comparable employment indicators. Together with other data sources, these indicators will document trends and patterns in job characteristics, earnings, and monetary and non-monetary measures of living standards, from a long-term perspective. The focus will be on variables more relevant in developing countries, exploring ones more closely associated with transitions out of poverty and with job satisfaction. The Report will also focus on the link between jobs and changing social structures, including the feminization of the labor force and the growth (or stagnation) of the middle class for countries at different incomes. The analyses will draw on panel data where possible to assess labor market transitions (between jobs and sectors, and between inactivity and participation).

Jobs and productivity

While relying on innovation and technological improvements as the main engines for productivity growth, low and middle income countries can also achieve aggregate productivity gains through other pathways: by narrowing pervasive productivity gaps and fostering productive externalities. Both are inherently related to job reallocations.

Conventional wisdom predicts that the forces of supply and demand will equalize wages for individuals with the same characteristics and thus the marginal productivity of labor across firms. But substantial gaps seem to persist across jobs and recent evidence suggests they are wider in developing countries. There is also evidence that some jobs have productive externalities, such as those associated with knowledge spillovers. Those gaps and externalities can change how we think about jobs and productivity.

The idea that productivity gaps are wider in developing countries can be traced back to dual-economy theories emphasizing the difference between the traditional and modern sectors, or between the rural and urban sectors (Lewis (1954)). Data on average labor productivity across sectors shows a larger dispersion in low-income countries (figure 9). These data are only suggestive, however, since the dispersion in average productivity could reflect differences in capital intensity, and marginal labor productivities may still be equal across sectors.

Figure 9 Productivity dispersion across sectors is greater in developing countries

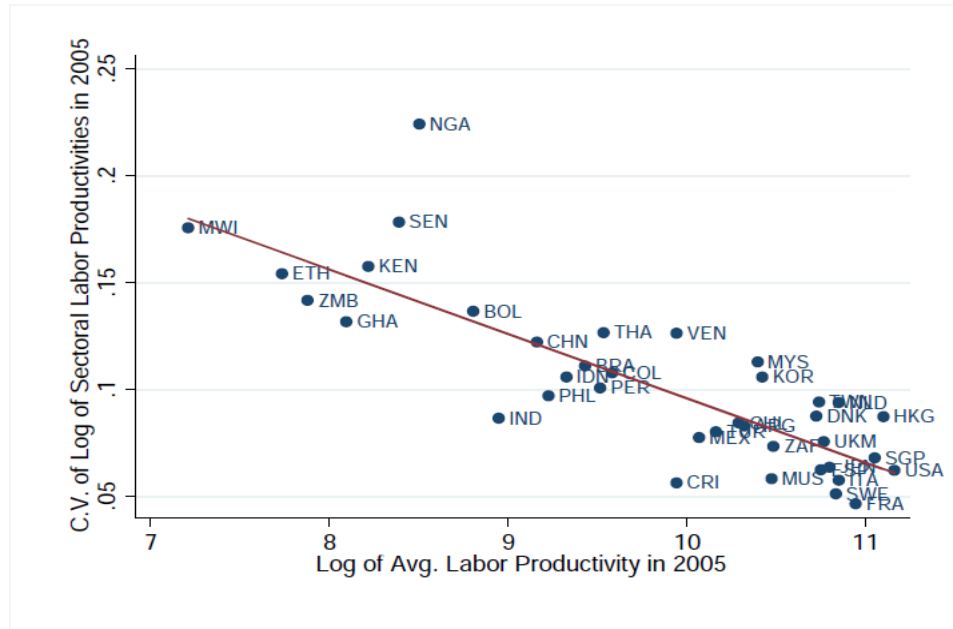
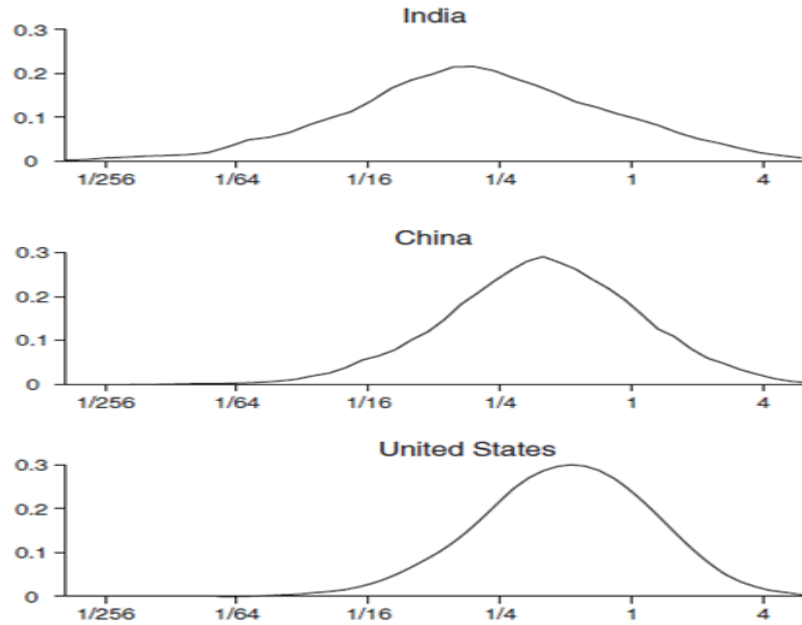


Figure 10 Productivity dispersions within the same sector are wider in developing economies



Source: Hsieh and Klenow (2009). Figures refer to physical total factor productivity among firms within the same sector. The vertical axis measures density and the horizontal axis the logarithm of physical total factor productivity.

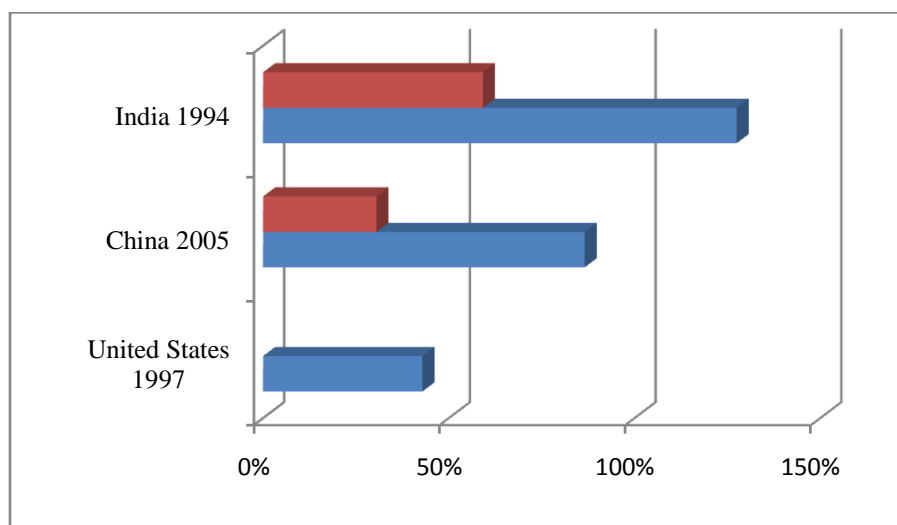
Building on productivity gaps, theories of creative destruction have stressed the inherent importance of reallocation across individual production units for growth. Studies using establishment- and firm-level data from developed countries support their predictions in both manufacturing and non-manufacturing sectors in developed countries (Caves (1998), Bartelsman and Doms (2000), Foster, Haltiwanger, and Krizan (2006) and Foster, Haltiwanger, and Krizan (2001), for surveys). Recent trade literature also assumes firm heterogeneity and predicts that opening domestic markets will sort firms according to their productivity, with the least productive ones exiting and the most productive ones entering export markets and reaping the benefits of scale economies (Melitz (2003), Bernard, Redding, and Schott (2007)).

A wider dispersion in productivity than in industrial countries implies that job reallocations can contribute more to the growth of aggregate productivity in developing countries. If labor, together with other resources, were reallocated to equalize marginal products across plants within each manufacturing sector to the extent observed in the United States, aggregate total factor productivity could increase by 30 to 50 percent in China and by 40 to 60 percent in India (figure 11).

The dynamics of labor reallocation and productivity also suggest that increasing productivity does not have to come at the expense of employment. Productivity growth in the United States during the 1980s was accompanied by increases in employment in many manufacturing plants (Baily, Bartelsman, and Haltiwanger (1996)). Plants that increased both

employment and productivity contributed almost as much to overall productivity growth as those that downsized.

Figure 11 Potential productivity gains from job reallocation are high in India and China



Source: Hsieh and Klenow (2009). The red bars indicate the gains from shifting to the distribution of total factor productivity observed in the United States, in percent of the initial total factor productivity. The blue bars indicate the gains from equalizing total factor productivity within each sector.

The critical question for successful job reallocation is identifying who is creating more productive jobs and why. For any given time span, not all sectors expand employment at the same rate. Nor do they all gain efficiency evenly. Within a sector, it is often taken for granted that small and medium-sized enterprises contribute the most to jobs and efficiency gains, whether through new entry, or through additional hiring in existing enterprises. Empirical evidence on this is inconclusive at best (Ayyagari, Demircuc-Kunt, and Maksimovic (2011), Haltinwanger, Jarmin, and Miranda (2010)). Other factors, such as firm age and geographic location, are likely to be important.

Turning to externalities, aggregate productivity gains can come from fostering productive externalities associated with clusters, agglomeration, and foreign direct investment (FDI), among others. In *clusters*, firms benefit from the proximity of other firms in the same line of business, reducing transaction costs and facilitating information spillovers (Marshall (1920), Otsuka and Sonobe (2011)). *Agglomeration*, which increases both density and diversity, increases productivity by providing a variety of services, components, and skills (Jacobs (1969), World Bank (2009)). Knowledge spillovers can make local firms operating in the vicinity of *FDI companies* more productive, perhaps related to imitation, skill acquisition, competition, and linkages (Görg and Greenaway (2004), Javorcik (2004), Blalock and Gertler (2005)). And

assessments of the productivity of so-called *green jobs* should consider their impact on climate change and the environment.

Productivity—Planned Work

The Report will explore which firms contribute most to employment growth when both job creation and job destruction are taken into account. It will also assess the dispersion of productivity across firms, and seek to identify correlates of high productivity. The aim is to go beyond the traditional focus on the formal manufacturing sector and look at economic units in agriculture and services, and among microenterprises whether formal or not. This will be accomplished through the analysis of national enterprise censuses, potentially tapping into a harmonized firm-level World Bank-OECD database for cross-country comparisons. In relation to rural non-farm activities and microenterprises, relevant surveys have been identified for Brazil, Ghana and Morocco. Indicators of productivity dispersion will be used to assess the potential gains of job reallocation.

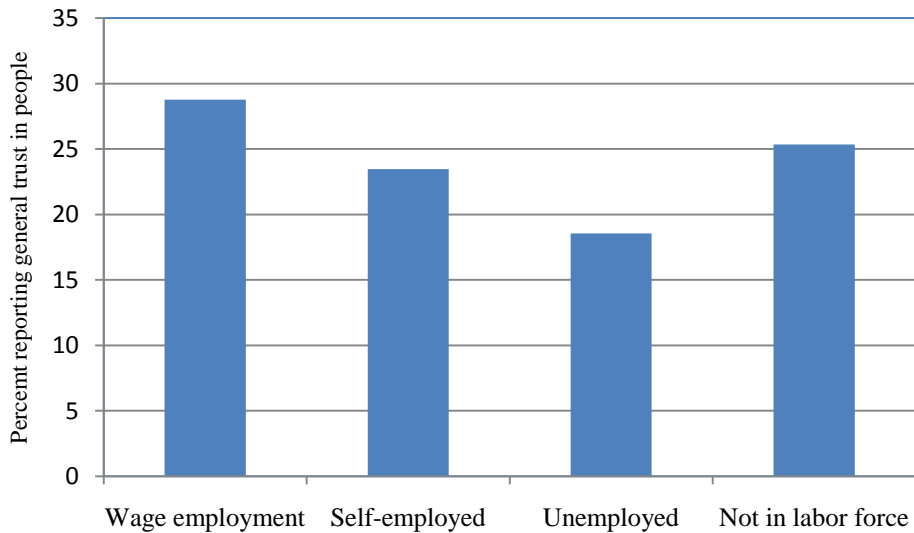
The Report will also review the evidence on productive externalities, considering the alternative channels through which they may operate. These range from FDI spillover effects for local enterprises, spillovers from clustering and agglomeration, and productive complementarities in the context of urbanization. The Report will pursue new empirical analysis for some of these externalities, combining detailed enterprise surveys with spatial data on production.

Jobs and social cohesion

Several dimensions of jobs might influence society dynamics, including levels of equity, shared values, and trust in people and institutions. There is no single definition of social cohesion or a consensus on how to measure it. Some definitions incorporate ideas of shared values, trust, community, and equity of access to opportunities within society (Council of Europe (2005), OECD (2011)). Easterly, Ritzen, and Woolcock (2006) define social cohesion as “the nature and extent of social and economic divisions within society” which offers a broad entry point for looking at a wide range of measures including inequality, trust and voice and participation in civil society. At an aggregate level, job characteristics are associated with two elements of social cohesion often used in the literature: trust and civic engagement (figures 12 and 13). There is also a suggestive correlation between a composite indicator of social cohesion and the share of adults engaged in wage employment, albeit statistically weak.

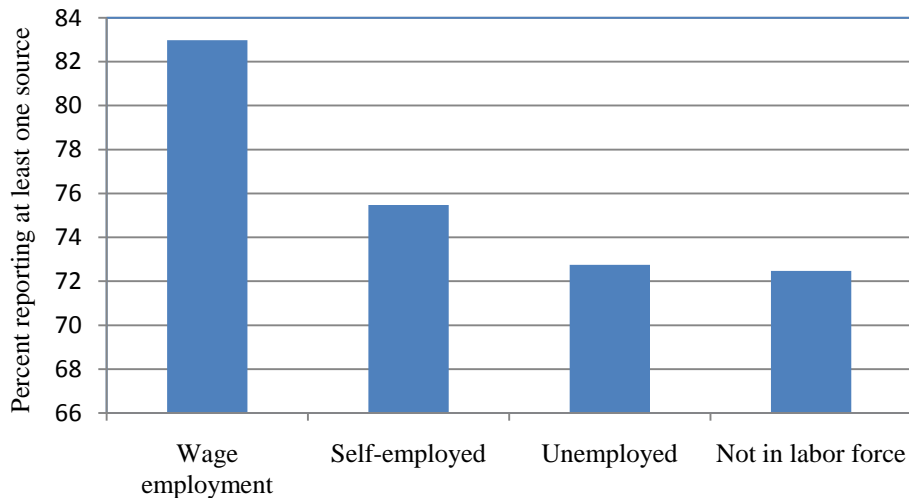
The relationship between social cohesion and jobs goes in both directions. Jobs can influence positively or negatively the behavior of those who hold them or seek them, by shaping their attitudes, trust in others and willingness to engage in dialogue or confrontation. There could be a direct pathway making employed people happier, all else equal, than the unemployed (Graham (2009), Layard (2005)). This in turn could affect social relations. Jobs may also influence social cohesion if they bring together men and women, people from diverse ethnic origins, and people from different socio-economic backgrounds.

Figure 12 Jobs are correlated with trust



Source: 2013 WDR team calculations using data from the World Values Survey 2005-07, based on data from 57 countries.

Figure 13 Jobs are correlated with civic engagement



Source: World Values Survey, 2005-07, based on data from 57 countries. Information sources about what is happening in their country and the world include newspapers, radio or TV, printed magazines, books, internet, email, talk with friends or colleagues.

Social cohesion, or the lack of it, can influence the characteristics of jobs through its impact on labor demand. On the positive side, social cohesion and trust can influence job creation and labor allocation by reducing the costs of regulation and contract enforcement and facilitating investment decisions of firms (World Bank (2004)). By contrast, mistrust, inequality, discrimination, or fragmentation along ethnic lines can make labor markets less efficient.

Whether the Report will be able to establish pathways between jobs and social cohesion and disentangle the two-way relationship is not clear. Measurement issues are significant, and causality would seem hard to establish. The planned analytical work will investigate the relationships between jobs and a number of behaviors and attitudes, however, as the Arab Spring has put the issue on the table and a WDR on *Jobs* cannot ignore it.

Further complicating the identification of a relationship between jobs and social cohesion is that it may differ with the nature of the jobs people hold. From an *identity* perspective, jobs are part of who we are and may convey a sense of belonging in society (Akerlof and Kranton (2010)). Not having a job, or deriving earnings from social assistance rather than work, might undermine dignity and self-esteem. Similarly, from a *rights* perspective, some jobs might be considered unacceptable so that their mere existence could undermine trust in institutions. Exploitative child labor or human trafficking harm more than those directly affected. In addition, jobs differ not only in their earnings and benefits but also in their access to *voice*. Adherence to common values could be higher when effective voice mechanisms exist. Social *mobility* may matter as well. It has been argued that a growing middle class, associated with the expansion of wage employment, increases demands for transparency and accountability.

Social Cohesion—Planned Work

The Report will attempt to explore the link between jobs and social cohesion through a range of approaches. Data sets including World Values Surveys, Barometer Surveys, the Life in Transition Surveys as well as the Social Development Indicator database of the Institute of Social Studies will be used to explore the interaction between job characteristics and various social cohesion indicators. Planned work includes micro-econometric analysis following strands from the happiness literature (Blanchflower and Oswald (2011)). The objective is to assess to what degree job characteristics are correlated with trust and civic participation, controlling for other personal characteristics. In the process, typologies of such correlates may be developed across country groupings.

This set of quantitative analyses will recognize the challenge of subjective measures of cohesion (e.g., trust) with regards to cross-country comparability over time. Alternative measures including civic participation and engagement may avoid this problem. Arguably the greater challenge is establishing causality in any observed link. Regarding how jobs impact attitudes and behaviors, attempts to address causality will be made using a number of available panel surveys and identification of exogenous changes in labor markets (e.g. local level economic activity) that may affect jobs directly but not social attitudes and behaviors. Planned new surveys undertaken in collaboration with the research institute FAFO in Norway will specifically try to elicit appropriate data to measure casual relationships.

The Report may also estimate a “fairness” indicator for jobs that would draw on the equality of opportunity methodology developed for the WDR on *Equity* (World Bank (2005)). Due to the complex nature of social cohesion, however, the analysis will not be limited to micro-data. In-depth reviews will be conducted for cases in which a compelling narrative exists linking jobs, or the lack thereof, to social movements. The report will also review ethnographic case studies (Moser (2009)) as well as a management literature looking at whether and how business relations create trust and shared values (de Mel, McKenzie, and Woodruff (2009), Kilroy (2011)).

Thinking about jobs from the point of view of the three transformations may help advance our understanding of the relationship between jobs on the one hand and economic and social and economic development on the other hand. Rather than claiming that “any job is a good job” or starting from the aspirational metric implied by formal wage employment, this approach aims to identify which jobs and job transitions have greater development payoffs. From this perspective, good jobs are not those matching a series of ideal criteria, but rather those which can support increases in household expenditures over time, contribute to faster productivity growth at the aggregate level, or do more to foster social cohesion, in a particular country at a specific stage in its development process. Not all jobs are alike in this respect; some are better or worse than others depending on the objective.

Summary of Part I

Living standards. Growth in labor earnings leads to improvements in households’ material and subjective well-being. But growth in earnings cannot be taken for granted and who gets those earnings matters.

Productivity. Job creation, destruction and reallocation may matter more in developing countries, where the dispersion of labor productivity is wide. Some jobs lead to sizeable productive externalities.

Social cohesion. Employment status is correlated with trust and with civic engagement, which suggests a possible impact of jobs on social cohesion. But some jobs may have a greater impact on cohesion than others.

Part II: What Is a “Good Job”?

A conceptual framework

Seeing jobs as the hinge of three transformations discussed above entails establishing a connection between broad development outcomes and the set of jobs in a particular society. Jobs are individual, and their associated earnings, benefits (if any) and overall job satisfaction are determined through the short term operation of the labor market. Development outcomes, by contrast, relate to poverty reduction, economic growth or the containment of social conflict, depending on the transformation considered. But these transformations concern society as a whole and often entail longer time periods.

In many cases, the individual and development perspectives on good jobs overlap. A high-paying job in the information technology sector of Bangalore is probably good for the person who holds it—but it is also good for India, because it contributes to its long-term growth. Conversely, the prostitution of a child is bad from any angle. But the two perspectives may conflict. Vietnam’s poverty rate declined with unprecedented speed in the 1990s, when land was redistributed to farmers and agricultural commercialization was liberalized. Farming jobs in

developing countries often involve hard work conditions, substantial variability in earnings, and no formal social protection. And yet, farming jobs were good from a development perspective, because they were the country’s ticket out of poverty. Conversely, developing countries’ public utilities often offer a range of privileges to their employees, even when limited coverage and unreliable service are obstacles to economic growth and poverty reduction. Those jobs may look good from an individual perspective, but the lack of a competitive framework and other regulations them inefficient.

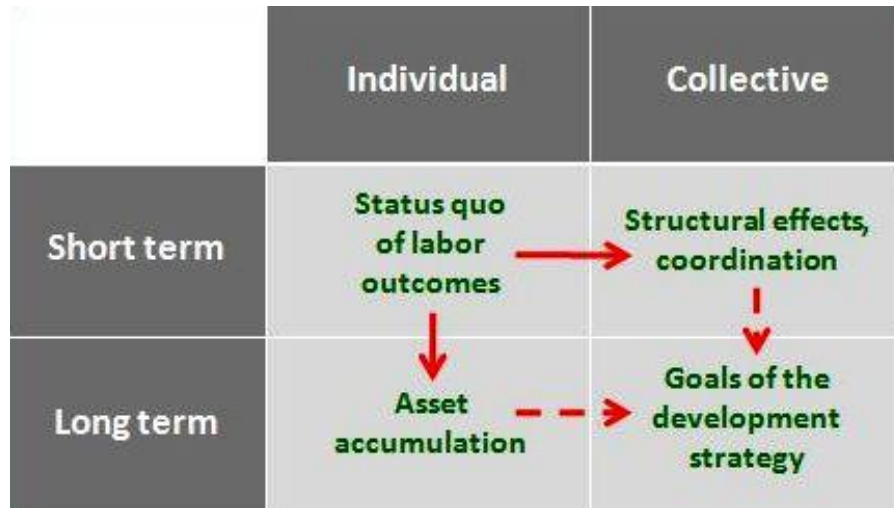
Connections between the individual and collective, and between the short and long term, can be summarized in a two-by-two matrix (figure 14). The conceptualization of good jobs often focuses on the upper left corner of the table, which can be interpreted as the status quo. From this perspective, good jobs provide individual workers with enough earnings to prevent material deprivation, with satisfaction in using individual capabilities, and with a feeling of self-esteem or recognition by others. But in that status quo those good jobs could also come at the expense of others in society. That is why from a development perspective, good jobs are those making the greatest contribution, at an aggregate level, to living standards, productivity, and social cohesion.

Figure 14 Good jobs from individual and development perspectives

	Individual	Collective
Short term	Individual metrics of good jobs	
Long term		Living standards Productivity Social Cohesion

More generally, the status quo does not capture potential improvements in outcomes if the collective were taken into account. In the short term, better coordination and the removal of structural obstacles could lead to a collective outcome better than the status quo. In the long term, the accumulation of human, physical and social capital should also influence the availability and distribution of jobs. In economic terms, this two-by-two matrix can thus be interpreted as the simplified version of a general equilibrium model, involving various markets and decision-making mechanisms at the household level and in society (figure 15). The horizontal arrow captures the outcome from the improved operation of market and non-market resource allocation mechanisms for a given level of assets. The vertical arrows refer to the consequences of those resource allocation mechanisms for the accumulation of assets.

Figure 15 From status quo to development outcomes



When discussing jobs, an even more simplified version of this general equilibrium model is usually considered. It focuses on the labor market only, with the operation of other markets and resource allocation mechanisms subsumed under labor supply and labor demand functions. This supply-and-demand version is analytically powerful, but it can overstate the role of the labor market by leaving other resource allocation mechanisms out of the picture. Going even farther, the operation of all resource allocations mechanisms is at times condensed in a single number: the elasticity of aggregate employment to aggregate output. This is an appealing shortcut, but it makes it difficult to “unpack” the forces underlying that number. The general equilibrium approach may look more complex, but it can shed more light on where the obstacles lie to creating good jobs.

The focus on the lower right corner of this matrix implicitly leads to a shadow price approach. A shadow price is the change in the objective value of the solution of an optimization problem obtained by relaxing a binding constraint by one unit or, in this case, by adding one job. While improving individual welfare remains the overarching goal of development, a good job can be conceptualized as one contributing to the maximization of a social welfare function, taking into account coordination failures, structural effects, and asset accumulation. The objectives of the social welfare function depend on the weights attached to each of the three transformations. If the focus were exclusively on living standards, the social welfare function could relate to the reduction of poverty or inequality. If it were exclusively on productivity, the objective would presumably be the maximization of the total output of the economy, perhaps computed in “green” terms (i.e. net of environmental damage). And if social cohesion were the only goal, the objective could be maximizing non-confrontational civic engagement. In reality all three transformations matter, and goals involve some combination of all those objectives.

The shadow price of a job may be difficult to measure, but its contribution to economic and social development is easier to grasp in practice. From the point of view of *living standards*, good jobs are those that make a greater contribution more to poverty reduction, enhance equality

of opportunity, reduce risk and have a greater potential for growth in earnings and satisfaction. From the *productivity* point of view, good jobs have above-average productivity, greater positive externalities, and the potential for productivity growth. Finally, from a *social cohesion* point of view, good jobs convey a greater sense of trust and belonging in society, do not conflict with human rights, offer voice and encourage participation.

Diverse jobs agendas

Because society's objectives vary from country to country, and the set of possible jobs is not the same at all stages of development, the notion of good jobs varies depending on the context. In poor agrarian economies, making farming jobs more productive and creating off-farm employment for those in rural areas may be the most conducive ways to improve living standards. At a higher level of development, the biggest gains may come from increasing wage employment, especially as the agglomeration effects from industrial clusters and urbanization and the productive links from integrated value chains kick in. In all cases, one of the most important advances would be to reduce the variability of earnings associated with both formal and informal activities in ways that do not create incentives against working, saving, or investing. Jobs attributes also include non-pecuniary dimensions, and some jobs may be better than others at providing a sense of dignity, empowering women and other groups, or fostering social cohesion. But which jobs these are may also vary from country to country and within countries over time.

Two jobs may look alike in the current earnings associated with them, but may differ along other dimensions. Some may lead to higher living standards over time, through a faster accumulation of skills while working. Some may empower women and improve resource allocations within households. Some may be associated with a higher productivity of labor than others, depending on how they are connected to other economic activities, through vertical integration, industrial clusters, or links with world markets. Or they may lead to faster growth of labor productivity. And some may be more conducive to social cohesion, by reducing the appeal of criminal activity and violent behavior, or stimulating participation in collective decision-making.

Thinking about good jobs in relation to the three transformations is thus useful to highlight linkages and tradeoffs. There will be circumstances where the jobs making the greatest contribution to living standards, or to social cohesion, may not be the most conducive to productivity gains. Put differently, there may not be a perfect overlap between development strategies focused on poverty reduction, rapid growth, or social cohesion (the debate on how to make growth pro-poor can be interpreted through this lens). But there are also linkages between jobs that are good from different perspectives. A youth bulge can be transformed into a demographic dividend—or become a social, political, and economic challenge. Conversely, without growth the many proposals for job creation may not be sustainable. There is a societal choice in deciding which jobs should be the focus of economic policy, and clearly identifying tradeoffs and complementarities would contribute much to an informed choice.

One way to illustrate the diversity of policy challenges in relation to jobs is to consider a range of labor market situations. A cursory review of World Bank studies and policy documents on jobs-related issues suggests that our proposed conceptualization of good jobs would lead to different jobs agendas in different places. Those agendas are clearly country-specific, because both the set of possibilities and the societal priorities in relation to jobs vary. But at the risk of caricaturing, they can be regrouped by regions:

- In *Sub-Saharan Africa*, the immediate challenge is to increase earnings from farming and create enough off-farm jobs (World Bank (2011a), Fox and Sekkel Gaal (2008)).
- *South Asia* has to create enough productive jobs to absorb one million new entrants to the labor market every month for several decades (World Bank (2011b)).
- *East Asia* faces almost the opposite challenge, as rapid wage increases will lead to a massive destruction of jobs in low-end manufacturing, a much bigger restructuring than that of the state sector two decades ago (Lin (2011b)).
- *The Middle East* struggles to find alternatives for educated (though not necessarily skilled) youth who aspire to civil servant jobs (World Bank (2011c), Gatti and others (2011)).
- In *Latin America*, the debate is about rebuilding the social compact around jobs, encouraging formalization without undermining efficiency (Ribe, Robalino, and Walker (2011), Perry and others (2007)).
- *Eastern Europe*, like many industrial countries, confronts a jobless recovery (at least in relation to wage employment) with an ageing labor force (World Bank (2011d)).

Interconnected jobs agendas

While jobs agendas differ across countries, in today's integrated world they are also connected with each other, through several channels. The global perspective makes it clear that the notion of good jobs is relative. For example, employment in a call center may be a good job in India, as a stepping stone toward stable wage work, but not in the United States. Still, the question is whether absolute standards apply, and what relationships exist between good jobs in different countries.

The global rights agenda and international coordination mechanisms lead to *global spillovers*, establishing common floors and goals on what good jobs are. The United Nations' Universal Declaration of Human Rights (1948) establishes that "Everyone has the right to work, to free choice of employment, to just and favorable conditions of work and to protection against unemployment." ILO conventions aim to protect people from unacceptable forms of work, including exploitative child labor, trafficking, forced and compulsory labor, and labor market discrimination

Complementing these legal frameworks, the ILO's Decent Work Agenda and the United Nations' recent Social Protection Floor initiative set common goals for jobs including specific

rights (to association and collective bargaining) and benefits (such as health care, a minimum income, and elderly support). Attempts to enforce global standards happen at multiple levels. In addition to the international organizations and governments, civil society organizations and the private sector may also work together to hold governments and firms accountable for adherence to standards.

Good Jobs in Practice—Planned Work

The Report will aim not to determine what good jobs are in a particular country context but rather to provide analytical tools and compelling examples on how to identify them using the available data and economic work. The examples will highlight the critical importance of a country's situation and will also give attention to the temporal dimension.

The contextual dimension of the notion of good jobs will be explored through half a dozen case studies, each dealing with a country facing a different jobs challenge. These studies will be conducted by well-respected research teams from policy-oriented research institutes and think tanks in the countries, with technical and logistical support from academic teams from industrial countries. The spectrum will most likely include a conflict-affected country, a country where off-farm employment needs to develop to cope with rapid growth of the labor force (both in Sub-Saharan Africa, with possible support from the United Kingdom), a country in the initial stages of industrialization (in South Asia, with support from Japan), an island nation (in the Pacific; conversations are under way with Australia), a country with high unemployment among educated youth (in the Arab world; with possible support from France), and a country trying to extend formalization in affordable ways (in Latin America, with support from Canada). Ideally, we would also include a country having gone through massive structural transformation in the recent past (in Europe, either Turkey or Poland, with the financing source yet to be identified).

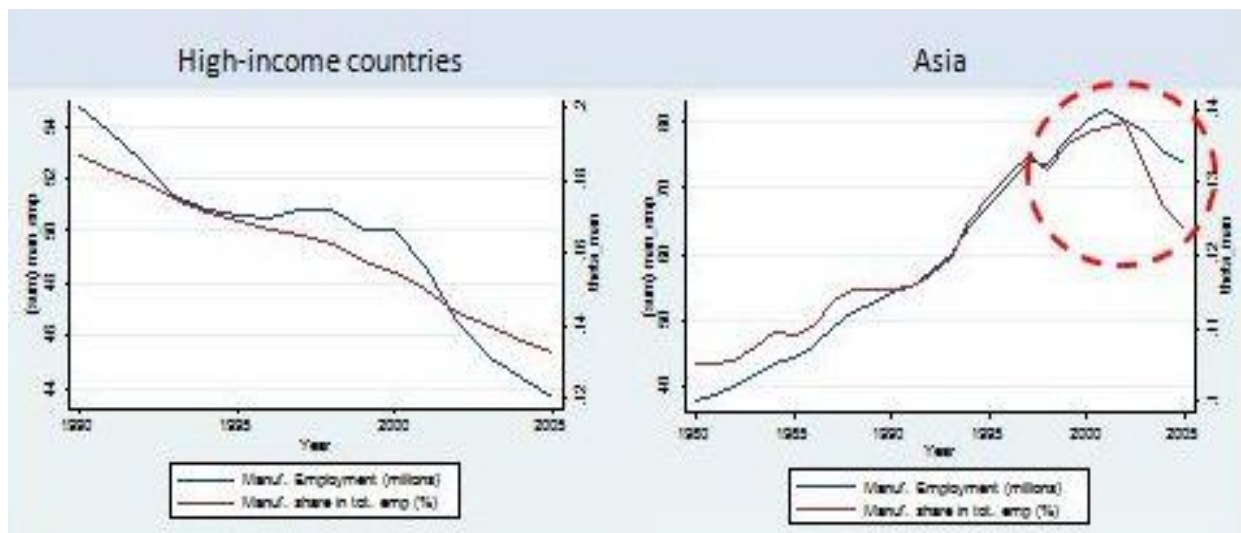
In parallel, detailed data work will be used to illustrate the changing nature of good jobs in a country going through a period of rapid growth. The focus will be on Vietnam, due to its unmatched pace of poverty reduction over the last two decades and to the availability of high-quality household expenditure surveys with a panel dimension over most of that period. The analysis will illustrate how increases in household expenditures per capita were associated with changes in the structure of employment over time. An improved business environment for farming was the main driver of poverty reduction in the 1990s. Further progress in living standards came from the expansion of household businesses and wage employment in construction and light manufacturing. And more recently dynamism was associated with urban jobs in the modern services sector.

These global agendas can also be interpreted from a good jobs perspective. Some societies may consider that for reasons related to living standards, local culture, or social cohesion, abusive forms of work can be tolerated. But that has a cost for global welfare, making a worse place of the world we live in. Human rights are thus global goods, and their treatment requires changing the narrower short-term political calculus of societies. Global agendas set goals but they also require country-specific roll-out strategies.

The international *migration of workers* also connects national jobs agendas. Even if development strategies were successful at addressing jobs challenges at the country level, mismatches between labor supply and labor demand are bound to occur, and employment

opportunities may need to be found abroad. Some of those mismatches are massive (International Organization for Migration (2010), Lucas (2005)). Almost inevitably, international migration will be one of the policy levers to consider in South Asia and in Sub-Saharan Africa, given the very rapid growth of their labor forces over the coming decades. Other mismatches are more specific. For instance, new economic zones in Jordan attract Bangladeshi workers, more than Jordanians. The reverse, though, always holds as the trade effects of national or international economic crises get amplified through a drying up of remittances or reverse migration flows.

Figure 16 Competing for good jobs?



Source: Based on data kindly provided by Margaret McMillan

Last, jobs agendas are connected through the international *migration of jobs*. One of the most important consequences of globalization, this migration is shaped by the move to higher value-added activities in East Asia, where manufacturing jobs are already on a decline (figure 16), and the higher prices for natural resources around the world. Both developments open strategic opportunities (from manufacturing in India to smallholder agriculture in Africa), but they also raise challenges (from enclave employment in resource-rich countries to Chinese competition in Mexico). While trade in goods has mainly affected blue-collar workers, a rapidly growing trade in services could also impel a massive international migration of white-collar jobs. All this should produce greater economic efficiency, but it also increases the risk of global competition for jobs, especially for good jobs.

The migration of jobs provides a forward-looking context to identify where good jobs may come from in a particular country, and which policy actions could do the most to support the creation of those jobs. As for the migration of workers, it should also be seen through the lens of the three transformations. Migration may be a positive force for improving living standards in sending countries and increasing economic dynamism in receiving countries. But

there will also be circumstances when social cohesion could be affected (especially when recipient countries are very homogeneous).

Summary of Part II

Good jobs. They are usually seen from an individual angle (earnings and benefits), often from an aspirational point of view. But from a development perspective they are those contributing the most to long-term societal goals.

Diverse jobs agendas. Countries differ in the set of job-creation possibilities realistically available to them at a particular point in time; they often differ in their societal goals too. Jobs agendas are thus country- and context-specific.

Interconnected jobs agendas. Global jobs agendas address global welfare goals, but their roll-out can only be country-specific. The global migration of jobs and workers creates opportunities to improve well-being on a global scale, but it also raises the specter of a global fight for jobs.

Part III: Policies through the Jobs Lens

Quantifying the contribution of specific jobs to societal goals may be difficult, but identifying which ones have a greater potential to raise living standards, increase aggregate productivity, or foster social cohesion should be feasible. Policy analysis, in turn, can focus on the removal of obstacles to good jobs. Those obstacles take the form of market or government failures that cause people to work in jobs that are suboptimal from a social point of view, or lead firms to create jobs that are not as good as they should be, or connect people less through jobs than would be socially desirable.

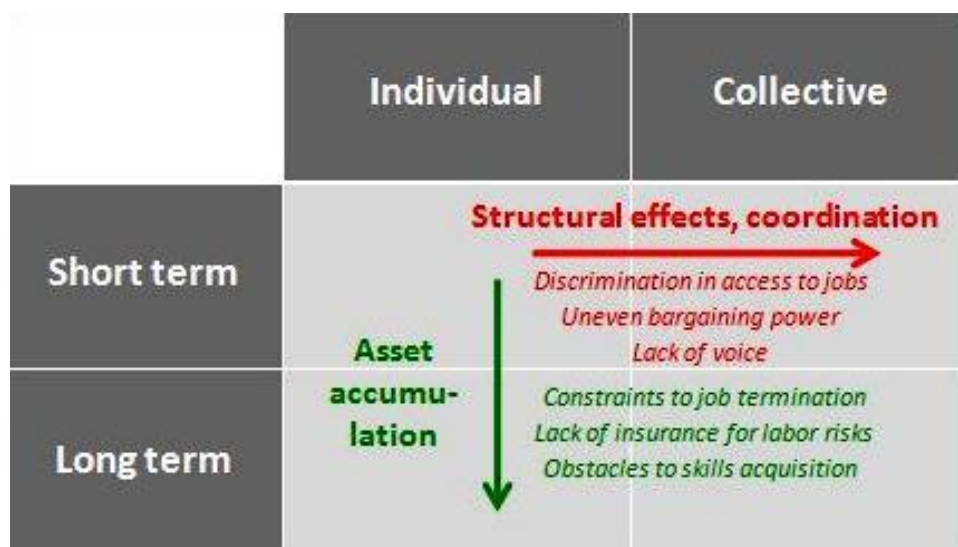
The jobs lens

Structural effects and coordination failures could prevent the attainment of better collective outcomes even in the short term. And obstacles to the accumulation of key assets could get in the way of individual jobs becoming better in the long term. In an ideal economy, these obstacles are removed by efficient markets. In reality, market imperfections and (equally important) government failures may result in a status quo that is suboptimal from a social point of view. These can include uneven market power, missing markets, externalities, weak institutions, corruption, and rent-seeking.

Adopting a jobs lens means focusing on interventions with the greatest potential to remove the market and government imperfections that get on the way of good jobs, defined from a development (not individual) point of view. Those interventions often entail economic reforms, but government is not necessarily the only agent with a role. Private sector initiative and civil society mobilization can also be effective at removing obstacles to good jobs.

This approach can be illustrated by considering the list of obstacles to the creation of good jobs most extensively discussed in labor economics. The list typically includes discrimination in the access to employment for people from lower castes or specific ethnic groups; wages above or below the labor market clearing level due to uneven bargaining power between employers and employees; lack of voice in connection to work; excessively rigid job security regulations; constraints to the acquisition of skills; and the unavailability of insurance mechanisms to cope with labor-related risks (figure 17). Some of those obstacles result in a suboptimal allocation of resources for a given level of endowments; they are captured by the horizontal arrow in the matrix. Others, represented by the vertical arrow, undermine the accumulation of physical, human, and social capital over time.

Figure 17 Some examples of obstacles to good jobs



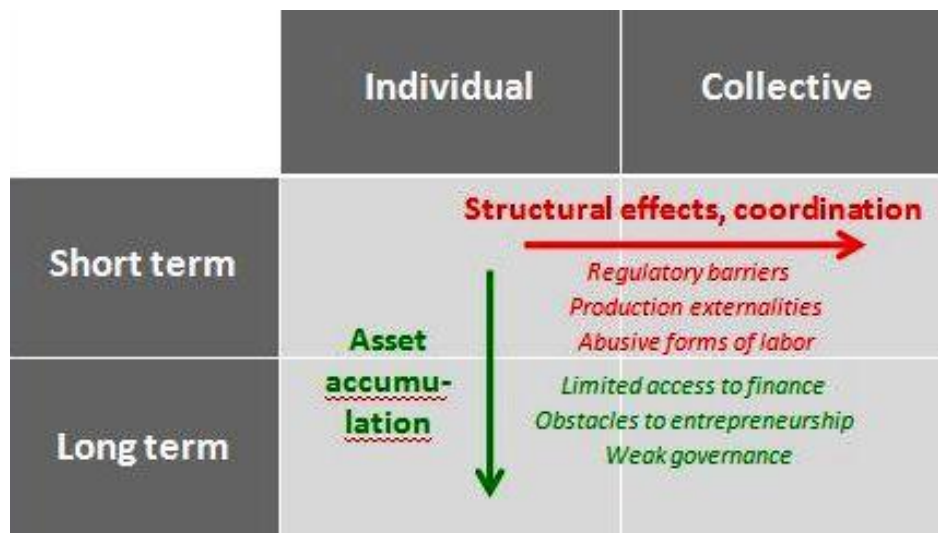
Structural effects, coordination, and asset accumulation can cut across the three transformations. For example, gaining voice could improve the well-being of many workers and their households, while at the same time influencing social decision-making processes through greater political participation. Similarly, obstacles to acquiring skills would limit the growth of living standards for workers, but also hold back productivity.

Adopting the jobs lens has potentially important policy implications. First, the notion of good jobs calls for a *strategic view* in dealing with the jobs challenge. Because of the potential tradeoffs between good jobs from the perspectives of living standards, productivity, and social cohesion, the policy focus needs to be informed by societal choices. Take discrimination in access to jobs. A possible way to deal with this obstacle is through affirmative action policies. As with any intervention, such policies may result in tradeoffs. Previously left-out members of society may get a chance to participate, but more skilled or experienced members may miss out. A government focusing on inclusion may value this outcome while a government focusing on growth could consider the cost too high. This example also suggests that indices of labor market

“flexibility” may not provide a sufficient guide for policy reform, because the optimal degree of flexibility is not independent from development goals, which vary from country to country.

Second, identifying the obstacles to creating more good jobs should help in setting *policy priorities*. The obstacles to good jobs can be interpreted in terms of labor demand and supply, either depressing one of them (the vertical arrow) or preventing their matching (the horizontal arrow). But, the government and market failures underlying these obstacles are not necessarily in the labor market. This is so even for the obstacles most widely studied in labor economics: entrenched segregation, conflictive social relations, lack of space for civil society organizations, a weak judicial system, insufficient administrative capacity, or poor incentives for teachers and trainers. And it is straightforward to think about possible obstacles to good jobs that lie outside of the labor market such as access to finance, access to infrastructure, property rights, governance, tax policies, and government support to the private sector (figure 18).

Figure 18 Obstacles to good jobs may be outside of the labor market



Last, the jobs lens has implications for program appraisal that are consistent with the reinvigoration of *cost-benefit analysis* in economic development. If some jobs are better than others, even after controlling for the earnings and benefits associated with them, their value to society as a whole is higher. This is because of the externalities these jobs have for the rest of the economy—by improving resource allocation within households, or by increasing the productivity of other sectors through cluster and agglomeration effects, or by dissuading violence and disengagement from society. The shadow price of jobs may differ from the earnings and benefits associated with them. And that shadow price depends on each society’s choices of objectives such as poverty reduction, economic growth, or social cohesion. This logic is generally accepted in extreme situations—as with recognizing that programs to keep young men work in conflict states are worth their cost because the alternative is to having them join militias or gangs. But it also applies in less extreme circumstances.

Identifying obstacles to good jobs

Because the list of potential obstacles to good jobs is long, it is important to develop tools to identify which obstacles are more relevant in a particular country. At a conceptual level, the ideal would be to have estimates of the wedges between the shadow value of a job and the labor earnings (and benefits) associated with it. A substantial wedge would indicate that a constraint is preventing the creation of more of those particular jobs, and shed light on what that constraint might be. At a practical level, estimating wedges of this sort may seem out of reach, but in reality a direct measure may be obtained in several cases.

Labor economics, one of the most rigorous empirical areas in the profession, is to a large extent focused on the estimation of those wedges. With appropriate controls, earnings gaps between ethnic groups, or between men and women, can reveal the extent of labor market discrimination. Union wage premia indicate how much collective bargaining increases earnings and benefits, compared with the alternatives. Interindustry wage differentials suggest rent-sharing in activities such as banking and finance. Studies on the impact of minimum wages reveal that in some cases employers behave as monopsonists and set labor earnings below their market clearing level. Occupational and spatial wage premia help assess the impact of barriers to entry and obstacles to labor mobility.

Public finance deals with the wedges created by taxation and how they affect resource allocation. Government revenue is raised on earnings from both labor and capital, but marginal tax rates are rarely the same in both cases. Social security programs can also amount to an implicit taxation of employment, if the expected value of benefits falls short of employers' and employees' contributions.

Studies on productivity are another source of information on the wedges between the shadow value of jobs and the earnings associated with them. Assessments of the effects of FDI companies on the performance of local firms in their vicinity allow quantifying spatial externalities, including spillovers through linkages and production chains. Analysis of productivity in industrial clusters can yield insights within a particular line of business. The same is true of studies quantifying agglomeration effects on aggregate output, except that the externalities operate beyond the boundaries of specific production sectors. And ongoing efforts to generate "green" national accounts can identify productive externalities in relation to the environment. Quantifying all those productive externalities is a first step toward adjusting incentives in a way that investors can internalize.

But, it is also clear that some of the wedges between the shadow value of jobs and the earnings associated with them may simply be impossible to estimate. And in any event, simpler techniques need to be made available for policy makers keen to adopt the jobs lens. It would be unrealistic to expect any government to undertake a full estimation of wedges before making any policy decision. This is why the Report will also offer more practical approaches to identifying the potential obstacles to good jobs.

While the focus of the Report is on long-run development process, the obstacles that hinder good jobs may change with macroeconomic cycles. Policies for jobs deemed appropriate during economic downturns may look quite different from policies appropriate for periods of moderate or sustained growth, or large economic upswings. The discussion of obstacles and policies for good jobs will distinguish between short-run crisis responses and other, more long-run efforts to remove obstacles. Examples include the massive public works program introduced in Argentina as a response to macroeconomic crisis (discussed in the next section) or the role of temporarily extending the duration of unemployment benefits during economic downturns.

First is a checklist of potential constraints to consider. The annex table includes the obstacles to good jobs identified in the two-by-two matrices above—such as discrimination in access to jobs, limited access to finance, and obstacles to entrepreneurship—and reports some of the more familiar policies and programs to address them. Depending on the extent of market and government imperfections, some categories of obstacles will be more relevant than others. Removing a specific obstacle may move a society toward better collective outcomes in the long run across all transformations, or it may lead to tradeoffs between transformations. And the range of potential policy responses (if any) may depend on the country's institutional arrangements, capacity, and initial conditions.

Second, our in-depth country case studies, conducted in parallel with the preparation of the Report, may help identify which obstacles to good jobs may matter more in different country circumstances. By covering a wide spectrum of labor market situations from conflict-affected countries to countries trying to boost formalization—the country studies may show how binding constraints vary depending on the level of economic and institutional development.

Policy Review—Planned Work

For some specific obstacles to the creation of good jobs, a body of rigorous knowledge already exists. For instance, a substantial number of studies deal with the consequences of using minimum wages to address uneven bargaining power in places like Costa Rica and Indonesia. There is also a rich experience in ways to provide voice to disadvantaged workers, from self-employed women's associations in India to labor arbitration tribunals in Cambodia. The Report will canvass how, in many countries, private and civil society initiatives have sprung up to overcome imperfections in matching, or to encourage building skills on the job.

This systematic review of what works could shed new light on policy responses to some obstacles. Consider social protection programs that try to compensate for the absence of insurance markets to manage risks and deal with shocks, from crises to disabilities. When formal sector employment is a prerequisite for eligibility, many will still face a missing market. Lessons can be distilled from a range of alternative approaches that countries are trying around the world, including subsidized health insurance in Mexico, noncontributory old-age pensions in South Africa, the National Rural Employment Guarantee Act of India, and the Di Bao minimum income program of China. At the same time, attention should also be paid to the potential distortions that these programs may have on incentives to work, save, or formalize.

And third, analytical literature reviews and background papers will update the understanding of the existing evidence on those well-documented issues. In this respect, the Report should serve as a practical reference guide for policy makers on how effective various well-studied policies are in removing obstacles to good jobs.

The difficult questions

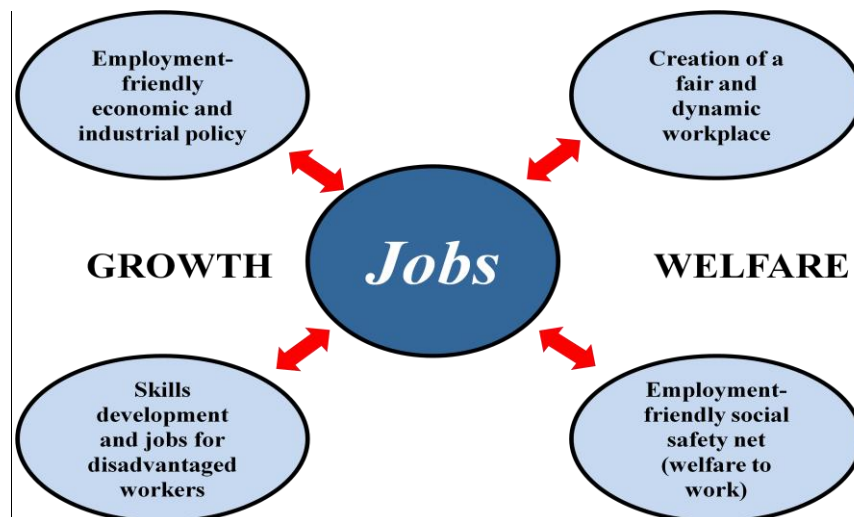
When policy makers state that jobs are the most important issue they face, they may have concerns that go beyond the fairly well-defined issues considered in labor economics. They may instead be referring to questions simultaneously involving various obstacles to good jobs, and possibly cutting across the three transformations—for which no straightforward answer exists. The eight difficult questions raised at the beginning of this note are examples of the issues in policy makers' minds. The Report will end by addressing those questions, using the jobs lens. Developing clear policy guidance might be difficult, but to be helpful to policy makers the Report should go as far as possible in the direction of providing answers.

1. Growth, poverty alleviation, or jobs strategy?

Confronted with a tense social situation in a multiethnic and multicultural country, Singapore's first development strategy focused on jobs, housing and the social dialogue. The next strategy, as unemployment subsided, was geared toward raising labor costs to encourage higher value added activities. But this cost drive resulted in a recession, and since then Singapore has focused on growth, rather than jobs. Conversely, the Republic of Korea

abandoned development planning in 1996, but in 2010 it adopted a jobs strategy for the next decade as its highest-level policy document (figure 19).

Figure 19 The architecture of Korea’s jobs strategy toward 2020



Under which circumstances is it useful to organize a high-level strategy around jobs and when is it better to focus on more standard development objectives just letting markets take care of labor allocation? Answering this first difficult question requires making societal goals explicit. A growth strategy implicitly assumes that the main objective is productivity growth, whereas a poverty reduction strategy focuses on living standards. By contrast, a jobs strategy recognizes the potential tradeoffs between the three transformations. However, this recognition only makes a difference when there are substantive wedges between the shadow value of jobs and the earnings associated with them. The answer thus depends on how important the distinction between good jobs and bad jobs is in a particular country context.

For instance, shortly after independence Singapore’s strategy was strongly focused on preserving social cohesion and jobs were seen as critical vehicle to this effect. This is in an understandable choice when facing a high unemployment rate and social strife. However, the strategy also focused on attracting multinational corporations, rather than building its own national champions, because the former were better able to transfer advanced technological and managerial knowledge. Korea’s current jobs strategy also attaches great importance to social cohesion, as it aims at narrowing the gap between regular employment on the one hand, and short-term and part-time employment on the other. The gap is not new, however, which suggests that a change in societal priorities has taken place in recent years.

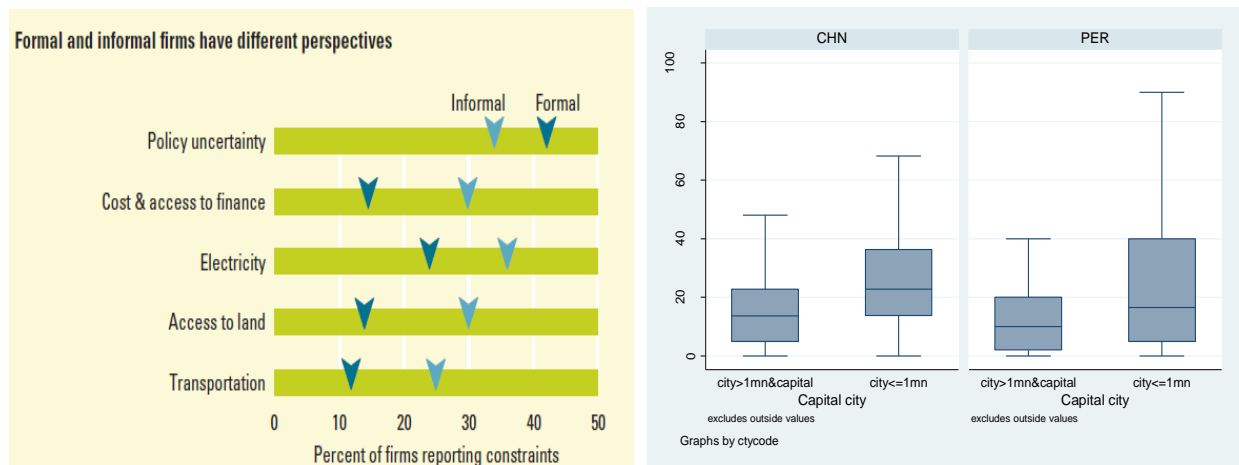
2. A targeted investment climate?

Brazil has a long list of microeconomic distortions accumulated over the years. Recent investment climate assessments point to many obstacles in the business environment. Yet, as

those microeconomic distortions were building up, the government supported the successful agribusiness sector through a research corporation (EMBRAPA) focused on technology generation and transfer. Since the productivity effects of agricultural technology are subject to climatic conditions, direct import of technology from abroad may not be appropriate, except for a few crops. Thus, the investment in adaptive agricultural research was seen by the Brazilian government as a prerequisite for success in agricultural development.

The traditional approach to job creation is to improve the investment climate across the board. Obstacles to business development are often identified based on quantitative and qualitative assessments of the constraints and costs facing enterprises, or on careful codifications of the regulatory environment. But there tends to be considerable diversity in the assessment of constraints, depending on the sector, size, location, and ownership structure of enterprises (figure 20). Moreover, even controlling for differences in objective conditions, there is evidence of significant non-linearities in the impact of investment climate on employment growth (Haltinwanger, Scarpetta, and Schweiger (2006), Aterido, Hallward-Driemeier, and Pagés (2007), Aterido, Hallward-Driemeier, and Pagés (2009)).

Figure 20: Diverse perceptions of the constraints to firm growth and job creation



Source: World Bank (2004) and Asia-Pacific Economic Cooperation (APEC) (2009).

In light of the available evidence and the experience so far, should the information from investment climate assessments be used more selectively to facilitate job creation? The answer crucially depends on the relative importance of market and government imperfections. If there are no significant wedges between the shadow value of jobs and the earnings associated with them (i.e. if all jobs are equally good from a development perspective) there is little justification to depart from a level playing field. If differences exist, the potential to create good jobs may be stronger in specific areas or activities, or in firms of different age, size or ownership structure. This difference in potential may justify a more targeted investment climate (e.g. policies toward small and medium enterprises). Whether to do so, however, depends on the administrative capacity of the government. The actual experience with more targeted efforts to improve the

business environment, from export processing zones to charter cities, seems mixed. And the risk of government capture by narrow interest groups is considerable.

3. Skills: general, specific, or on-the-job?

In the 1990s Vietnam experienced one of the fastest poverty reductions ever documented. This dramatic transformation was associated with rapid increases in agricultural yields, which converted Vietnam from a net importer of food (at times on the verge of famine) to a leading world exporter of rice, coffee, cashew nuts, pepper and other products. Distributing collective land to farmers on an equal basis and allowing competition in the commercialization of agricultural products were fundamental. But building the cultivation skills of farmers was crucial too. Strong government capacity, even at the village level, supported an active program of agricultural extension. Farmers did not have much choice over which crops to specialize in (especially for rice and coffee). But there is no doubt that the knowledge transfer was massive.

Skills development policies can contribute to the three transformations discussed above by supporting higher earnings and job satisfaction, making workers more productive on their jobs, and making labor market transitions less disruptive. Current approaches to human capital accumulation emphasize the importance of general cognitive and noncognitive skills, especially at early stages in life (World Bank (2010)) and focus on strengthening education systems. But should public policies give different weights to specific steps in the skill building ladder depending on their development stage and structural transformation process?

The answer to this third difficult question depends on the nature of the obstacles to the creation of good jobs. Three criteria can be used to assess the importance of various skills-building mechanisms. First, how do those mechanisms support job entry, such as the school-to-work transition for young people? Second, how do they foster more productive employment on the job? And third, how do they help people transition between jobs, including between firms and sectors but also between wage employment and entrepreneurship? General cognitive and non-cognitive skills may be important in all three cases, but the relative contribution of formal education, professional training and on-the-job learning may vary.

4. Can entrepreneurship be fostered?

In the 1970s, Korea's Daewoo Corporation teamed up with Bangladesh's Desh Garment Ltd.. Bangladesh did not face garment export quotas at the time, and the expectation was to use it as a platform to access markets in rich countries. However, the workers trained by Daewoo soon left Desh and used their newly-acquired technological and managerial knowledge to become entrepreneurs themselves. Those ex-Desh workers fueled a garment boom that created millions of salaried jobs in manufacturing. And because those jobs were mainly held by women, Bangladesh made remarkable progress on the Millennium Development Goals in subsequent years.

Innovation is an engine of productivity growth in any country. It can also hold the key to improvements in living standards in the case of the informal sector, where many microenterprises are little more than subsistence jobs but some can thrive and lead to good jobs. But is it possible to determine what type of knowledge is conducive to nurturing entrepreneurs and innovation, and how such knowledge can be transferred? The Bangladesh example is encouraging; however, many programs to support entrepreneurial skills elsewhere in the world (e.g. for self-employed women in Kenya) have failed.

Answering this fourth difficult question requires understanding what the obstacles to entrepreneurship are, and whether their removal could contribute to a faster creation of good jobs. An emerging literature argues that a large part of inter-firm productivity differences can be explained by differences in management practices (Bloom and van Reenen (2010), Bloom and van Reenen (2010) Bruhn, Dean Karlan, and Antoinette Schoar (2010)). The answer may therefore need to tap on the findings of a range of recent program evaluations on how innovation in small and medium-sized enterprises takes place (de Mel, McKenzie, and Woodruff (2009)). Experiments and participatory assessments may also shed light on the conditions under which fostering technological and managerial knowledge for formal firms and microenterprises may be advisable (Karlan and Valdivia (2011), Bloom and others (2011)).

5. What prevents job reallocation?

Plant-level estimates suggest that China's total factor productivity would increase by a quarter if the dispersion of marginal productivity within each sector was the same as in the United States (Hsieh and Klenow (2009)). India's productivity would increase by more than half, which resonates with the debates about the "missing middle" in manufacturing (the relatively low number of firms with intermediate levels of employment). Massive gains can also be expected from reallocations across sectors or from rural to urban areas. For example, three quarters of Uganda's population work in agriculture, but a crude estimate suggests that their marginal labor productivity is a fifth of marginal productivity in manufacturing.

The wider dispersion of productivity within sectors and the apparently large gaps in productivity across sectors beg the questions: why are the potential gains from reallocation foregone? Even in industrial countries, where the dispersion of productivity is lower, creative destruction contributes to sizable aggregate productivity gains. This process works on the basis of job creation and destruction, building on the low productivity of exiting firms and the faster productivity growth of entrants. Jobs in firms with stagnant productivity are not as good, from a development perspective, as those in dynamic firms and among new entrants. Is thus the wider dispersion of productivity in developing countries due to more stringent obstacles to the reallocation of workers toward good jobs?

Labor market obstacles to the reallocation of workers are a natural explanation for the excessively long "tail" of firms with low productivity in developing countries. For example, the "missing middle" of the Indian distribution of firms has often been attributed to stringent firing restrictions for firms above a size threshold, discouraging them from growing beyond that

threshold. But the wider dispersion can also be linked to obstacles outside the labor market, such as limited access to finance, insufficient competition in product markets, or poor access to land in urban and peri-urban areas. A careful analysis of wedges between the shadow value of jobs across a range of “frontiers” (firm size, sector of activity, capital or location) can help identify where the binding constraints lie in each case.

6. *Can jobs increase trust?*

In 2002, in response to a macroeconomic crisis, Argentina introduced a massive public works program (*Jefes*). Instituted under the constitutional “right to social inclusion,” it was targeted to poor household heads. Together with previous programs, at its peak in 2003 it provided jobs to more than two million people every month. Several evaluations suggest that, despite the governance risks, the allocation of benefits was fairly well targeted to the poor (Galasso and Ravallion (2004)). To ensure a self-selection of the neediest into public works programs, the associated jobs have low earnings, limited benefits, and no long-term stability. But *Jefes* and previous programs might have prevented the disenfranchising of people severely affected by the macroeconomic crisis and contained political turmoil at a time of extreme hardship for the country.

Recent world events, including the Arab Spring and the London riots, suggest that labor market dislocation and unfulfilled job expectations, particularly among youth, may lie at the heart of tensions within society, with extreme consequences. Measures of youth unemployment may underestimate the magnitude of the challenge, as many countries have sizeable groups of young “idle” people, who from a statistical point of view are neither studying nor in the labor force. But what are the features of the jobs that contribute the most to trust and civic engagement, especially in the case of youth, and how can they be fostered?

Answering this sixth question requires understanding better what makes a good job from the point of view of social cohesion. This is to some extent an empirical issue. The lack of jobs may undermine positive social change. But even jobs which are not seen as dignified, or are characterized by conflictive labor relations, may be associated with lower levels of trust and civic engagement. Assessing the shadow value of a job (or lack thereof) from the cohesion point of view may face important identification problems, but should still be feasible. However, this sixth question also raises an important conceptual issue, as excessively strong cohesion may be an obstacle to economic and social transformation. By contrast, the former Soviet Union had “full employment” and jobs had all the associated benefits (at least on paper). But would the resulting type of cohesion be considered desirable in all circumstances?

7. *Is protecting jobs ever advisable?*

Through the 1980s and 1990s, China supported its ailing state-owned enterprises through access to banking credit. The decision was partly motivated by the challenges of divesting state assets at a time when their prices could be severely distorted, and by the need to minimize social disruption. But there was also the perception that labor retrenchment would push workers into

even less productive jobs until the modern private sector developed sufficiently to absorb them. In 2009, Germany introduced a massive wage subsidy (*Kurzarbeit*) to protect private sector jobs, while the United States government injected capital into major carmakers to prevent their collapse. Both decisions were justified by the temporary nature of the shocks, compared with the more permanent economic and social disruption that would result from massive job losses.

Jobs can provide more than just earnings: they can also increase subjective well being, create positive externalities or contribute to social cohesion. And they can support demand in times of economic downturn. In other terms, their shadow value can be higher than the associated earnings and benefits suggest. In purely technical terms, this wedge (or multiplier, in the case of short-term fluctuations) justifies protecting jobs, as opposed to just protecting workers). This approach would be advisable for jobs with a high shadow value, if the cost of the intervention does not exceed the wedge. In practice, however, those wedges are difficult to estimate, which makes interventions of this sort particularly vulnerable to capture by interest groups. The history of economic development is actually littered with examples of rent captured through the protection of jobs.

Can the circumstances under which protecting jobs is defensible be spelled out? And if they cannot, should the possibility of protecting jobs be even considered? The discussion above suggests that the answer to the seventh difficult question depends on the shadow value of those jobs, the temporary or permanent nature of the shocks and the quality of institutions.

8. *Competing for jobs?*

In connection with the launching of his new book, *The Coming Jobs War*, Clifton (2011), Chairman and CEO of Gallup, commented: “If you were to ask me, from all the world polling Gallup has done for more than 75 years, what would fix the world—what would suddenly create worldwide peace, global well-being, and the next extraordinary advancements in human development, I would say the immediate appearance of 1.8 billion jobs—formal jobs.” In his view, “This raises an important distinction—not only do we need to create more jobs, we need to increase the number of good jobs. And we can’t see that quest for good jobs as an internal skirmish between warring political ideologies. It’s an international war.”

Economists are quick to point out to the fallacy implicit in a given number of jobs. Starting from the work of early classical economists, they have been clear critiques dismissing technology or trade as culprits for a decline in the number of jobs. Indeed, globalization has strengthened the international division of labor and brought about new jobs in unprecedented scale. But in times of rapid technological progress and deeper globalization, stochastic shocks that lend themselves well to an insurance approach are being replaced by systemic shifts affecting entire sectors of the economy. So far, the concern has been mainly about manufacturing jobs, as international trade has been associated with a massive migration of blue-collar jobs. But trade in services (through outsourcing and electronic platforms) might bring that pressure to bear on certain types of white-collar occupations.

Addressing this last difficult question requires reconciling support for an open trading system at the global level with policies facilitating the creation of good jobs at the country level. For instance, it has been argued that policies should support the transition of employment structures in the direction of changing comparative advantages. Looking at countries whose factor endowment is similar but whose income is moderately higher than the country under consideration could indeed help facilitate the global migration of jobs (Lin and Monga (2010), Lin and others (2011), Lin (2011a)). But international trade is not exclusively driven by comparative advantage, so the proposed focus on jobs could be seen as possibly fueling trade wars, in the name of employment. Answering the eight difficult question thus involves identifying the cooperative policies and arrangements (at the global or the regional level) to reduce the perceived competition for jobs in the short-run and shift policy makers' attention to the creation of good jobs at a global scale.

The Difficult Questions—Planned Work

To provide answers to the above questions, the WDR team will combine a variety of different methods which span:

- Using in-depth case studies (e.g. on trust, protection of jobs, jobs strategies, targeted investment climate approaches, and labor reallocation).
- Gathering empirical evidence from country cases and in part ongoing experiments (e.g. on entrepreneurship, and skills).
- Compiling cross-country empirical findings (e.g. on the relationship between growth and job creation given different development paths, and on productivity heterogeneity).
- Conducting new research (e.g. an update of the returns to education at the worldwide level as a proxy for returns to skills and an assessment on whether gaps are widening; new analyses of the BEEPS and other enterprise surveys with a focus on assessing priority constraints to job creation, both within and between countries).
- Deriving typologies of countries for each question (by development level, functioning of the labor market, priority constraints to productivity) which would for priority policy responses to the questions.

Summary of Part III

The jobs lens. Because of market and government imperfections, the social value of a job can be different from the earnings associated with it. The social value also depends on societal preferences. Making the wedges between individual and social values explicit can guide policy choices.

Policy evaluation. Those wedges may be difficult to quantify, but understanding their source is important to understand where the obstacles to the creation of good jobs lie, and to assess the costs and benefits of policies aimed at removing those obstacles.

The difficult questions. The jobs lens allows rigorous analysis of some of the most controversial issues policy makers around the world are confronting. The answers crucially depend on the balance between market and government imperfections.

Process and Timetable

Consultations

The WDR 2013 team has pursued an initial set of consultations across the World Bank Group, including DEC and HDN, the sponsors of the Report, as well as with FPD, IFC, SDN, and the Regions. The team is working very closely with the IFC in the context of its ongoing effort to better align its business with its strategic goals, and to assess its contribution to job creation. These discussions have contributed to the framing of this Outline, the analytical work program and the process for the Report.

A key vehicle for consultation during the preparation of the Report and beyond will be a close relationship between the WDR 2013 and the Jobs Knowledge Platform being launched by DEC, FPD, HDN, and PREM. The Platform will provide a forum to collect inputs and views during the preparation of the Report and to disseminate it afterwards, together with EXT.

Partnerships

The WDR 2013 team is engaged in an active dialogue with key stakeholders including, but not limited to: (i) the ILO, which has appointed a senior focal point for the WDR. A one-day consultation with the senior management team of the ILO on the approach of the WDR team took place in Geneva on October 17; (ii) other UN agencies, including UNESCO which is preparing its next Global Monitoring Report on skills, and (iii) our advisory panel which is in the final stage of being formed. The panel will also advise on the preparation of background papers and country case studies; (iv) trade unions and social partners, including the International Trade Union Confederation (ITUC); (v) government authorities, parliamentarians and bilateral donors; and (vi) private sector entities including chambers of commerce, global multinationals, and selected entrepreneurs. Last, as mentioned above, the team has started an intense collaboration with the IFC given the Corporation's focus to scale up its employment monitoring and impact. The IFC is launching a *Job Creation* report which will directly feed into the WDR.

The 2013 team has already benefited from two expert workshops, organized by the Institute for the Study of Labor, IZA, in Bonn, Germany, and the Overseas Development Institute in London. Further, the *Gesellschaft fuer Internationale Zusammenarbeit* in Berlin is planning a two-day conference bringing together leading researchers in November.

On the specific topic of rights and jobs, the 2013 team is working with the Nordic Trust Fund (NTF) for Human Rights to develop a program of consultations and analytical work. The program will take stock of existing knowledge of the implementation of rights-based approaches to employment, including anti-discrimination measures, and efforts to increase the voice and protect the rights of workers; and support dialogue and learning events with key stakeholders working on human rights and employment.

The team plans consultations in all regions of the world. Meetings are being planned in Sub-Saharan Africa in conjunction with the African Economic Research Consortium (AERC), in Latin American and the Caribbean in the context of the annual meeting of the Latin American Economic Association (LACEA), in South Asia jointly with the launching of the regional flagship on *More and Better Jobs*, in the Middle East and North Africa jointly with the Economic Research Forum (ERF), and in East Asia and the Pacific with the support of the expanding Singapore hub of the World Bank group.

Timetable

Following the presentation of the outline to the Board in November, 2011, the team will hold extensive consultations (see above) during the preparation of the draft WDR over the following months. The team expects to return to the Board with main emerging messages around March, 2012, and with the gray cover report in July, 2012. The WDR 2013 on *Jobs* will be launched during the Annual Meetings in October, 2012.

Annex

Examples of Obstacles	Examples of Interventions to Review
Discrimination in access to jobs	Policies overcoming barriers to entry which address discrimination, signaling failures, exclusion, labor market segmentation; affirmative action
Uneven bargaining power	Competition policies to prevent monopoly power; collective bargaining arrangements; minimum wages; independent arbitration mechanisms
Lack of voice	Industrial relations architecture; dispute resolution mechanisms; framework for formal and informal associations
Constraints to job termination	Job security regulations; transparency and predictability in their application; severance pay formulas
Lack of insurance for labor risks	Public and private risk insurance (unemployment, health, pension, accident etc) mechanisms; financing mechanisms
Obstacles to skills acquisition	Skill-building and vocational education policies; financing mechanisms for skills acquisition; incentives for on-the-job training
Regulatory barriers	Obstacles to the mobility of labor and complementary factors (regulation, non-portability of benefits, registration policies);
Production externalities	Spatial policies (industrial parks, export processing zones); infrastructure and credit policies to support clusters and urban development
Abusive forms of labor	Human rights approaches; corporate social responsibility programs; fair trade initiatives; global governance mechanisms
Limited access to finance	Business finance; microcredit policies; secure property rights on assets to be used as collateral
Obstacles to entrepreneurship	Training on management tools, including for micro-entrepreneurs; incubating in-firm innovation; venture and risk capital; strengthening intellectual property rights
Weak governance	Contract enforcement; property rights; independence of regulatory bodies; anti-corruption policies

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