Economic Growth, Social Protection and 'Real' Labour Markets: Linking Theory and Policy

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Labour markets and paid work are widely recognised as central transmission mechanisms through which the working poor contribute to, and benefit from, economic growth. However, despite the significance attached to paid work as the primary means through which the poor can secure and advance their own interests, employment generation as a policy variable has not featured significantly in the macroeconomic agenda. It has been assumed that opening up economies to global competition and the promotion of flexible labour markets would generate the labour-intensive growth trajectories necessary for poverty reduction. It has also been assumed that the jobs generated will offer basic security of livelihoods as well as enable workers to insure themselves and their dependants against a variety of threats to their livelihoods. Public measures for social protection could then be restricted to those unable, for reasons beyond their control, to earn their own living, thereby restricting potential distortions to the labour market.

These predictions have not been borne out in practice. As Terry McKinley (this *IDS Bulletin*) and others have pointed out, growth rates in developing countries have generally been lower in the era of neoliberalised economies than they were in the earlier era of post-colonial policymaking (between 1950s to the mid-1970s). Poverty rates have declined in many countries but globalisation has brought new forms of insecurity. The pursuit of labour market flexibility has led to rising levels of labour force participation across the world but the increasingly informal nature of these jobs means that they are generally precarious and often badly paid, trapping large sections of the working poor in chronic forms of poverty. Current thinking about social protection continues to be dominated by concerns about possible distortions of the labour market and has done little to stem the apparently inexorable spread of informality of employment relationships. Despite the policy commitment to poverty reduction through the promotion of labour-intensive growth, the gains for the poor have been ambiguous.

There is clearly a need to explore in greater detail the processes of informalisation as they play out in different contexts, to consider what forms of policy support might help to protect and promote the livelihoods of informal workers and to ask about the extent to which such policy support can be accommodated within current macroeconomic thinking. This was the aim of a workshop that was jointly convened in October 2007, by the Vulnerability and Poverty Reduction Team at IDS and members of the global research policy network Women in Informal Employment: Globalizing and Organizing (WIEGO). The workshop brought together researchers, practitioners and policymakers with overlapping interests in pro-poor macroeconomic policy, in informal labour markets and in social protection for the working poor. Their contributions make up the three clusters of themes covered in this *IDS Bulletin*.

1 Informality and labour markets

The opening article by James Heintz sets out the nature of the challenge. Mainstream macroeconomic analysis, and the policies which flow from it, is crucially influenced by its understanding of economic behaviour of micro-level actors, including those active in the labour market. Thus the effectiveness of macroeconomic policies in achieving poverty reduction through employment generation will depend crucially on the 'fit' between its conceptualisation of labour markets and their reality in different contexts. Where the fit is weak, policies are likely to be ineffective.

Mainstream economics is premised on the ideal of perfectly competitive labour markets, markets in which employers and employees are given complete freedom as to how they will utilise the resources at their disposal and can enter into voluntary employment relationships in a competitive environment. It believes that such markets are most likely to lead to the efficient allocation of labour and other resources, promote growth and generate the employment necessary to reduce poverty. The macroeconomic policy which stems from this view of labour markets is thus devoted to removing state regulations or forms of social protection which might distort the operation of free market forces.

'Real' labour markets depart in countless ways from the text book analysis. For instance, transaction costs, barely acknowledged in many labour market models, create frictions which constrain the capacity of owners of capital and providers of labour to seamlessly re-allocate their efforts and resources in response to market signals. Asymmetries of information create asymmetries of power in economic transactions. Employers and employees are not equally indifferent to the termination of an employment relationship since the alternatives they face may be very different. It is generally employees in the most exploitative relationships who find it hardest to withdraw from the relationship because they have the fewest alternatives and weakest fall-back positions. It is generally those whose labour efforts are least productive who are also least able to earn a surplus beyond their basic needs which can be invested in enhancing the productivity of their labour. And more fundamentally, the failure of labour markets to treat labour as a *produced* rather than an exogenously given factor of production places the reproduction of labour and investments in its quality outside the framework of a great deal of macroeconomic policy.

A number of the articles that follow pick up on the theme of conceptualising the 'real' world of labour markets and the growing phenomenon of informal work. As Martha Chen points out, a number of different explanations have been put forward to explain the existence of the informal economy. These entail alternative views of labour markets and how they function. Early dualist approaches emphasised two distinct and parallel labour markets or economies, rooted in the nature of labour market institutions, with the informal sector providing income for the poor and a safety net in times of crisis. Structuralist approaches emphasised the use of informality as a means by which large capitalist firms sought to lower their costs and increase their competitiveness. Legalist explanations subscribed to the notion that it was the costs, time and effort of formal registration that kept many entrepreneurs operating on an informal basis. And finally, 'voluntarist' explanations of informal work, most closely associated with the competitive labour market model, sees it as the outcome of a cost-benefit calculus on the part of workers and hence a matter of choice.

The reality, as Chen suggests, is that each of these explanations has a degree of validity because it is likely to apply to some segment of the labour market. While each provides only a partial explanation of real labour markets, together they draw out attention to the heterogeneity of informal forms of employment and the need to integrate the relationships between the different segments of the labour market, both formal and informal, into a more unified framework of analysis.

A number of the other contributors also pick up on the heterogeneity of the informal economy and challenge monolithic explanations. For instance, Johannes Jütting and his co-authors focus their critique on the dualist concepts of the economy and the treatment of the informal sector as a last resort for workers who fail to find jobs in the formal sector. They cite evidence showing considerable overlap in labour force participation in formal and informal work, with many workers combining formal and informal activities as part of their livelihood strategies. They find that fluctuations in the significance of these different kinds of work do not follow patterns predicted by the dualist school. While informal activity does indeed often increase in times of recession, suggesting its importance as a safety net of sorts, many countries report a rise in informal activity in times of boom. As labour markets tighten, workers become more willing to take the risk of starting their own business, often informally. In such situations, the move to the informal economy may be accompanied by a rise in earnings. Moreover, there are other aspects of informal work which workers may value, including autonomy, flexible working hours and good prospects. Recent data from Brazil found that around 30–40 per cent of women and men in the informal salaried work would not quit for formal employment. There is therefore far more 'choice' in the existence of informal work than allowed for by either dualist or structuralist schools.

Jütting *et al.* back up their challenge to monolithic explanations of informality by examining the phenomenon in the very different contexts of Mexico and China. In Mexico, they point out that informality has been a long-term feature of the economic landscape. It reflects low rates of economic growth, the costs associated with excessive regulation (including red tape and labour codes), low quality of services and high costs of social security contributions associated with formal work. In addition, it has been argued by some authors that the existence of social assistance programmes for the poor reduce incentives for formal employment. Thus many workers choose to work informally although they could move into formal work. In China, on the other hand, they present the view that informal employment has been an engine of growth and reflects the dynamics of migration out of rural areas. Rural migrants become informal wage workers when they leave the place where they are registered. While they suggest that the informal economy is a dynamic sector of the economy, it also offers lower wages, social security and far worse working conditions than formal employment.

Two subsequent articles pick up the cases of Mexico and China in greater detail, each departing to some extent from the analysis presented by Jütting *et al.* While Jütting *et al.* cite work by Maloney, among others, to support the view that informal work in Mexico is a utility maximising choice, Mercedes González de la Rocha and Agustín Escobar Latapí challenge Maloney's characterisation of informal employment in Mexico and, by extension, voluntarist approaches to the labour market. Maloney's view that workers opt for informality because of their reluctance to pay for the high costs of formal social protection makes the implicit assumption that informal forms of insurance are available, effective and relatively costless. Yet the evidence from Mexico suggests that considerable time, money and effort has to be invested in social networks if they are to provide the necessary social protection. The ageing of the population is further straining these networks. Nor were all workers in the informal economy out of choice. For many, formal work was not an option. For others, the risks associated with starting their own ventures only became a feasible option when they had accumulated sufficient knowledge, contacts and assets in formal employment or when they had offspring old enough to share breadwinning responsibilities for the household. In the case of women workers with young children, it is difficult to know the extent to which informal self-employment could be described in voluntarist terms since it was unlikely that many could have chosen otherwise.

However, the most important element of the critique by González de la Rocha and Escobar Latapí is the ahistorical nature of Maloney's analysis – the use of findings from the mid-1960s to support his analysis of Mexican labour markets at the start of the twenty-first century. The impact of changes in macroeconomic policy regimes means that women and men are now making decisions about the labour market in the context of a liberalised economy compared to those which had prevailed in the earlier era of import-substituting industrialisation. There was then indeed much greater mobility between formal and informal jobs, as Maloney describes, and households were characterised by occupational heterogeneity. The general economic downturn associated with the Mexican debt crisis in the early 1980s and subsequent restructuring and liberalisation of the economy has seen a growth in precarious forms of work and a decline in occupational mobility, suggesting a rise in social stratification. There are now far more risks to leaving formal jobs for informal than there used to be, and the voluntarism described by Maloney may be even less valid as an explanation for informal employment than it was in an earlier era.

Changes in the broader policy environment also form the backdrop to Sarah Cook's analysis of the growth in informal employment in China. As she points out, the conditions under which labour is supplied, exchanged and rewarded in the labour markets that have emerged in the transition from a closed and planned economy to a more market-oriented and open one have changed beyond recognition. There has been a huge rise in what would be conventionally classified as 'informal employment' in China (i.e. part-time, often low paid and generally unprotected), although officials and policymakers use the terminology of 'flexible' employment to avoid the negative connotations of informality. As Cook points out, it is possible to analyse the rise of informal work in China through different labour market frameworks. One focuses on the structural, economic and demographic transformations associated with these changes and the obstacles posed in particular by the household registration system to the emergence of more unified labour markets. The second examines the transition from a state-controlled system of labour allocations and rewards towards a more competitive, neoclassical labour market.

However, neither approach pays a great deal of attention to the institutional underpinnings of rising informality: the blossoming of older forms of entrepreneurship which existed on the margins of the planned economy; the diversification of activities which came with the loosening of economic controls, the migration out of the countryside in search of the employment opportunities generated by export-oriented growth; the shock reform measures which pushed large numbers of previously 'formal' workers into low-income jobs previously done by migrants; and the attempts by enterprises to avoid cumbersome but poorly enforced labour regulations. Nor does either approach examine the distributional impacts of these various strands of change and what they imply for the 'losers' who lack the qualifications and credentials to compete in these emerging labour markets or those who are located in the most vulnerable and often least visible jobs in the informal economy. What is needed, Cook suggests, is an institutional approach that identifies the concrete realities of the labour market and focuses on the different logics behind processes of informality. This would provide a more grounded basis on which to consider the question of government regulation of the economy, when it should intervene and for what reason.

The final article in this section further adds to the general picture emerging from the previous contributions. Imraan Valodia points out that while South Africa appears to have lower levels of informal employment than most developing countries, the evidence shows that large numbers of formal workers have extremely low wages and their conditions of work are not significantly different from workers in informal work. Valodia presents findings from a pilot survey of informal traders in urban South Africa that their price setting behaviour was strongly influenced by their views about the competition they faced. For many, these included the prices set by traders in the formal economy as well as those in the informal. It would appear that in South Africa, formal and informal trading did not constitute separate and independent spheres.

A second set of findings come from panel data compiled from multi-year labour force surveys. Valodia points to significant 'churning' at the less well paid end of the labour market – including movements between formal and informal employment. The frequency of these movements not only challenges dualist models of the labour market but also raises questions about the voluntarism behind informal employment since this mobility is not generally associated with improvements in the quality of employment.

2 Informality and social protection

While the first cluster of articles in this *IDS Bulletin* deals with informality in the context of labour markets and draws out some implications for social protection, this second cluster addresses more explicitly the challenges for social protection strategies presented by the growth of informal labour. Gerry Rodgers is concerned with the failure of the highly aggregated indicators used in macroeconomic analysis to capture the diversity of work and employment relations and hence to provide an accurate picture of the employment consequences of growth. As he points out, policies for labour-intensive growth strategies as the route to poverty reduction give a privileged place to the employment elasticity of growth but make no distinction between the generation of 'good jobs', 'poor jobs' and the various forms of unemployment ('no jobs') through which the poor in poor countries have sought to secure their daily survival. Rough-and-ready estimates suggest that the majority of jobs in lower- and many middle-income countries fall into the categories of 'poor jobs' or 'no jobs'. Given that implausibly high rates of growth would be required to substantially increase the percentage of good jobs in the economy, he suggests that the more immediate concern should be to improve the quality of poor jobs. One argument for such improvement lies in evidence that better quality jobs are likely to be more productive. Where the costs of improvement are lower than the gains to productivity, market-led improvements in the quality of jobs may occur over time, as it has in South Korea and Chile since the early 1990s.

More often, however, the pressure on wage costs exerted by global competition has seen a deterioration in the quality of jobs. In such contexts, moves to improve job quality raise costs more than productivity and large sections of the labour force are likely to be caught in a low-quality, low-productivity trap. What may be necessary in such contexts is a 'package approach' to employment policy, involving a 'non-marginal shift in social and economic policies and institutions built around quality jobs'. The International Labour Organization's (ILO) 'Decent Work' agenda represents such an approach. It identifies six key issues that should be factored into pro-poor growth policies along with concerns with the generation of jobs: rights at work, security in work, conditions of work and remuneration of work, all of which relate directly to the quality of jobs along with voice, organisation and patterns of equality and inclusion relating to the functioning of the labour market.

Given different levels of development and different social values, the decent work framework should be regarded as a way to incorporate concerns with the quality of work into the policy agenda rather than a universal set of prescriptions. The caution about universal prescriptions is reinforced by the possibility that there may be trade-offs as well as complementarities between different dimensions of the agenda. Improvements in wages and working conditions could lead to improvements in labour productivity or they could be secured at the cost of employment creation. Nevertheless, a focus on decent work as a dimension of development helps to ensure that development trajectories encompass social as well as economic goals.

Victor Tokman's contribution provides a nuanced discussion of labour market regulations, particularly in relation to labour contracts, as a barrier to flexibility. As he points out, within the earlier closed economic systems of Latin America, it was possible to use labour contracts to compensate for the absence of unemployment compensation. The result of this was that the costs of firing workers on permanent contracts in Latin America was almost twice the costs prevailing in the Organisation for Economic Cooperation and Development (OECD), while labour regulations were 26 per cent higher than the OECD and 54 per cent higher than those prevailing in East Asia. However, with the opening up of economies, the high costs associated with labour regulations created constraints on the capacity of economies to adjust to the new competitive environment.

The resulting labour reforms adopted a policy of 'flexibility at the margins' because existing labour rights were left intact. Reforms were aimed at reducing the costs of dismissing workers and permitting 'atypical' or limited duration contracts for the newly hired. While this reduced the costs of labour from the point of view of employers, it imposed other kinds of social and economic costs. It led to higher turnover rates, to increased levels of anxiety among workers and a growth in the percentages of workers with little or no social protection. High levels of turnover and uncertainty about job prospects in turn reduced incentives on the part of firms to innovate and invest in training their workers and on the part of workers to upgrade their own skills.

The market and citizenship failures associated with informalisation suggest the need to rethink the question of regulation. Tokman suggests priority should be given to creating greater flexibility to permanent contracts rather than seeking to encourage the proliferation of atypical contracts and hence labour informality. However, if workers in informal enterprises are to be provided social and legal protection, there have to be provisions to promote the economic performance of these enterprises and thus their ability to comply with labour regulations. Tokman therefore suggests a two-pronged strategy to the question of regulation. The first prong is for the benefit of entrepreneurs: it would simplify the bureaucratic procedures involved in registering or closing down enterprises and in gaining legal recognition of the *de facto* ownership of assets by these enterprises so that they have a collateral base.

The second prong would seek to promote labour rights in the informal economy through the formal recognition of the employment relationship and the extension of labour rights and social protection. While it may not be possible to enforce the same set of labour rights for all workers in the informal economy, given the differential capacity of employers to comply, it should be possible to enforce some minimum threshold on labour issues, based on core labour rights. Thus, Tokman suggests that while differential interest rates, tax regimes or collective systems may be necessary to promote the formalisation and prosperity of smaller enterprises, there has to be uniformity on this minimum threshold because these core labour rights represent human rights transferred to the sphere of work.

Similarly, given the difficulties of defining employer–employee relationships in the expanding informal economy, Tokman suggests that the right to social protection should be extended to people as citizens rather than as workers and awarded on the basis of universal principles. The increasing provision of income support to the elderly through social pensions which are not tied to labour contracts are examples of this. Tokman concludes that, given supportive fiscal policy, 'de-linking protection from labour participation would create opportunities to increase employment and improve business, while guaranteeing security'.

Carmelo Mesa-Lago points to the association between levels of informality in the labour force in different Latin American countries and the coverage of their populations by health and pension schemes. Income, gender, education, ethnicity and location are part of the explanation for the distribution of coverage. However, beyond individuals and group characteristics, the structure of the economy and the institutional nature of provision play an important role. The association between high levels of informality and low levels of coverage is clearly not accidental. Countries with high levels of informality in their workforce tend to report lower reliance on state provision. Indeed, state regulation plays an important role in explaining variations in coverage.

Countries with mandatory pension systems have considerably higher coverage than those with voluntary affiliation. However, the legal mandate for affiliation is most likely to improve coverage when the state provides subsidies to low income, often self-employed, informal workers. Countries with high levels of informality in their workforce tended to report segmented and regressive distribution of health funds, allocating more to the private sector and social insurance and less to public forms of provision which were responsible for the majority of the population.

Since the idea that economic growth will lead to the expansion in formal employment and in the share of the population covered by social protection has not been borne out by empirical evidence, Mesa-Lago concludes that social protection systems will need to be adapted to the growing informality of labour markets and to extending coverage to hitherto excluded groups. Experience from the Latin American contexts yields a number of lessons for the design of such systems: the need for fiscal subsidies to provide incentives to excluded and vulnerable groups to affiliate to existing schemes, special regimes for rural workers and peasants; greater coordination between public and social insurance sectors to prevent duplication of coverage and cost-efficiency, contributions that are proportional or progressive in relation to income, provision of optional insurance to housewives; bonuses to women who exit the labour force to raise their children and priority to indigenous groups, using geographical targeting to overcome their greater isolation.

Francie Lund points out that the World Bank's Risk Management Framework can be seen as an element of its pro-poor growth strategy, a recognition that fluctuations in income flows is one of the critical dimensions of poverty. However, it is rooted in the same neoclassical economic tradition as competitive labour market theory and makes the same assumptions about the capacity of individuals to make choices – in this case between different risk mitigation strategies. In view of its support for the promotion of flexible labour markets, there is a strong argument emerging from the World Bank that core social protection measures such as pensions and health insurance, should be de-linked from the labour contract, thereby reducing potential distortions in the demand for labour.

Value chain analysis, on the other hand, has served to draw attention to the way in which informal and formal conditions of work interact across different stages of the same production and to make visible the connections between some of the most vulnerable workers in the labour market and some of the most powerful corporations in the global economy. Lund argues against the idea of de-linking social protection from the labour contract precisely because it removes employer responsibility for those who contribute to their profits. However, she is concerned that the ILO's concern with extending its 'Decent work for all' agenda to those who fall outside the existing system of social security can lead it to overlook ongoing processes of informalisation and the continued loss of access to existing measures of social protection by workers on a daily basis.

Lund therefore focuses her attention on the kinds of interventions that are most likely to protect and promote livelihoods in labour market environments in which the majority of workers are, and are likely to continue in, informal employment. She is concerned to move beyond small project-based interventions to a scale of response that is adequate to meet the scale of the challenge. One promising approach would be to develop measures at the intersections between the formal and informal within the economy. For instance, formal insurance companies could be encouraged by incentives or guarantees from the government to develop and extend products to the working poor and micro-entrepreneurs. If insurance and savings schemes for poorer workers could be institutionally housed within larger insurance institutions, they would benefit from cross-subsidies in the use of institutional infrastructure, communication systems and expertise. She suggests that there is a need to decentralise some of the responsibility for the design and management of social protection strategies to local government who are more attuned to the spatial dimensions of informality.

3 Macroeconomic policy and employment generation

Macroeconomic policies shape the environment in which labour markets function and define the resource envelope available to realise basic social protections, including the right to productive employment with decent earnings. The articles in this cluster critically evaluate the prevailing macroeconomic orthodoxy, the assumptions about the ways economies work and suggest alternative ideas for policies that would facilitate the creation of decent employment and thereby raise living standards, promote equitable growth, and reduce poverty.

In his article, Terry McKinley argues that the dominant approach to macroeconomic management under the direction of the Bretton-Woods Institutions – which he collectively terms neoliberal economic policies – have failed to deliver faster and more equitable growth – prerequisites for sustainable poverty reduction. The earlier discourse of 'structural adjustment' has been replaced by 'poverty reduction strategies' and 'pro-poor growth'. However, McKinley argues that the macroeconomic content of the poverty reduction strategy papers (PRSPs) has remained the same, despite the shift in emphasis to poverty reduction as a stated goal. The approach adopted by the PRSPs represents a monoculture of ideas, in which a common set of prescriptions are applied to all poor countries. McKinley critically examines these types of national poverty reduction strategies in terms of their shallow veneer of 'participation' and 'national ownership,' their bias against the public sector, their obsession with very low rates of inflation, their inability to accord public investment its proper role in development, the failed experiment of financial deregulation, and the drive towards privatisation.

McKinley concludes with an alternative framework, which stresses the need to coordinate economic policies to support better growth and employment outcomes which, in turn, will reduce the incidence of poverty. Macroeconomic strategies are a necessary part of this policy mix, but, by themselves they are not sufficient to realise these objectives. McKinley therefore advocates for a tripartite approach; one that combines macroeconomic, structural (targeted policies which impact the structure of production and economic institutions), and equity-enhancing policies, aimed specifically at improving the welfare of the poor.

Ricardo Gottschalk picks up on the themes raised by McKinley and provides additional detail to the discussion of policy alternatives. Gottschalk argues that macroeconomic policies must be sufficiently flexible to adapt to the specific features and institutional settings of different countries. Maintaining macroeconomic stability remains important and flexible policies are more suited to this objective, since they can respond quickly to external shocks. In addition, the costs and trade-offs associated with the specific, rules-based targets currently in vogue – for example, maintaining a very low inflation target – must be taken into account. Gottschalk points out that economic stability has improved in many countries worldwide, which raises the critical question, 'What now?' In answer to this question, he suggests that there is need for macroeconomic policies to target real economic outcomes, such as growth, instead of nominal prices, as is the case with inflation-targeting.

Gottschalk discusses the components of an alternative macroeconomics, including monetary, fiscal, and exchange rate policies that would allow policymakers to target real performance indicators, such as the growth rate. Growth targeting requires the mobilisation of both public and private resources. However, there are real limits on expansionary policies, which need to be taken into account. Monetary policy must be prepared to address the destabilising impact of capital flows and excess liquidity, fiscal policy must be sustainable and not rely excessively on debt financing, and exchange rate policy must be prepared to steer a tight course, guarding against excessive appreciation or deprecation. Gottschalk also discusses the role of financial policies – one of McKinley's structural policy areas – arguing that the failed experiment of financial liberalisation represents a lost opportunity to implement meaningful reforms that would support broad-based growth.

John Toye raises a different set of concerns. Like Gottschalk and McKinley, he argues that macroeconomic policies are sensitive to the institutional context in which they are implemented and, therefore, macroeconomic alternatives must be developed taking into account these real constraints. Alternative 'Keynesian' policies were developed in the context of European and North American industrialised economies in the first half of the twentieth century. Therefore, their applicability to other countries and other points in history cannot simply be taken for granted. Toye puts forward two 'stylised' types of economies with very different labour market characteristics: developed economies and developing economies. He points out that developing economies often face stringent supply-side constraints, particularly in the agricultural sector, that limit the effectiveness of traditional Keynesian (i.e. demand-focused) interventions. Macroeconomic policies which do not address these supply-side barriers may produce unintended outcomes.

Toye, along with McKinley and Gottschalk, stresses the importance of public spending, including public investment to relax supply-side constraints. However, Toye departs from the other two authors on the issue of price stability. He argues that the efficient management of public spending requires a stable macroeconomic environment – particularly price stability. Therefore, the benefits of maintaining tight control over inflation are substantial with regard to improving the efficiency of the fiscus as a development tool. All three contributors share the view that macro policies need to be coordinated with other targeted interventions. However, Toye stresses the benefits of a low-inflation environment, while McKinley and Gottschalk suggest that lowering inflation generates real economic costs that, at some point, outweigh the benefits.

Radhika Lal's article rounds out this section with a discussion of economic policies in the specific context of informal employment. Lal questions the argument that the rise of informality is simply a manifestation of the need for deregulation and flexible (i.e. market-determined) outcomes – a perspective frequently adopted by neoclassical economists. She points out that neglecting the impact informalisation has on the demand-side of the economy can lead to faulty conclusions. Workers are consumers as well as dependent producers – and Lal argues that the structure of employment shapes the structure of the domestic market. For example, a polarised labour market means that the domestic market will be characterised by substantial inequalities, limiting domestic sources of aggregate demand and profoundly influencing the growth path in ways that may be inconsistent with a country's development objectives. In contrast, when the majority of employment opportunities meet minimum standards of decency, the domestic market will maintain a strong 'middle' that contributes positively to economic and employment growth.

Like Toye and Gottschalk, Lal emphasises that structural differences among countries will influence macroeconomic outcomes and, therefore, the correct policy mix. Like McKinley, she argues against a 'one-size-fits-all' approach and the need for more interventionist alternatives. Lal extends her discussion beyond macroeconomic policies and advocates for targeted, productive sector policies within the context of informal employment. Such policies, successful in the past, have been abandoned in favour of liberalisation, under the assumption that markets will correctly allocate resources to achieve dynamic, long-run efficiency. Lal argues that this market-based approach will not, in itself, support long-run sustainable development. Lal more fully develops an analysis of the use of targeted productive sector policies (called industrial policies) to guide the allocation of resources in support of employment creation and poverty reduction. In this respect, her article takes on McKinley's call for complementary structural policies. However, Lal adds additional details that focus on the need to coordinate macro-policies with more localised economic development.

4 Conclusion

Together, the articles in this *IDS Bulletin* help to sketch out the changing nature of the global economy and provide important empirical insights into the functioning of labour markets as flexible labour market policies take root in different regions of the world. At the same time, they point to some of the unresolved debates about how labour markets should be conceptualised and what this implies for macroeconomic policies and the scope for social protection. They suggest that the heterogeneity of these markets, together with evidence of movements between formal and informal work, challenge dualistic representations along a formal–informal divide. However, there are some very real barriers to mobility among sections of the labour force which prevent the emergence of unified and competitive labour markets of the kind assumed by neoclassical economics.

Neoclassical models have been important in stressing the importance of agency and choice in explaining some of the distribution between formal and informal activities. However, they are less able to explain the structural asymmetries of power between different actors in the labour market and the low-wage, low-productivity trap in which many workers find themselves. The asymmetries of power between the large-scale owners of capital and those who must rely on the sale of their labour to secure their survival are the most obvious of these but there are other asymmetries based on gender, ethnicity, race and so on which render certain groups within the labour market less mobile, and hence more vulnerable than others. These asymmetries have been exacerbated by the form taken by current processes of globalisation which have removed restrictions on the mobility of capital but left restrictions on labour relatively intact. The growing informality of labour markets, and the rise in precarious forms of work, suggests the need for more structural analysis of labour markets which taken account of these asymmetries of power in the context of increasing globalisation.

This leads to the question addressed by several authors in this *IDS Bulletin*: what can be done to protect labour in the context of globalisation? It is clear that excessive regulation does act as a deterrent to many employers and that there is a case for simplifying procedures and legal recognition but it is equally clear that all workers in the economy should enjoy some minimum level of protection, regardless of their location in the economy and the status of their employment. The debate revolves around what form this protection should take. The absence of a clear consensus on this reflects differences in views about how markets work and the absence of conclusive evidence about the relationship between different dimensions of social protection and levels of employment.

The likelihood of a trade-off favours the position taken by Tokman, who argues in favour of de-linking social protection from work status. Universalising access to some minimum level of social protection, such as health and pensions, on the basis of people's rights as citizens rather than workers would improve businesses and increase employment while guaranteeing security. Lund, on the other hand, is concerned that de-linking social protection from employment status absolves employers of responsibility towards those who contribute to their profits. It also rules out an important source of financial contributions to the social protection of informal workers.

The affordability of social protection is a theme that underpins many of the articles in this volume. One of the problems associated with informality is that it allows those who could afford to contribute to the collective social welfare to avoid doing so (or at least discourages them from doing so), while it makes those who most need collective social support the most difficult to reach. The articles on macroeconomic policies generally agree that macroeconomic policy instruments, with the exception of fiscal policies, can only have an indirect effect on these excluded groups through the volume of employment they are able to generate. Fiscal policies may have a more direct effect, both through the kinds of expenditures they support as well as through the mobilisation of tax revenues to support such expenditure. Explicit structural and equity-enhancing policies, which would encompass the social protection measures described elsewhere in the *IDS Bulletin*, may be necessary to complement macroeconomic policies to promote their pro-poor bias. What constitutes a point of contention, however, both among these articles and in the wider literature, is the level of deficit financing, and associated inflationary pressures that will undermine the goal of pro-poor growth. As Gottschalk points out, the range of inflation levels considered compatible with growth varies from 7–11 per cent to around 30–40 per cent.

Such widely varying estimates signal the absence of consensus on some of the key parameters of growth policy. They may also signal the widely varying conditions under which macroeconomic policies are attempting to pursue growth, including, of course, the very different labour market conditions. This takes us back to the 'call for action' with which Heintz ends his article. He points out that how we conceptualise labour markets will have a profound influence on our understanding of macroeconomics, growth and social policy. One of the key implications which comes out of the articles in this *IDS Bulletin* is that we need a better understanding of the way that labour markets function in the real world – and in different parts of the real world – if we are to find macroeconomic policies that will better deliver on the outcomes they promise.