

# Summaries

## **Economic Growth, Social Protection and ‘Real’ Labour Markets: Linking Theory and Policy**

*Sarah Cook, James Heintz and Naila Kabeer*

The contributions to this *IDS Bulletin* are clustered into three thematic concerns: the rise of precarious work, the challenge for social protection and the capacity of macroeconomic policy to generate more and better jobs. This introduction draws out some of these intersecting strands. It argues for the better models of the labour market which can capture the heterogeneous realities on the ground in different regions of the world. These would provide a more grounded basis for the development of social protection responses and macroeconomic policies. It suggests that policy responses to informality should take account of the constraints facing informal entrepreneurs as well as the security needs of informal workers. And it sketches out alternative approaches to macroeconomic policy which are better attuned to the nature of the constraints that prevail in different economies and could generate the resources and the employment necessary for pro-poor growth.

## **Revisiting Labour Markets: Implications for Macroeconomics and Social Protection**

*James Heintz*

Labour represents the productive energy of human beings and labour markets and broadly defined, represents the institutions that channel this energy throughout society. Therefore, labour and labour markets are of paramount importance to the functioning of any economy. Yet, the theories that dominate the formulation of economic policies reflect an imagined world that bears little resemblance to employment dynamics on the ground. The consequences of this elaborate fiction are not trivial. The ways in which labour markets are conceptualised determines, to no small extent, the outcomes predicted by macroeconomic models, the perceived scope for social protection, and the potential for purposeful interventions to improve material wellbeing. This article explores the fundamental issues at stake in theorising labour

markets and explains why a failure to rethink labour markets would compromise the development of meaningful macroeconomic and social policies.

## **Informality and Social Protection: Theories and Realities**

*Martha Chen*

Most policy prescriptions regarding informality have been framed in response to one or other category of informal workers without considering the full range of informal workers. This article seeks to address this challenge with a focus on social protection policy. Section 1 gives an introductory outline. Section 2 presents the official international definition of informal employment and recent national data on informal employment so defined, including its links with poverty and gender inequality. Section 3 summarises the dominant causal theories of informality and proposes an integrated theory that distinguishes between different primary causes of different categories of informal employment. Section 4 examines the coverage gap within the informal workforce of different types of social protection schemes. The concluding Section 5 provides a framework for identifying appropriate policy responses – in terms of both interventions and financing – to this coverage gap.

## **Informal Employment Re-loaded**

*Johannes Jütting, Jante Parlevliet and Theodora Xenogiani*

This article provides a fresh look at informal employment, a phenomenon that is receiving renewed interest from policymakers and researchers alike. It highlights a more complex picture than is usually portrayed in policy circles where informal employment is often equated with low productive jobs and bad working conditions and expected to disappear once the economy grows. The article argues that the reality is far more complex and this picture needs to be revised. Informal employment is unlikely to disappear in the near future, it is sometimes a voluntary choice and it can offer better working conditions than formal employment.

Moreover, in many countries, the line is blurred between formal and informal spheres, as people may have a footing in both sectors or move frequently between them. Based on these findings, the authors conclude that sector policies that focus solely either on the formal or informal part of the economy should be questioned. What is urgently needed is an integrated approach, combining the employment and social protection agendas in order to promote the development of more and better jobs in the whole economy.

### **Choices or Constraints? Informality, Labour Market and Poverty in Mexico**

*Mercedes González de la Rocha and*

*Agustín Escobar Latapí*

The economic and social transformations that have taken place in Mexico during the last three decades have influenced the way labour markets operate and have had an important impact in the number of poor households, their livelihoods and their capacities to use their labour force as a means to obtain incomes for their increasingly constrained economies. The authors discuss the 'voluntary' entrance of workers in the informal labour market, drawing on the work of Maloney (2004) and others, and critique this view on the basis of crucial economic and social trends that have shaped Mexican society today. The authors draw from their long-term fieldwork and from recent analyses on social mobility and occupational mobility in order to show that there are more 'constraints' than 'choices' for workers within the more rigid labour and economic structure that prevails today.

### **The Challenge of Informality: Perspectives on China's Changing Labour Market**

*Sarah Cook*

Informal employment has not been part of the discourse on labour market transition in China. Nonetheless, reforms have given rise to a process of informalisation, casualisation and flexibilisation of employment, with a greater diversity of contract and employment types, and reduced social and labour protections for previously protected urban workers. The scale and nature of informal employment in this context of radical restructuring is not well understood. Reasons for this include inadequate theoretical models of labour market transition, the nature of the data available, as well as the political risks in publicly acknowledging the fundamental erosion of worker entitlements.

### **Informal Employment, Labour Markets and Social Protection: Some Considerations Based on South African Estimates**

*Imraan Valodia*

The literature on the linkages and economic relationships between the formal and informal economy remains underdeveloped, especially in relation to short-term labour market relationships and relationships of economic behaviour. Drawing on data in South Africa, this article suggests that, among workers that earn low wages, there is a significant level of churning between formal and informal jobs, and that there are complex economic behaviour relationships between formal and informal enterprises. This has important implications for the discussion about social protection.

### **The Goal of Decent Work**

*Gerry Rodgers*

This article argues that while employment is an important development goal, too simple an approach is likely to be misleading. The key differences among regions and development situations lie in the large proportion of workers engaged in low-quality work. Dealing with these situations is a central development challenge. This is recognised in the International Labour Organization's Decent Work agenda, but to make progress, it is important to address a number of key measurement and research issues, and in particular to increase understanding of the ways in which improving the quality of work can contribute to productivity growth and to wider development goals.

### **From the Consensus Reforms to Reforms for Protected and Inclusive Employment**

*Victor Tokman*

This article analyses the effects of labour reforms in Latin America. Although they were geared towards introducing more flexibility in labour markets, the side-effects were precariousness and exclusion. This is examined by reviewing the transformation in the labour contract structure that shifted towards atypical contracts and non-registered labour. The latter concentrated in the informal sector, while the former was mainly in formal enterprises with unstable and not fully protected workers. This is linked to the expansion of the concept of informality from sector to the economy. The article suggests five components for a strategy of inclusive and protected employment: less and better regulations of informal activities; ensuring labour rights in informal

enterprises; shifting labour reforms towards flexible but secure employment contracts; the need to recognise the existence of employment relationships; and to introduce regulation and guaranteeing social protection on universal basis.

### **Informal Employment and Pension and Healthcare Coverage by Social Insurance in Latin America**

*Carmelo Mesa-Lago*

This article briefly describes social insurance pension and healthcare systems in Latin America, and analyses the region's labour shift of decreasing formal employment and expanding informality. It estimates the significance of urban informal labour and its major components (self-employment, domestic service, microenterprise employees, unpaid family workers), as well as non-salaried rural labour in 18 countries, divides them into three groups, and ranks them by their degree of informality. The article demonstrates that social insurance coverage (pensions and healthcare) is higher where informality is lower and *vice versa*, and identifies explanatory factors of low coverage: related to the system (legal mandatory/voluntary coverage or exclusion, segmentation vs. unification of the health system, financial arrangements) and external to the system (size of informality and characteristics of these workers, level of development, location, gender, ethnicity). It indicates that coverage is higher in countries with mandatory coverage; examines coverage inequalities, and protection of the poor and the elderly; and provides policy recommendations to expand coverage of informal workers and the poor.

### **Social Protection and the Labour Market: Towards a Research Agenda**

*Francie Lund*

Social policies should be seen as being an investment in human resources, but the mainstream of economics largely sees social spending as at best a residual necessity, and at worst as wasteful spending. In a wide variety of influential approaches, including social risk management and value chain analysis, there are unrealistic estimations of poorer workers' abilities to themselves provide cover against work-related risks. The article identifies some elements for a future research agenda that would acknowledge the differentiation and segmentation in the labour market; explore how to make owners of capital more responsible to those who produce for them; give informal workers greater access to existing

mainstream financial and insurance programmes; and include local government and local infrastructural development as elements in social policy. Special measures are needed to mitigate the economic impact of AIDS on the security of informal workers.

### **Economic Policies for Growth and Poverty Reduction: PRSPs, Neoliberal Conditionalities and 'Post-Consensus' Alternatives**

*Terry McKinley*

One objective of the articles featured in this *IDS Bulletin* is to chart out a research agenda on labour markets, employment generation and social protection that can identify points of convergence between the micro-critiques and macro-critiques of orthodox economic approaches. For example, the authors are seeking to identify the guiding principles of a social protection agenda that can bring together an employment-centred macroeconomic policy framework and a microeconomic critique of flexible labour markets. In looking at the relationships among economic growth, informal employment and social protection, analysts are often tempted to employ a 'macro-micro' analytical framework. This article argues, instead, that a framework is needed that integrates three major sets of policies, i.e. macroeconomic policies, structural policies and equity-enhancing policies.

### **A Macroeconomic Framework for Growth and Employment Generation**

*Ricardo Gottschalk*

This article proposes a macroeconomic framework for low-income countries that supports growth, employment creation and poverty reduction. It is a reaction to their current macroeconomic policy frameworks, aimed mainly at macroeconomic stability, with very few elements to support growth directly. A key feature of the proposed framework is flexibility, in terms of choice of instruments, targets and goals, so that it can be effective in responding to macroeconomic volatility and shocks, and be easily adapted to countries' changing circumstances and needs.

### **Macroeconomic Policy, Labour Markets and Growth in Developed and Developing Countries**

*John Toye*

Keynesian macroeconomics was designed for the economic context of the typical developed country, i.e. where the economy is fully monetised and workers are wage earners enjoying free collective

bargaining and social protection against stochastic risks. Its justification of fiscal intervention hardly applies in developing countries whose economic context is radically different – having heterogeneous forms of employment, and poor articulation between a capitalist and a subsistence sector. In developing countries, because of an agricultural supply constraint, additions to government investment induce inflation before generating much extra employment. Arguments for tolerating significant inflation fail to convince. Inflation higher than a few percentage points per year makes the task of planning public spending and public service delivery arbitrary and chaotic. Yet, effective public expenditure planning is essential if governments are to be able to manage the process of adjusting to external shocks and to pursue a strategy of pro-poor growth with macroeconomic stability.

**Macroeconomic Policies to Address Informality:  
A Two-pronged Strategy to Foster Dynamic  
Transformations that Reduce Informality**

*Radhika Lal*

The informal economy in developing countries is diverse in its composition as well as the factors that

make for its expansion. In discussions of informality, the primary focus appears to be institutional factors, in particular the business regulatory environment. With a view to bridging the dialogue between those working on informality and the macroeconomists, the article begins with a review of some problematic elements of the mainstream approach to informality and points to conceptual similarities with the foundations of mainstream macroeconomics. It stresses the importance of macroeconomic determinants of informality and the role of structural policies in laying the foundations for sustainable employment. Finally, given the overwhelming space occupied by the informal economy, it concludes with a proposed two-pronged strategy – strengthening the dynamism of the formal sector to reduce the drift into informality and changing the terms of engagement within the informal sector as well as with the formal sector.