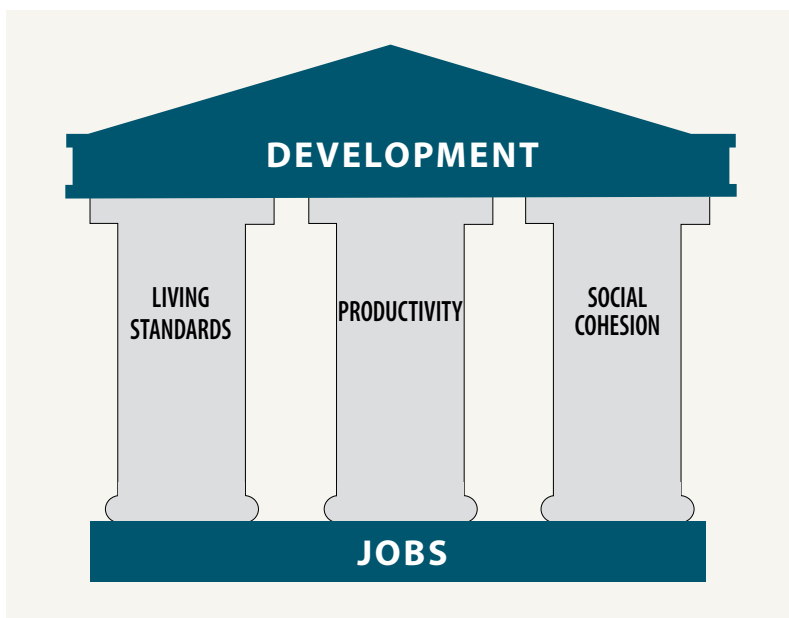


Introduction to Part 1

Economic development is about improvements in living standards supported by productivity growth. It also involves social change associated with urbanization, integration in the world economy, and the drive toward gender equality. All of 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 often entails the movement of labor from rural, agricultural, and mostly subsistence activities to urban, nonagricultural, and mostly market-oriented activities. This movement transforms the lives of families and communities, the organization of firms, and the norms and values of societies. It can boost productivity and improve living standards and also affect the cohesiveness of society. Jobs are thus a key driver of development.

- **Living standards:** Jobs provide earnings opportunities to lift people out of poverty, raise their consumption, and contribute to individual well-being more broadly.
- **Productivity:** Through job creation and destruction within sectors and reallocations across sectors and countries, jobs are also at the root of economic growth.
- **Social cohesion:** Jobs define who people are in many ways; by shaping values and be-



haviors, they can influence trust and civic engagement.

Distinguishing these three transformations provides an understanding of how jobs contribute to development. People's well-being is the ultimate goal, and the transformation of living standards captures this link directly. But sustained improvements in living standards are impossible without productivity growth or when resources are wasted through confrontation. That is why it is necessary to look at the three transformations jointly.

Jobs and living standards

Jobs are the main source of income for the majority of households and a key driver of poverty reduction. But their contribution to well-being goes beyond the earnings they provide.

Jobs are the most important determinant of living standards around the world. For the vast majority of people, their work is the main source of income, especially in the poorest countries. And jobs-related events are the most frequent reasons for families to escape or fall into poverty. Furthermore, as earnings increase, individual choices expand—household members can opt to stay out of the labor force or to work fewer hours and dedicate more time to education, retirement, or family. Opportunities for gainful work, including in farming and self-employment, offer households the means to increase consumption and reduce its variability. Higher crop yields, access to small off-farm enterprise activities, the migration of family members to cities, and transitions to wage employment are milestones on the path to prosperity.

In addition to their fundamental and immediate contribution to earnings, jobs affect other dimensions of well-being, positively and negatively. Not having a job undermines mental health, especially in countries where wage employment is the norm and the lack of employment opportunities translates into open unemployment rather than underemployment. But a job prone to occupational accidents or work-related diseases can damage physical health or worse. More generally, monetary, nonmonetary, and even subjective characteristics of jobs can all have an impact on well-being (box 2.1).

Jobs also influence how workers see themselves and relate to others. Most people feel that jobs should be meaningful and contribute to society. Together with other objective job characteristics, the self-esteem a job provides is an important determination of satisfaction with life.

Jobs improve material well-being

Over the course of a country's development, higher productivity and labor earnings allow households to allocate more time to investment and consumption activities and less to production. Thus, schooling and retirement gain importance relative to work. For the past century or so, the number of hours worked by youth in industrial countries has declined steadily as access to education has increased. Similarly, the number of years in retirement has increased in parallel with longer life expectancy.¹ Higher earnings also facilitate longer periods of job seeking, especially among younger household members, often leading to higher unemployment rates. Among men and women of prime age (25 to 54), total working hours (market and nonmarket) have remained relatively stable, with the main change being the growing share of market activities among women (figure 2.1). These general trends are not ironclad, however.

BOX 2.1 *There are many dimensions of living standards and many ways to measure them*

Debates on how to define and measure living standards go far back in social sciences. The work by Rowntree and Booth in late 19th century England is usually mentioned as seminal, especially in relation to the measurement of poverty. In the 1930s, the creation of the System of National Accounts concentrated on measuring the total market value of the goods and services produced in an economy and made gross domestic product (GDP) per capita the main indicator of living standards in general. By the 1970s and 1980s, there was a growing agreement that important aspects of well-being, such as health status, or exposure to crime, pollution, and urban congestion, were not fully accounted for in GDP. Research also showed that the distribution of material amenities affected individual well-being. There is now consensus that living standards depend not only on average incomes and consumption but also on access to benefits as diverse as health and education, sanitation and housing, and security and freedom.^a

There are ongoing systematic efforts to collect individual, household, and community data to better understand and compare living standards in developing and developed countries. Complete poverty profiles for different groups of the population within a country, based on the comparison of income or consumption aggregates to international or national poverty lines, have proliferated. Microdata collection efforts have allowed a close monitoring

of standards of living and poverty reduction worldwide. Advances toward the first Millennium Development Goal (Eradicate extreme poverty) have been documented using global monetary poverty measures. The availability of richer datasets, in turn, has supported the emergence of newer measures of living standards, many of them multidimensional in nature. These measures combine both monetary and nonmonetary indicators of well-being, as well as information on their distribution across different population groups.^b

Despite this progress, important controversies remain, particularly on which indicators are more appropriate for gauging each dimension of well-being and on the weights that should be attributed to each. Some recent proposals even suggest a revamping of statistical systems to formulate better measures of production that take into consideration changes in the quality of goods, government services, and time allocated to home activities and leisure. There are also proposals to include among measures of living standards subjective indicators of well-being and indicators on the level and sustainability of human, physical, and environmental assets.^c Other proposals emphasize subjective indicators building on a philosophical point of view.^d Aggregating indicators and comparing them over time and across space becomes more intricate in this case, because of differences in values and beliefs.

Source: World Development Report 2013 team.

a. Adelman and Morris 1973; Chenery and Syrquin 1975; Nordhaus and Tobin 1973; Sen and Hawthorn 1987; Steckel 1995; Streeten 1979.

b. Among these indicators are the Human Development Index (UNDP 1990), the Human Opportunity Index (Paes de Barros and others 2009), and a large variety of multidimensional poverty indexes (Alkire and Foster 2011; Bourguignon and Chakravarty 2003; Kakwani and Silber 2008). See also OECD 2011.

c. Fitoussi, Sen, and Stiglitz 2010.

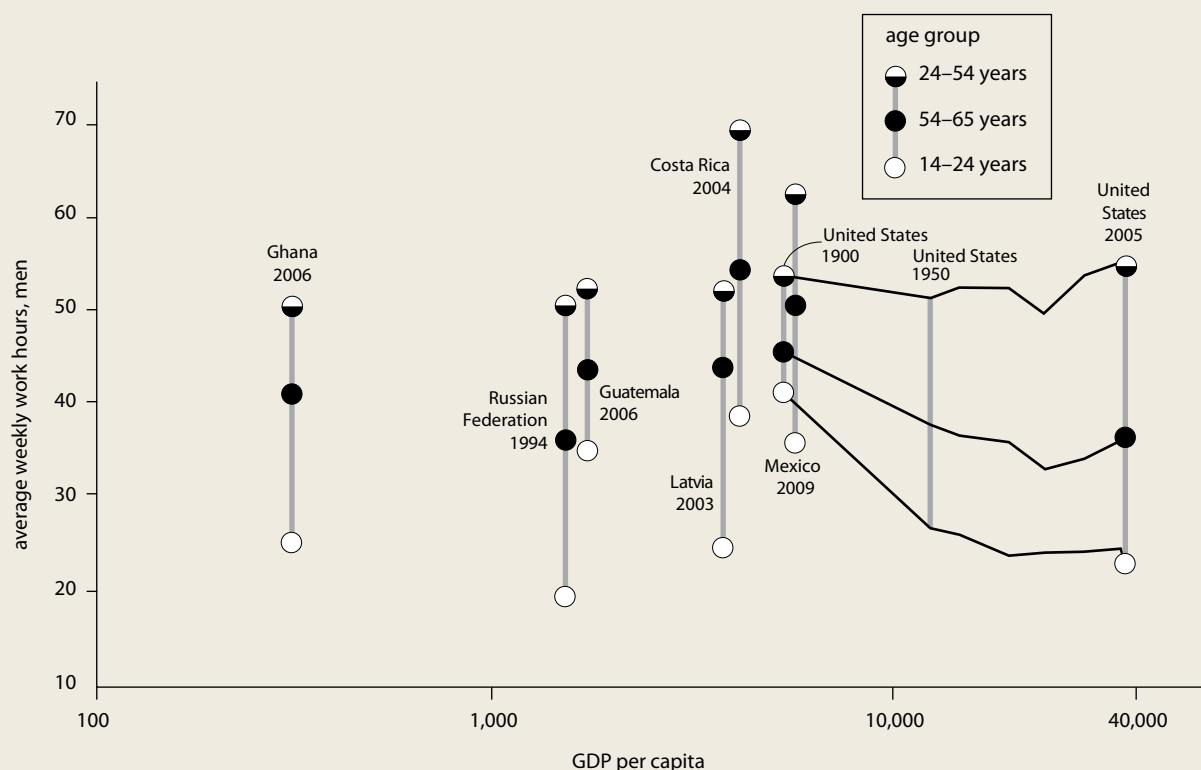
d. This is the case, for instance, of the measures of Gross National Happiness in Bhutan by the Center for Bhutan Studies.

The nature of production, consumption, and investment activities varies across countries as well. In some, low hours of work among youth are associated more with idleness than with schooling; in others, schooling has proceeded at an accelerated pace. Similarly, job characteristics change with development. In rural economies where agricultural activities predominate, the purpose of household production is often direct consumption. Less developed economies tend to be characterized by more working time dedicated to jobs without wage payments, including farming and other types of self-employment. Development changes the organization of work from home to market production.² As economies develop, more work is remunerated through wages and salaries. This reallocation is usually accompa-

nied by higher market participation among women.³ Developed and developing economies allocate a similar share of the day to work. But women allocate a larger share than men to activities not directly generating income (figure 2.2).

Jobs do not automatically guarantee sustained improvements in earnings and well-being. Working people often remain mired in poverty. In many countries, adults in poor households are more likely to be working than those in nonpoor households. The poor are not usually characterized by lack of jobs or hours of work; they often have more than one job and work long hours, but their jobs are poorly remunerated (box 2.2).

In more affluent societies, a larger share of income is derived from capital, transfers (social

FIGURE 2.1 Working hours vary across ages

Sources: Berniell and Sanchez-Paramo 2011; Ramey and Francis 2009.

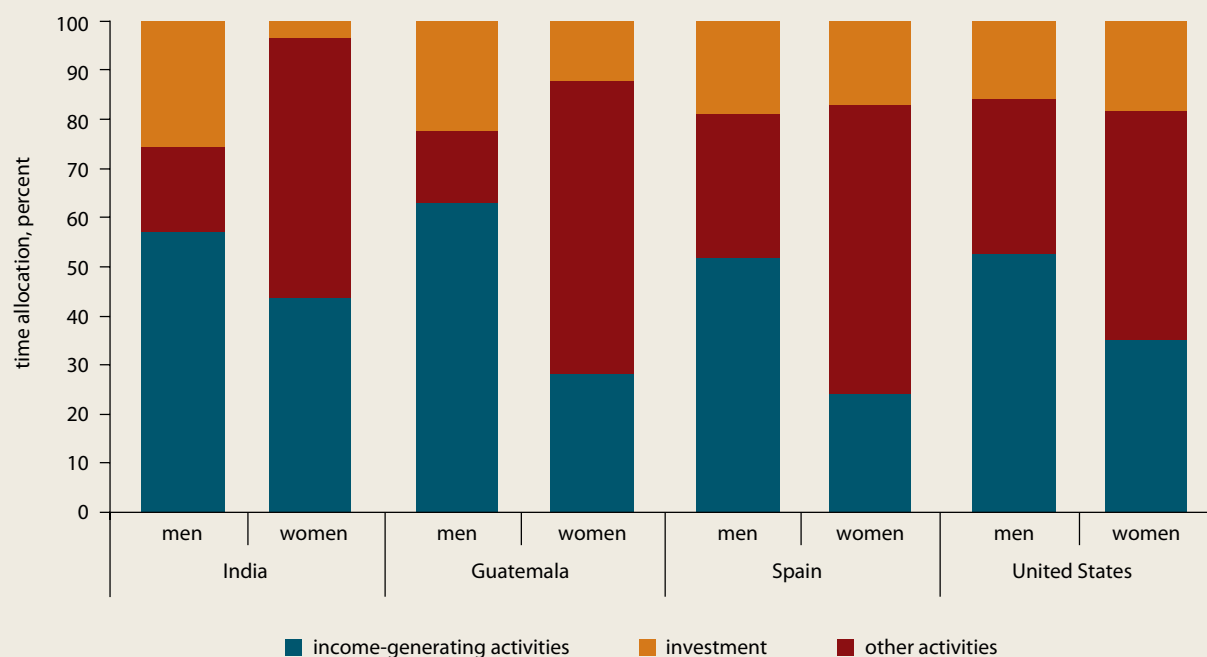
Note: GDP = gross domestic product. The vertical axis measures weekly hours spent on production activities (market and nonmarket work), including some outside the boundaries of the system of national accounts, such as child care. The measure does not include time allocated to schooling or leisure. The horizontal axis measures real GDP per capita in 2000 US\$.

assistance), or savings (social insurance and pensions). Still, the majority of households worldwide make their living through their work, and labor earnings represent the largest share of total household income (figure 2.3). The main change that comes with development is the composition of labor income.⁴

Job-related events are the main escape route from poverty in developing and developed countries alike. More than two decades of research on poverty dynamics, spanning countries as different as Canada, Ecuador, Germany, and South Africa, show that labor-related events trigger household exits from poverty (figure 2.4). These events range from the head of a household taking a new job, to family members starting to work, to working family members earning more from their labor. In a large set of

qualitative studies in low-income countries, getting jobs and starting businesses were two of the main reasons people gave to explain their rise out of poverty.⁵ Conversely, a lack of job opportunities reduces the ability of households to improve their well-being.⁶

Jobs are not the only force that determines whether a household escapes from poverty. Demographic changes, such as the arrival of a newborn, relatives moving in, or a family split because of death or separation, affect expenditures per capita, hence the household's poverty status. The same is true of changes in nonlabor income from assets or transfers, be they private remittances, public social assistance, or pensions. These developments may all interact and often occur simultaneously. For example, the migration of family members to a city for a job may

FIGURE 2.2 Women spend more time in activities not directly generating income

Source: World Development Report 2013 team based on ISSP 2005 for Spain and the United States, 1999 Time Use Survey of India, and 2006 Guatemala Household Survey. Note: The figure refers to people aged 15 years and more. *Income-generating activities* is the time devoted to wage or salaried employment; farming, own-account work, self-employment with hired labor, and unpaid family labor in household enterprises; *investment* refers to time allocated to education, health care, and job search; *other activities* includes work outside the system of national accounts, for example child care, housework. Leisure and other activities associated with consumption (for example, shopping and social interactions), as well as sleep, are not included.

improve the well-being not only of the migrants but also of those who stay in the rural village. In addition to receiving remittances, those who stay behind may have access to the migrants' land to cultivate and work more as a result.⁷

With all these changes occurring at the same time, gauging the contribution of labor earnings to poverty reduction is difficult. However, recent methods allowing to decompose changes in poverty by sources of income confirm the fundamental contribution of change in labor earnings (figure 2.5). In 10 of 18 countries considered for the analysis, labor income explains more than half of the change in poverty, as measured by the US\$2.50-a-day poverty line. In another 5 countries, it accounts for more than a third of the reduction in poverty.⁸ A further decomposition of the contribution of labor income to poverty reduction in Bangladesh, Peru, and Thailand found that changes in individual characteristics

(education, work experience, or region of residence) were important, but that the returns to these characteristics mattered more. Among those returns is the relative price of labor.⁹

The connection between jobs and poverty reduction is not mechanistic, and not all transitions out of poverty require a change in the type of work undertaken. Changes in the productivity of the same job may also be at play. In Bangladesh and Vietnam, for example, poverty transitions have been dominated not by changes in income sources from farm to nonfarm income, but by higher income within the same sector.¹⁰

Richer insights on the connection between labor-related events and transitions out of poverty can be obtained from studies that follow the same households over extended periods of time. Studies in several countries in Asia and in Sub-Saharan Africa show that farming and off-farm activities are intricately related and not

BOX 2.2 Most poor people work

It is not lack of work that defines the poor. This realization has brought to the fore the concept of the working poor, and questions about who they are, and why they remain poor even when they have jobs. First studied by researchers in some countries such as the United States, this concept of the working poor is now recognized globally. The International Labour Organization (ILO) has included the working poor in its statistics since the mid-1990s, and measurements of this group have been added as a Millennium Development indicator.

The working poor are defined as employed persons in households whose members are living below one of the two international poverty lines—either US\$1.25 or US\$2 a day.^a Household expenditure surveys allow for a classification of the population as poor and nonpoor, based on the level of consumption per person. These surveys also provide information on household members who work. According to the ILO’s most recent estimate, 910 million workers—nearly 30 percent of total global employment—were living on less than US\$2 a day.^b The incidence is much higher among low-income countries. It reaches 63.7 percent in Africa and 54.2 percent in Asia.^c

Caution is needed in interpreting this concept, however. Outside the group of the working poor, there may be individuals who have very low labor earnings but whose expenditures are above the poverty line because they have other sources of income such as private transfers or earnings from social insurance or social assistance programs. In other words, being excluded from the category of working poor does not mean one has high labor earnings.

Another concept that indicates whether job earnings are sufficient to ensure an adequate standard of living for a person or a household is the living wage. This is the level of earnings that would provide a satisfactory standard of living to workers and their families. But moving from this definition to measurement is difficult. With more than half of all working people engaged in nonwage work, accurate measures of labor earnings may not be available. Moreover, there are diverse interpretations of what constitutes a standard family and a lack of consensus on computation methods.^d An alternative is measuring the percentage of the population that cannot reach the poverty line with labor incomes only, as the Poverty Labor Trend Index in Mexico does.^e

Source: World Development Report 2013 team.

Notes: For a review of the working poor in developed countries, see Blank, Danziger, and Schoeni (2006) and Brady, Fullerton, and Cross (2010); for developing countries, see Fields (2011). The content and scope of the Millennium Development Goals can be found in United Nations, “We Can End Poverty, 2015: Millennium Development Goals,” United Nations, New York.

a. Indicator 18, “Poverty, income distribution and the working poor,” KILM (Key Indicators of the Labour Market) (database), 7th ed. 2011, International Labour Organization, Geneva.

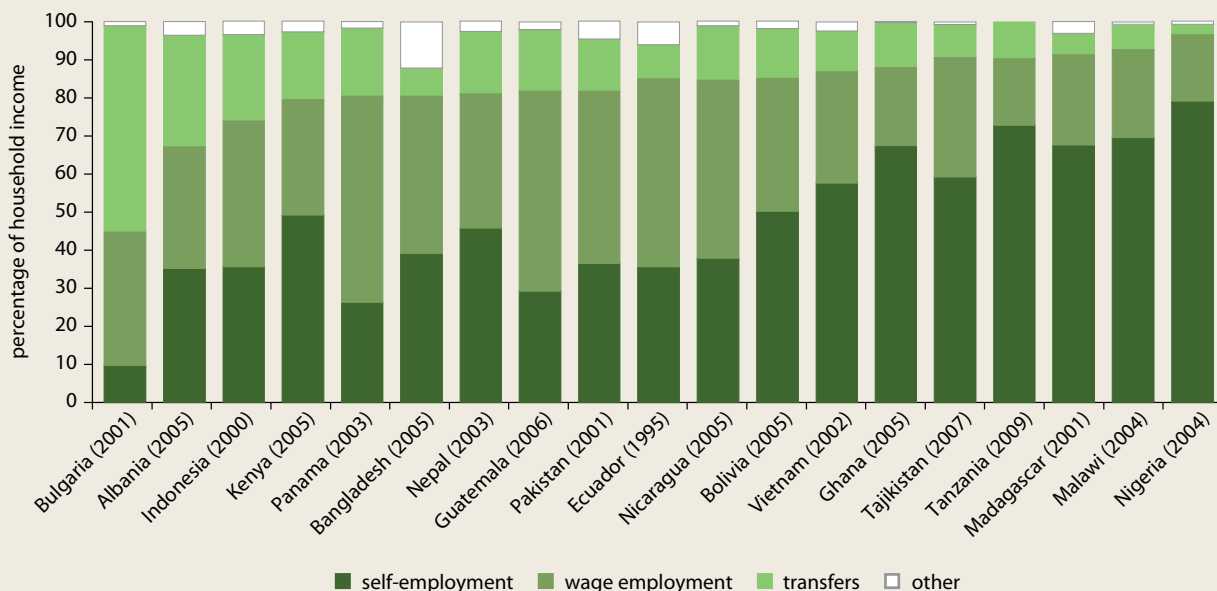
b. ILO 2011, 41–42.

c. Estimates are for 2009 for a selection of low-income countries from the ILO KILM.

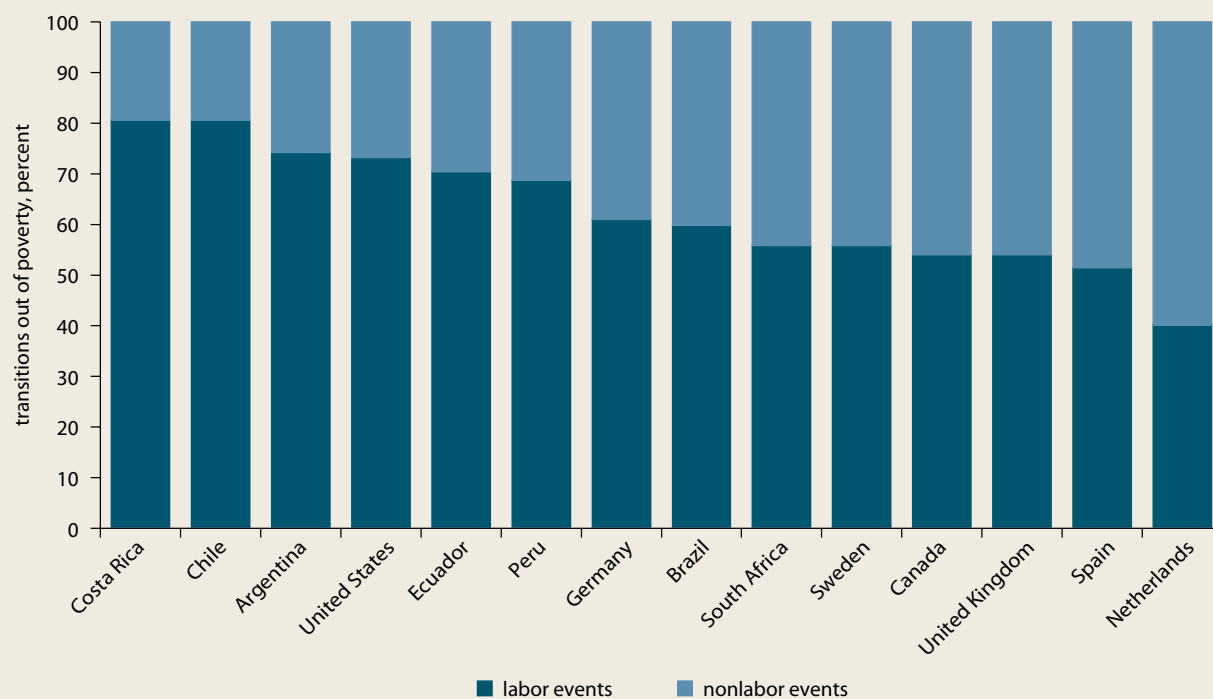
d. Anker 2011.

e. Poverty Labor Trend Index, National Council for the Evaluation of Social Development Policy (CONEVAL), Mexico City.

FIGURE 2.3 Jobs are the most important source of household income



Source: Covarrubias and others 2012 for the World Development Report 2013.

FIGURE 2.4 Jobs take households out of poverty, especially in developing countries

Source: Inchauste 2012 for the World Development Report 2013.

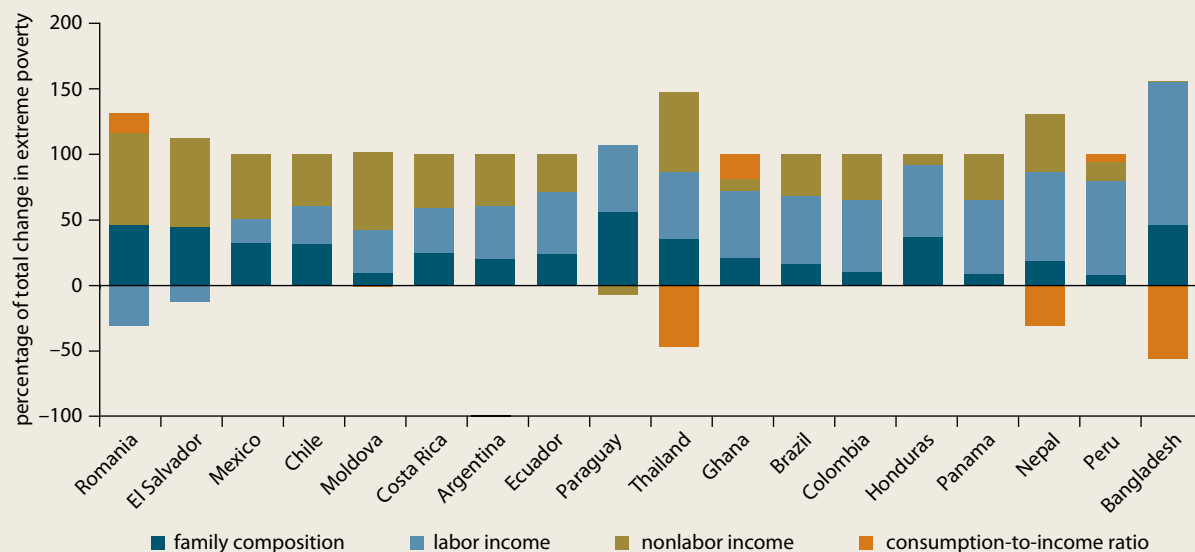
Note: Nonlabor events include changes in nonlabor earnings (such as rents or pensions) and demographic changes. A trigger event is defined as the most important event occurring during a poverty reduction spell among a set of mutually exclusive categories of events such as changes in family structure, in sources of income, and in needs of the household.

necessarily substitutes for each other. Access to land, increases in farm yields, and access to markets are fundamental for the growth of off-farm jobs and hence for diversification in family incomes.¹¹ Simply having work is not what matters most, according to these studies, since most people work in rural economies. What is important for escaping poverty is deriving greater earnings from work.

Other factors of production are critical for explaining poverty reduction through jobs, particularly in rural areas. Studies from Uganda and Pakistan, using rural data spanning 4 and 10 years respectively, show that higher agricultural productivity, the growing commercialization of agriculture, and an increase in cash crop production contributed substantially to poverty reduction. The increase in the price of cash crops over this period also helped.¹² Improvements in land rights and better access to input and output markets, due to infrastructure in-

vestments, also raised the odds of escaping poverty, particularly in Uganda. All of these factors affect the labor productivity of farmers but originate in land markets or food markets rather than labor markets.

The largest poverty reductions documented are associated with jobs in agriculture. The cases of China and Vietnam, in the 1980s and 1990s respectively, testify to the importance of agricultural productivity and the forces unleashed by land reform, investments in rural infrastructure, and off-farm job opportunities.¹³ In rural China, poverty reduction was associated with off-farm activities, but the workers engaged in these activities tended to be those who had benefited from increased farm incomes and by obtaining more education.¹⁴ Furthermore, easier access to off-farm employment and opportunities for migration reduced the exposure of households to income shocks. A similar pattern of events has been documented in other Asian and Sub-

FIGURE 2.5 *Jobs account for much of the decline in extreme poverty*

Sources: Azevedo and others 2012; Inchauste and others 2012; both for the World Development Report 2013.

Note: *Family composition* indicates the change in the share of adults (ages 18 and older) within the household. *Labor income* refers to the change in employment and earnings for each adult. *Nonlabor income* refers to changes in other sources of income such as transfers, pensions, and imputed housing rents. If a bar is located below the horizontal axis, it means that that source would have increased, instead of decreased, poverty. The changes are computed for Argentina (2000–10); Bangladesh (2000–10); Brazil (2001–09); Chile (2000–09); Colombia (2002–10); Costa Rica (2000–08); Ecuador (2003–10); El Salvador (2000–09); Ghana (1998–2005); Honduras (1999–2009); Mexico (2000–10); Moldova (2001–10); Panama (2001–09); Paraguay (1999–2010); Peru (2002–10); Nepal (1996–2003); Romania (2001–09); and Thailand (2000–09). The changes for Bangladesh, Ghana, Moldova, Nepal, Peru, Romania, and Thailand are computed using consumption-based measures of poverty, while the changes for the other countries are based on income measures.

Saharan African countries. Whereas poverty reduction in rural areas in Asia is associated with diversification into nonfarm activities, in Sub-Saharan Africa, it may be more closely associated with increases in farm productivity.¹⁵

Jobs and relapses into poverty are also connected. Widespread shocks such as droughts, floods, and conflicts can drive households into poverty or even chronic poverty. Events specific to individuals, such as illness or poor health of the head of household, can have the same effect. In these cases it is not joblessness per se that pushes families into poverty but rather the destruction of personal and household assets.¹⁶ And even taking these shocks into account, job loss of the head of household remains a critical determinant of a fall into poverty.¹⁷

The poor clearly rely on their labor to make a living. The death or disability of an income earner significantly increases the odds of falling into poverty or remaining poor, particularly

among households with few assets. Studies from Uganda and Pakistan show that the share of household members who work also has a considerable impact. Households with rising dependency ratios were more likely to remain poor or fall into poverty, while households whose share of working-age adults increased were less likely to fall into poverty or remain in a state of poverty.¹⁸

Jobs are more than just earnings

Jobs have consequences beyond wages and earnings. Other aspects such as workplace safety, stability, commuting time, learning and advancement opportunities, entitlements to pension benefits, and other amenities are highly valued by some workers. However, quantifying the monetary value of these other aspects of a job is not easy. Comparable surveys in Jianyang,

BOX 2.3 *The value of job attributes can be quantified through hedonic pricing*

Workers place a value on jobs that goes beyond income. At the individual level, people assess the impact a job might have on their physical and mental well-being, as well as on their families. In addition to the earnings the job provides, they can value the stability of a job, its earnings, the possibilities of advancement, or the flexibility of working hours. Workers might also value how well a job connects them to society, the prestige associated with it, or its contribution to social goals.

Hedonic pricing assesses how people value specific job characteristics through their job satisfaction or happiness more broadly. Indicators of subjective well-being are linked through statistical analysis to various job characteristics, including earnings. Statistical methods can be used to assess the contribution of each of these job characteristics to happiness or job satisfaction.

The weights associated with different job characteristics in the estimated hedonic price function allow an assessment of the value workers attach to each job characteristic. The monetary value of a job characteristic can be assessed by comparing the corresponding weight in the hedonic price function with the weight of earnings. Thus, for instance, a hedonic function reveals the share of earnings respondents would be willing to forgo in exchange for stability, or for creativity at work, or for a job providing voice in the workplace.^b

Using surveys commissioned for this Report, hedonic valuation of health insurance benefits range from 1.5 percent of hourly wages

in Colombia and China to 4.2 percent in Egypt and 5.1 percent in Sierra Leone.^a This is significantly lower than the explicit valuations answered by those surveyed: 4.9 percent in China, 10 percent in Colombia and Sierra Leone, and, at the highest, 25 percent in Egypt. This indicates that the revealed preference of individuals for health insurance benefits in the job are lower than the price they express they would be willing to pay. Hedonic pricing can also identify the revealed preference to pay for other less tangible job characteristics. Salaried workers in Colombia, China, and Egypt would forgo up to 1.5 percent of hourly wages for jobs that are “meaningful.” In Egypt, salaried workers reveal a price tag equivalent of up to 2.1 percent of hourly wages for jobs that are non-manual or nonroutine.

This approach is especially relevant in the assessment of job benefits. These benefits involve a deduction from earnings in exchange for access to a pension in old age, for instance. Jobholders typically value these benefits, but they may value them less than the associated deductions in earnings through social security contributions. If the expected value of the pension is low or uncertain, they may prefer to remain in the informal sector. In contrast, a well-designed program that allows longevity risks to be pooled with other jobholders may be valued by the jobholder more than the deductions associated with participation.

Source: World Development Report 2013 team.

a. Calculations by the World Development Report 2013 team of the FAFO (Forskningstiftelsen Fafo [Fafo Research Foundation]) 2012 Survey on Good Jobs.

b. Recent examples are Hintermann, Alberini, and Markandya 2010 and Falco and others 2012.

China; Risaralda, Colombia; Cairo and Fayoum, the Arab Republic of Egypt; and Port Loko and Free Town, Sierra Leone, showed the limited ability of respondents to attach a monetary value to job benefits, despite expressing willingness to pay.¹⁹ Among those who do give an explicit valuation, the willingness to pay for pension benefits goes from 5 percent of monthly wages in China to 7 percent in Colombia and 13 percent in Egypt. Lower values are given for transportation allowances (2, 1, and 7 percent, respectively), but having a permanent contract is valued more, especially in Egypt (3, 8, and 22 percent, respectively) (box 2.3).

Characteristics of jobs have other less tangible, but no less real, effects on well-being. In particular, jobs can have a direct impact on workers' health, a key component of human development and personal well-being (box 2.4). Exposure to hazardous substances causes an estimated 651,000 deaths annually, mainly in developing countries. Work-related acci-

dents and diseases kill an average of 6,000 people a day, or 2.2 million a year. Most of these deaths (1.7 million) result from work-related diseases; the remainder is linked to fatal accidents in the workplace and during commutes to or from work.²⁰ Every year, more than 400 million people (nearly 15 percent of the global labor force) suffer from occupational accidents or illnesses involving work-related diseases. In some cases, the incidence is intolerably high: half of slate pencil workers in India and 37 percent of the miners in Latin America suffer from some stage of silicosis (an occupational lung disease caused by inhalation of silica dust).²¹ Mental health can be threatened by abusive relations between managers and workers and sexual harassment. Health risks are not confined to wage employment. Collecting and carrying water or cooking over open stoves, as many self-employed workers do, poses risks, and these risks are more likely to affect women than men.²²

BOX 2.4 *Work can pose risks to health and safety*

Surveys of workers in garment factories in three countries underscore the health and safety hazards they face in their jobs. Garment workers in Indonesia, Jordan, and Haiti have reported physical stresses linked to work, including hunger, thirst, and severe fatigue.

In Indonesia, more than half the workers surveyed reported that they had experienced severe thirst often or every day. Heat is a likely contributor. Asked whether the factory is too hot or too cold, only about half (52 percent) reported that temperature was not a concern. Occupational safety is an issue for many: 59 percent of workers reported concerns about dangerous equipment; 73 percent were concerned about accidents; 64 percent, about dusty or polluted air; and 69 percent, about chemical odors.

In factories in Jordan, 37 percent of workers reported concerns about dangerous equipment, and 45 percent reported concerns about accidents and injuries.

In Haiti, 40 percent of workers reported that they had experienced severe fatigue or exhaustion occasionally, often, or every day; 41 percent reported frequent headaches, dizziness, backaches, or neck aches. A stunning 63 percent of workers reported that they had experienced severe thirst often or every day.

Source: IFC and ILO 2011.

Occupational accidents and work-related diseases have economic costs. These costs are difficult to compute because the estimates ought to include spending on health care and sickness benefits, as well as the forgone earnings from workdays lost. Estimating these costs is particularly difficult in the case of the self-employed. The few studies that have tried to do so suggest that the burden on society could be high. In Spain, in the industrial sector alone, these costs were estimated to amount to 1.72 percent of gross domestic product (GDP) in 2004. In Mauritius, the cost of work-related injuries represented around 2.8 percent of GDP in 2003.²³ Global estimates put the cost associated with work-related sickness at around 4 percent of GDP.²⁴

Opportunities to participate in labor markets for people with disabilities vary across countries. The employment ratio of people with disabilities ranges from 70 percent, in Poland, to 20 percent, in Switzerland and Zambia, lower than the ratio for the overall population.²⁵ Disabilities may be preexisting conditions or the result of job-related injuries or conditions. Different labor outcomes among persons with disabilities stem from productivity differentials, from disincentives created

by the system of social benefits, and from discrimination. In any case, a lower employment rate is one of the main channels through which disability may lead to poverty.

In countries where wage employment is the norm, joblessness may severely affect well-being. Together with income, social status has been recognized as an important factor in the development and maintenance of mental health.²⁶ Studies document the detrimental effects of unemployment and the positive effects when finding a job.²⁷ Medical research has associated unemployment with stress, depression, heart disease, and alcoholism.²⁸ Psychological hardship, marital dissolutions, and suicide have also been associated with job loss.²⁹ Depression and stress-related illnesses are becoming more common with the expansion of outsourcing, labor informality, and mobility in the modern workplace.³⁰

The impact of unemployment on mental health appears to occur independently of the availability of social insurance or other mechanisms of protection.³¹ This is because the psychological hardship of unemployment is also associated with social stigma. Studies show that a worker who is unemployed or who has a vulnerable job faces less duress if the phenomenon is more pervasive or if there is less inequality in the incidence of unemployment or the distribution of vulnerable jobs. This finding demonstrates the close interaction between a person's job and their place in society.³²

Jobs and life satisfaction

Happiness, both a personal goal and a social aspiration, is related to employment status. A large body of literature shows that unemployed people report lower happiness and life satisfaction than their employed counterparts.³³ For instance, in Indonesia subjective well-being increases when gaining a job and decreases when losing it.³⁴ Some researchers argue that this discontent is transitory, but others point out that, as long as concerns about job stability persist, so does unhappiness. This "unhappiness effect" is more typically reported in men than in women, but evidence indicates that women are affected by the unemployment of their spouse.

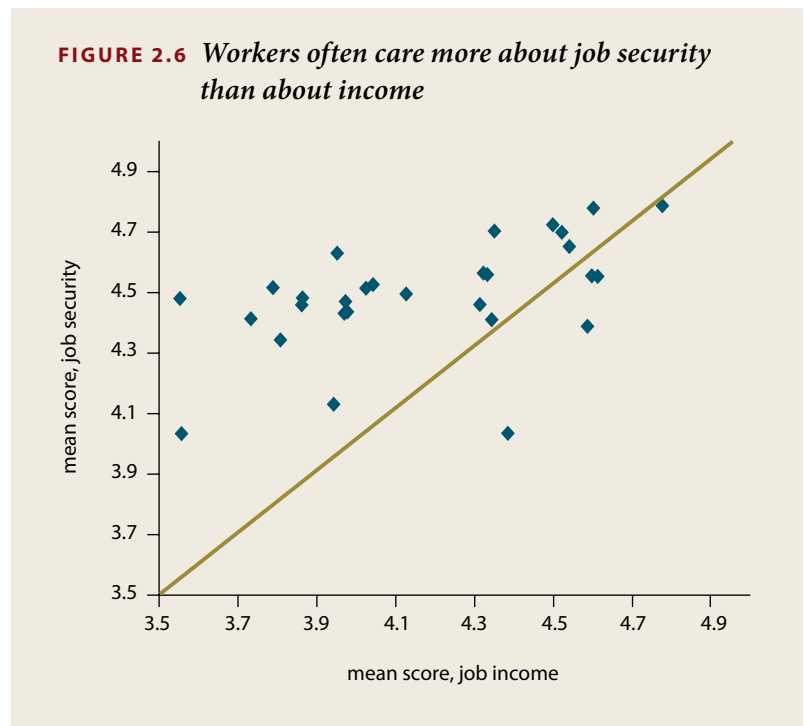
The lack of employment can lower the self-esteem and undermine the social status of other family members.³⁵

When jobs are in short supply and unemployment becomes a problem, people change their expectations and attitudes. Data from the World Value Surveys for a large set of countries (both developed and developing) show that higher unemployment rates are associated with lower ambitions to do meaningful work, perhaps indicating that a lack of available jobs impels individuals to accept any job.

It is not only one's joblessness that may be important to life satisfaction. In the United Kingdom, the unemployed are less unhappy in districts in which the unemployment rate is higher, suggesting that joblessness always hurts but that it hurts less if there are many unemployed people in the local area.³⁶ The effect on happiness of not having a job seems to be partially offset by the lower social stigma when the lack of jobs is widespread. Joblessness also leads to a loss of contact with people through the workplace and to a contraction in related social networks, which can erode social capital and undermine the sense of engagement with others.³⁷

Simply having a job does not guarantee higher life satisfaction. Feeling insecure at work because of earnings variability, job instability, or health and safety concerns also affects a person's sense of well-being (figure 2.6).³⁸ For wage workers, the type of contract and its duration are important; part-timers and seasonal workers express less job satisfaction. Even workers with long-term contracts may feel insecure.³⁹ In factories in Haiti, Jordan, and Vietnam, earnings from work did not influence the reported level of life satisfaction, but working conditions did.⁴⁰ In more developed countries, jobs that provide more autonomy are linked to higher life satisfaction.⁴¹

Most research on the links between jobs and life satisfaction has been conducted in settings where wage employment is the norm. A growing literature on life satisfaction in developing regions, where a smaller share of those who work are wage earners, shows that farmers have the lowest levels of life satisfaction relative to other workers and the unemployed (figure 2.7). Meanwhile, wage workers and the self-



Source: ISSP 2005.

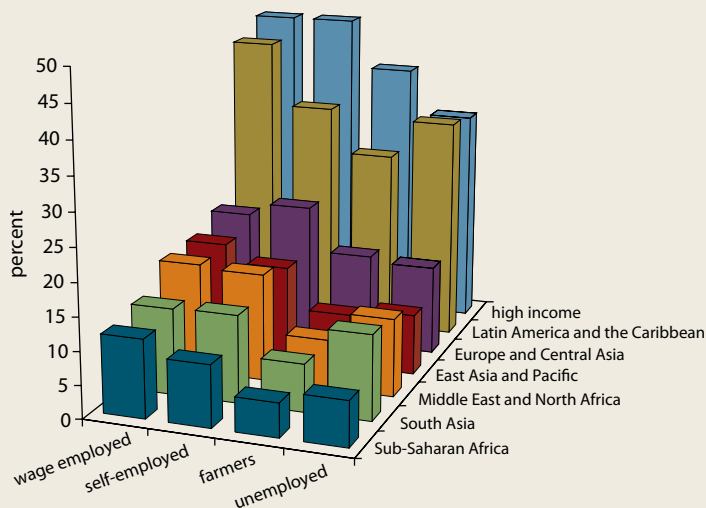
Note: The analysis covers 29 countries, each represented in the figure by a dot. Respondents scored the importance of job security and job income on a scale from 1 to 5, with 5 = very important, 4 = important, 3 = neither important nor unimportant, 2 = unimportant, 1 = not important at all.

employed have higher levels of satisfaction than the unemployed.

Whether the self-employed express greater satisfaction than wage workers depends on the context. In industrial countries and in Eastern Europe and Central Asia, life satisfaction is, on average, similar among both groups, but in Latin America, it is substantially lower among the self-employed.⁴²

Jobs contribute to how people view themselves and relate to others. Most people feel strongly that their jobs should be meaningful and contribute to society. A 2005 survey of 29 countries asked people about the characteristics that they valued in their jobs.⁴³ Over three-quarters reported that it is important to have a job that is useful to society, and a similar share agreed that it is important that their jobs help other people. In nine countries, the share who reported that it is important for jobs to be socially useful was higher than the share reporting that high income is important. While most of these are high-income countries, preferences for

FIGURE 2.7 *Life satisfaction is lower among farmers and the unemployed*



Sources: Gallup 2009, 2010.

socially useful and high-income jobs did not differ greatly in the Dominican Republic, Mexico, or South Africa.

Job satisfaction and other measures of non-material well-being such as happiness or identity may be affected by cultural differences

and social norms. Notwithstanding this, other health variables used as proxies of job satisfaction such as absence of fear or sadness also show an association with working conditions. Research for Haiti, Jordan, and Vietnam finds working conditions such as basic hygiene and health, workplace facilities, or presence of unions to be associated with fewer feelings of fear or sadness.⁴⁴

* * *

Jobs have an impact on the well-being of the person who holds them, but they can also have an impact on the well-being of others. Some jobs bring more poverty reduction and, as such, benefit those who consider eradicating poverty to be a fundamental societal goal. Some jobs promote higher employment rates among women, giving more say on the way household resources are allocated, typically leading to greater spending on raising children. Gender equality, much the same as poverty reduction, is a broadly shared societal goal. Jobs that have these additional impacts do more for development. Given such spillover effects, jobs play a fundamental role in the well being of individuals and entire societies. Jobs may thus be the center piece of a development strategy (Question 2).

Growth strategies or jobs strategies?

Rapid and sustained growth is generally viewed as the main priority for developing countries, and as a precondition for continued increases in living standards and strengthened social cohesion. Economic growth, living standards, and social cohesion can indeed move together, and they often do—as shown, for example, by the remarkable experience of East Asian economies, including the Republic of Korea and Singapore.⁴⁵ Building on the East Asian experience, the conventional wisdom is to focus on growth and assume that increased living standards and greater social cohesion will follow. This is the main tenet behind “growth strategies,” “growth diagnostics,” and “binding constraints analyses,” all of which aim to identify and remove obstacles to economic growth and to sustain it over prolonged periods of time.

But transformations in living standards, productivity, and social cohesion do not necessarily happen at the same pace. Lags and gaps in rising living standards can be illustrated by the different impacts growth has on poverty reduction across countries. A 2 percent annual growth rate can reduce poverty rates by 1 percent in some countries and by 7 percent in others.⁴⁶ Ethiopia, Tanzania, and Zambia experienced periods of economic growth with very little change in poverty incidence.⁴⁷ On the other hand, important advances in poverty reduction have also happened during periods of slow growth, as occurred in Brazil and Mexico during the 1990s and the first half of the 2000s.⁴⁸ And in some cases, growth is not accompanied by increased social cohesion—even though poverty may fall and living standards improve for some, the expectations of others remain unfulfilled. Tunisia is a clear example in this regard: its growth rate is well above the average of the region, but it has nonetheless experienced serious social and political tensions.⁴⁹

The recognition of these lags and gaps has led to more nuanced approaches to economic growth in which the growth being sought is “pro-poor,” “shared,” or “inclusive.”⁵⁰ In these versions, it is not just the rate of growth that matters but also the initial distribution of in-

come and the possibility of redistributing resources through the growth process itself and through government transfers.⁵¹

Behind these sensible qualifiers, it is possible to point to the role of jobs. Growth is “inclusive” when higher earnings are driven by employment opportunities for the majority of the labor force, particularly the poor. Recent studies show that the impact of economic growth on poverty reduction depends critically on the employment intensity of different sectors.⁵² Employment opportunities also matter for social cohesion. It is thus jobs that bring together the three transformations.

Realizing the role jobs play implies going beyond the sequential view in which growth issues are addressed first and employment follows from increased demand. Instead, jobs are seen as a medium that can make the development transformations a reality. From a statistical point of view, the relationship between growth and employment (or unemployment) shows substantial variation over time, across countries, and across sectors. In light of this diversity, a given rate of growth does not guarantee a given level of job creation or a given composition of employment (box 2.5).

When a growth strategy may not be sufficient

Focusing on the aggregate relationship between growth and employment downplays some of the most important channels through which jobs connect to development. The very notion of employment as derived labor demand does not reflect the situation of the many working people in developing countries who are farmers and self-employed. The focus on the labor market as the transmission chain between growth and employment also does not capture the interaction of working people with others in households, at the workplace, and in society more broadly. Focusing solely on the relationship between growth and employment may fail to measure how jobs can foster gender equality, support urbanization, or contribute

BOX 2.5 *The relationship between growth and employment is not mechanical*

The statistical connection between economic growth and employment is sometimes termed Okun's Law. In 1962 Arthur Okun found that in the years immediately following World War II, a 1 percent increase in gross domestic product (GDP) in the United States brought about a 0.3 percent decline in unemployment. Since then, this empirical regularity has found support in a wide variety of countries. Recent research, however, suggests that Okun's Law is not as stable as its name implies.^a

The debate on the stability of Okun's Law sheds light on the characteristics of economic recessions and expansions. A recent study indicates that, in industrial countries, unemployment has become more responsive to output declines over the past 20 years. This has been attributed to institutional reforms that have made labor markets more flexible. Interestingly, economies that suffer financial crises and large housing price busts (such as the United States and Spain in recent years) have deeper and longer increases in unemployment than Okun's Law would have predicted; whereas economies with large short-time work schemes (like Germany, Italy, Japan, and the Netherlands) show less unemployment than predicted.^b

While Okun's Law relates to unemployment, other studies focus on the growth elasticity of employment. In its simplest form, this elasticity is the ratio between the percentage change in employ-

ment and the percentage change in GDP. These elasticities show great variability over time and space, too, making it difficult to forecast net job creation over the course of development. For instance, in Tanzania growth elasticities of employment declined from 1.04 in the period 1992–96 to 0.27 in the period 2004–08. Similar trends have been reported for Ethiopia, Ghana, and Mozambique.^c In Latin America, recent estimates show that growth elasticities of employment were much lower during the global financial crisis than in previous crises. In other words, the Great Recession produced comparatively less net employment destruction in that region.^d

While employment and unemployment are aggregates, growth may also affect the composition of unemployment. Important controversies, such as why manufacturing employment in India has stagnated despite rapid growth in the sector can be interpreted in this light.^e Other studies show that, given their different labor intensities, economic growth in some sectors like agriculture, construction, or services generates more employment than does economic growth in manufacturing.^f Investment projects in agribusiness in Ukraine, in construction in India, and in tourism in Rwanda have had large employment impacts, not only because of the direct jobs created but also because of indirect job creation in their large network of distribution channels.^g

Source: World Development Report 2013 team.

a. Cazes, Verick, and Al Hussami 2011; Moosa 2012.

b. Balakrishnan, Das, and Kannan 2009.

c. Martins 2012 for the World Development Report 2013.

d. World Bank 2010.

e. Bhalotra 1998; Roy 2004.

f. Arias-Vasquez and others 2012 for the World Development Report 2013.

g. IFC, forthcoming.

to peaceful collective decision making. Understanding how to enhance these positive spillovers from jobs might be difficult when only aggregates are considered.

The case of urbanizing economies such as Bangladesh may support the idea that the three major transformations happen simultaneously. Taking advantage of their abundance of relatively low-skilled labor, such economies can engage in world markets through light manufacturing. Wage employment is created in large numbers, providing opportunities for rural migrants, and cushioning social tensions at a time of rapid social change. In Bangladesh, the expansion of the light manufacturing sector has allowed for the integration of young women into the labor market, at a time of falling fertility rates. Employment opportunities for women have in turn led to growing female schooling, better human development outcomes, and faster poverty reduction.

In practice, however, tradeoffs between the three transformations can amount to more than just lags and gaps. Depending on the nature of the jobs challenges facing a country, tensions may emerge between growth that generates jobs for living standards and growth that generates jobs for productivity growth or for social cohesion. Examples abound:

- In agrarian economies, increasing productivity in smallholder farming is fundamental for poverty reduction, given the share of the population living in rural areas. But urban jobs in activities that connect the economy to world markets and global value chains are necessary for growth. With limited resources to support both, a tradeoff between living standards and productivity may arise.
- In resource-rich countries, massive investments in extractive industries support accel-

erated rates of growth and connections with international markets but generate little direct (or even indirect) employment and often little poverty reduction. Moreover, the abundance of foreign exchange undermines the competitiveness of other activities, making it difficult to create productive jobs in other sectors.

- In countries with high youth unemployment, job opportunities are not commensurate with the expectations created by the expansion of education systems. And the active labor market programs needed to defuse social tensions in the short term may not do much for poverty reduction because many of the jobless come from middle-class families, and devoting public resources to finance them may reduce economic dynamism.
- In formalizing economies, there is an effort to support social cohesion by extending the coverage of social protection to as many workers as possible. Broad coverage regardless of the type of job is often seen as part of a social compact. But extending coverage without distorting incentives to work, save, and participate in formal systems is difficult and may have adverse impacts on productivity and long-term growth.

When a jobs strategy may be appropriate

Tradeoffs between improving living standards, accelerating productivity growth, and fostering social cohesion arguably reflect a measurement problem. While the contribution jobs make to output can be quantified, some of the spillovers from jobs cannot. Measured output does not increase when jobs defuse social tensions, even though these outcomes are valued by society and may increase productivity in the future. Conversely, measured output does not decline when jobs in export sectors are replaced by jobs producing for the domestic market, even though the opportunities to acquire technical and managerial knowledge through work tend to be higher in the export sectors.

If the spillovers from jobs could be appropriately quantified, the tradeoffs would be fully understood and an adequate evaluation of the output and employment potential of a given growth strategy would be possible. For example,

fully accounting for the negative impact of current pollution on workers' future health would make a more complete evaluation of the output potential of a growth strategy based on a given technology. Opting for defused tensions or greater integration in world trade would lay the ground for accelerating growth in the future in a sustainable way, which a short-term evaluation based on output growth alone would fail to consider. If measures of growth captured the intangible social benefits from jobs, a growth strategy and a jobs strategy would be equivalent. However, when focusing on measured growth only, spillovers from jobs can easily be overlooked, and this is why a jobs strategy may be needed. By focusing on the spillovers from jobs, a jobs strategy highlights the different outcomes of interest in a development process.

Considering a jobs strategy is a way to call attention to the social value of jobs. A jobs strategy assesses the types of jobs that do more for development in a particular country context. It relies on qualitative and quantitative analyses to identify how jobs contribute to living standards, productivity, and social cohesion. And it seeks to identify where the constraints to the creation of the jobs with the highest development payoff lie in practice. In some cases, a jobs strategy will focus on increasing female labor participation, in others on creating employment opportunities for youth, yet in others on creating a supportive environment for the creation of jobs in cities, or jobs connected to global value chains. This may not be too different from preparing a more comprehensive growth strategy, except that jobs would be center stage.

Jobs strategies are not needed under all circumstances. A jobs strategy is warranted only when potentially important spillovers from jobs are not realized, leading to tensions between living standards, productivity, and social cohesion. When improvements in living standards, productivity, and social cohesion happen together, as was the case in several East Asian countries, and may now be the case in urbanizing economies such as Bangladesh, a growth strategy may be more appropriate. Yet even remarkably successful East Asian economies such as Korea and Singapore, which undoubtedly delivered inclusive growth over many decades, also had jobs strategies at specific points in their development histories (box 2.6).

BOX 2.6 *Korea went from a growth to a jobs strategy, and Singapore the other way around*

The Republic of Korea and Singapore are success stories combining long-term economic growth with rapid poverty reduction and strong social cohesion. But at different points in time, both countries relied on jobs strategies.

Singapore was confronted with a tense social situation at independence, with both high unemployment and inter-ethnic tension. Its first development strategy focused on jobs, housing, and wage moderation. As unemployment subsided, the next strategy was geared toward raising labor costs to encourage higher-value-added activities. This cost drive resulted in a recession, however, and since then Singapore has focused on growth, rather than jobs.

Conversely, Korea abandoned development planning in 1996, but in 2010, it adopted a jobs strategy for the next decade as its highest-level policy document. In October 2010, the Korean government launched the “National Employment Strategy 2020 for the Balance of Growth, Employment and Welfare.” In the tradition of long-range plans, this national strategy has a clear target for 2020: an increase in the employment rate of the working-age population (15–64 years) to a minimum of 70 percent—the average among industrial economies. The strategy was rooted in the mismatch between macroeconomic indicators that pointed to a recovering economy and the inability of individuals—especially youth—to find adequate employment.

The strategy identifies four pillars to achieve the 70 percent target. The first recognizes the importance of collaboration between the public and private sectors for employment creation and consists of implementing economic and industrial policies in a job-friendly manner. The second aims at improving flexibility and fairness in the workplace and consists of a series of reforms to increase regulation in certain areas of the labor law, while decreasing regulation in others. Thus the 40-hour workweek became enforceable for all companies, regardless of size,^a with the obligatory introduction of the *work time savings system*.^b Simultaneously, regulations on duration of contracts for temporary workers and fixed-term contracts were relaxed to allow for more hiring flexibility. The third pillar focuses on increasing labor force participation and skill development of women, youth, and older workers. This involves developing the option of permanent part-time jobs, thus allowing parents to both work and care for their children, especially in sectors suffering from labor shortages and unable to fill full-time jobs. Older workers would be retained longer in the active labor force by having the option to work shorter hours under the wage peak system.^c Last but not least, the intention is to facilitate welfare-to-work transitions, by encouraging able-bodied welfare recipients to enroll in employment assistance programs and by reinforcing their obligation to pursue employment.

Sources: World Development Report 2013 team based on Huff 1994, 1995; Republic of Korea 2010.

a. The 40-hour workweek was introduced in 2004 and applied only to companies with over 1,000 employees.

b. This system allows employees to take leave to compensate for overtime, work during holidays, or night work.

c. The wage peak system allows companies to rehire workers after they retire.



Day laborer in a pineapple plantation in Pontian, Malaysia

Notes

1. Gershuny 2000; Krueger and others 2009; Ramey and Francis 2009.
2. Ngai and Pissarides 2008.
3. See Hongqin, MacPhail, and Dong (2011) for the case of growing female participation in China. On the other hand, see Gammage and Mehra (1999) for the case of stagnant female participation in the Middle East.
4. Davis and others 2010.
5. Narayan, Pritchett, and Kapoor 2009.
6. See the studies cited in Baulch 2011; Fields and others 2003; and Fields and others 2007.
7. de Brauw and Giles 2008; Giles and Murtazashvili 2010.
8. Azevedo and others 2012 for the World Development Report 2013. In El Salvador and Romania, nonlabor incomes compensated for lower labor incomes as a result of the financial crisis. For Mexico, although earnings increased for the employed, this effect was compensated for by a decline in occupied adults, resulting in a relatively lower contribution of labor income to poverty reduction when compared to transfers.
9. Inchauste and others 2012 for the World Development Report 2013.
10. Dang and Lanjouw 2012.
11. Estudillo, Sawada, and Otsuka 2008; Himanshu, Bakshi, and Dufour 2011; Lanjouw and Lanjouw 2001; Lanjouw and Murgai 2009; Otsuka, Estudillo, and Sawada 2009; Takahashi and Otsuka 2009.
12. Mansuri and others 2012a for the World Development Report 2013.
13. Glewwe, Gagnolatti, and Zaman 2002; Ravallion and Chen 2007; Ravallion, Chen, and Sangraula 2009.
14. Christiaensen and others 2009; de Brauw and others 2002; Giles 2006; Giles and Yoo 2007.
15. Christiaensen and Todo 2009; Estudillo and others 2012; Himanshu and others 2011.
16. Dercon and Porter 2011; Fields and others 2003; Lawson, McKay, and Okidi 2006; Lohano 2011; Quisumbing 2011; Woolard and Klasen 2005.
17. Fields and others 2003; Fields and others 2007.
18. Mansuri and others 2012b for the World Development Report 2013.
19. Bjørkhaug and others 2012 for the World Development Report 2013; Hatløy and others 2012 for the World Development Report 2013; Kebede and others 2012 for the World Development Report 2013; Zhang and others 2012 for the World Development Report 2013.
20. ILO 2010.
21. ILO 2005.
22. Al-Tuwaijri and others 2008; Brenner 1979.
23. Estimates for both Spain and Mauritius are from Ramessur (2009).
24. ILO 2005.
25. WHO and World Bank 2011.
26. Wilkinson and Marmot 1998.
27. Baingana and others 2004; Murphy and Athanasou 1999.
28. Brenner 1971; Brenner 1975; Dooley, Catalano, and Wilson 1994; Dooley, Prause, and Ham-Rowbottom 2000.
29. Lundin and Hemmingsson 2009; Stuckler and others 2009a, 2009b.
30. ILO 2010.
31. Ouweneel 2002.
32. Helliwell and Putnam 2004; Stutzer and Lalive 2004.
33. Blanchflower and Oswald 2011; Winkelmann and Winkelmann 1998. There are valid concerns about how to compare self-reported subjective outcomes across countries and cultures. See King and others 2004.
34. Gales, Mavridis, and Witoelar 2012 for the World Development Report 2013.
35. Björklund 1985.
36. Clark and Oswald 1994.
37. Helliwell and Putnam 2004.
38. Dooley, Prause, and Ham-Rowbottom 2000; Winefield 2002.
39. Bardasi and Francesconi 2004; Origo and Pagani 2009.
40. Dehejia, Brown, and Robertson 2012 for the World Development Report 2013.
41. Wietzke and McLeod 2012 for the World Development Report 2013.
42. Graham 2008.
43. ISSP 2005.
44. Dehejia, Brown, and Robertson 2012 for the World Development Report 2013.
45. Gill and Kharas 2007; Stiglitz 1996; World Bank 1993.
46. Ravallion 2001; Ravallion 2011.
47. Bigsten and others 2003; Demombynes and Hoogeveen 2007.
48. Ferreira, Leite, and Ravallion 2010; Hanson 2010.
49. The GDP per capita (in real 2000 US\$) grew in Tunisia at an annual average rate of 3.4 percent between 1990 and 2008, whereas the average for the Middle East and North Africa region was 2.0 percent in the same period (World Development Indicators).
50. There are several measures that gauge “pro-poor” growth. See Ravallion 2004.
51. Ianchovichina and Lundstrom 2009; Ravallion 2001.

52. Christiaensen, Demery, and Kuhl 2011; Loayza and Raddatz 2010.

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