

## **LINKING GROWTH AND EQUITY: ADDRESSING EXCLUSION, DISCRIMINATION AND EXPLOITATION IN LABOUR MARKETS**

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*Labour markets involve individuals working in return for some kind of remuneration.* It is important to caution against conceptualising workers as commodities however, what we are talking about here are real people, working very hard lives, in which their work and productivity is tied closely to their sense of self and self-worth. Labour market engagement includes both waged work and self-employment. However, it is important to recognise that contracted work is limited in the developing context and large swaths of the labour pool work within informal or unregistered sectors. Barriers to entry are much lower in these sectors but remuneration is often low and work is often insecure.

*Labour markets are at the growth-equity nexus:*

Employment is an important transmission mechanism between growth and poverty reduction. We are concerned with growth that is inclusive and benefits the poor. This demands a long term time frame in which positive societal transformations are encouraged alongside efforts to increase national investments and growth.

Work can be productive and rewarding for individuals and households. There are clear benefits for growth and development. People across the income distribution can benefit from and be included in economic growth. Resulting higher levels of national productivity can release a bigger tax base for investing in public services and infrastructure. Individuals and households have greater capacity to invest in their personal assets and can develop a greater sense of power over their lives. Society benefits from improved social cohesion.

Work can be degrading, exhausting and hard. This is a poor development strategy, for both growth and equity. Low wages drive inequality and undermine social cohesion. Underpaid workers consume less and reduce domestic markets for goods and services. Limited individual household investment in human capital development can undermine the potential for future generations. Nationally, global competitiveness is vulnerable to other countries that can offer an even lower paid labour pool (see Green, 2008).

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<sup>1</sup> This paper draws on work of the presenters: Grant, U. (2008) 'Opportunity and exploitation in urban labour markets', *ODI Briefing Paper*, No 44, London: ODI and Higgins, K. (2009) 'Missing a trick with employment, development policy and poverty reduction?', *ODI Opinion*, No 124, London: ODI. It draws together empirical work on urban labour markets, alongside our concerns regarding gaps found in literature review and the emerging priorities in response to the current financial crisis. We aim to open the agenda for the panel discussion on exclusion, discrimination and exploitation to focus on issues and policy responses.

*Exclusion, discrimination and exploitation play-out in labour markets:*

We are concerned with the underlying dimensions of inclusion/exclusion in labour markets and the power relationships that mediate access to employment opportunities, markets and services. Exclusion often occurs on the basis of active discrimination against identifiable groups (ethnicity, race, religion, caste, culture, migration) and often reinforced by discrimination on the basis of personal characteristics (age, gender, sexual orientation, impairment). Discrimination can also be passive, based on the ignorance or preference of more powerful, better-off groups. However, it's important to remember that many poor people are engaged/included in labour markets but their inclusion is on extremely unfavourable terms (exploited in terms of wages, hours, and conditions of work) (CPRC 2004).

We examine the urban labour context. Rapid urbanisation is occurring in developing countries, fuelled by high population growth and widespread internal migration. Urban areas are viewed as 'engines of growth' and sites of improved opportunities for work, commercial activity and access to services. However, concurrent processes are occurring of rising urban inequality and the 'urbanisation of poverty'. Indeed, urbanisation does not always occur alongside economic growth or the expansion of (appropriate) jobs.

Labour is a key source of income for the urban poor. Income plays a critical role in urban lives as all basic services tend to be paid for, often at high prices. Growth paths that build demand for unskilled and semi-skilled work is critical but it is often these sectors which contract when urban economies restructure. Where people live within urban areas has an impact on their ability to find productive work (e.g. peripheral areas are constrained by poor links, while in inner city areas are constrained by fierce competition for work, slum dwellers are often discriminated against in the labour market).

The urban poor rely primarily on wage labour or self-employment to survive. Informal economic opportunities are important, where the poor face fewer barriers to entry, but the sector tends to offer only poor terms of engagement: low security, poor remuneration, and often very poor conditions of work. The marginalised urban poor receive incomes that are too low to purchase what they need for long-term survival and advancement. Lack of regulation results in vulnerability to unscrupulous employers and practices, including high 'rents' for trading spaces (i.e. corrupt officials) and informal inner-city traders live with a constant threat of stock being taken by police and trading being closed down. Most urban poor work long hours and continue working throughout their lives until they die – in insecure livelihoods that pay poorly and limit their escape from poverty. Indeed, work can increase rather than reduce the vulnerability and poverty of the urban poor.

*We argue that employment and labour market issues are currently seldom at the forefront of analysis and policy in international development. We argue that this is unjustified.*

Why? First, because labour is often the most significant asset poor people possess. It is their main source of income; the most important asset supporting their wellbeing and survival. It is one of the most critical

transmission channels between economic growth and poverty reduction, with the potential to reduce income poverty and help to realise the Millennium Development Goals (MDGs).

Second, because as Robert Zoellick, the President of the World Bank, has noted, '...the best safety net is a job'. While the distress of those losing jobs and homes here in the UK through the global financial crisis is real and valid, there is some form of social security to protect them during these difficult times. Those who lose employment in the developing world rarely have any form of social security. Instead, they must fall back on social networks and in some cases, resort to adverse coping strategies, such as crime. The critical role that jobs can play in protecting people from shocks is a solid reason for supporting policies that deliver productive, secure and safe jobs.

Third, because we're 'missing a trick' when it comes to economic growth, employment and poverty reduction. Many developing countries have had record economic growth in recent years, but much of this growth has been jobless. In some cases, economic growth has been accompanied by increased unemployment, particularly among youth, and the underemployment of large numbers of people in low productivity jobs (World Bank, 2008). Given employment is one of the main channels from economic growth to poverty reduction, it is vital to think through and take action to ensure that growth is 'job-ful', rather than job-less.

Fourth, because as our discussion of the urban labour market demonstrates, labour markets are sites of exclusion, discrimination and exploitation. This is should be of intrinsic, and instrumental, concern to development policy.

If we should we ensure more attention is paid to employment and labour market issues in development policy, how? In the immediate term, it is difficult to look past the global financial crisis. The ILO estimates that more that 200 million workers, mostly in developing countries, may be pushed into extreme poverty. We know from previous experience that it is poor and vulnerable people that will be 'hardest hit'. So what does this mean in terms of priorities? It means we should protect the poor and vulnerable households likely to bear the brunt of the global financial crisis. Public works programs, such as those included in recently announced fiscal stimulus packages, are an effective way to offer employment to those who fall out of employment in either the formal or informal economy. Conditional cash transfers can prevent families from sending children out to work and support health clinic visits and school attendance. Active labour market programs, such as training programs for young people (who may be disproportionately affected by the crisis) have proven successful during other crises (World Bank, 2008a).

In the longer, a reassessment of how we 'do development' in response to the global financial crisis is a chance to position employment and labour market issues more centrally in international development policy. This should include the development and application of a more comprehensive approach to employment and labour market issues, shelving ideological debates over labour regulation and acknowledging the need for a more thorough and

joined-up approach to labour markets in developing countries that draws on a range of public policy tools. We are not short of frameworks. The ILO's decent work agenda, and its four pillars (standards and rights and work; employment creation and enterprise development; social protection; and social dialogue), provides a sound framework for a balanced and integrated approach to productive employment and decent work. The World Bank's MILES framework, which proposes a multi-sectoral focus on macroeconomic policies; investment climate, institutions and infrastructure; labour market regulations and institutions; education and skills; and social protection offers another (relatively similar) approach (World Bank, 2008b).

As with most development challenges, we will need to move beyond seeing employment issues as 'technical problems' and appreciate the political and institutional factors that stifle employment growth and entrench labour market inequalities. We will also need to appreciate that developing countries are at different stages in relation to the 'jobs' issues. Low-income and lower middle-income countries face challenges posed by large informal sectors and labour markets that do not function well. Emerging economies, with increasingly large formal sector workforces, face labour market challenges that are similar to those experienced in OECD countries.

While the impacts of the financial crisis are serious and very real, it does provide an opportunity to reassess what our priorities in international development policy should be. We believe the significant role employment can play in promoting economic growth and poverty reduction provides a strong rationale for mobilising around existing frameworks (e.g. the decent work agenda and the MILES framework) to ensure employment and labour markets are starkly on the agenda. Given this has the potential to result in more jobs for poor people, and reduce exclusion, discrimination and exploitation in labour markets, we're convinced it is worth a try.

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