

Opportunity and exploitation in urban labour markets

Better economic opportunity does not always mean better work

Key points

- Most of the urban poor in developing countries spend their lives in insecure, poorly paid jobs
- They participate in economic growth, and adjust to economic change, through urban labour markets
- Pro-poor urbanisation requires labour intensive growth, supported by labour protection, flexible land use regulation and investments in basic services

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Urbanisation is taking place on a massive scale, and around 60% of the world's people are expected to be living in cities by 2030. Growing urban centres are increasingly viewed as 'engines of growth' and as sites of opportunity – a welcome recognition of their role in national development. But enthusiasm should not mask the fact that high rates of economic growth do not always result in urban poverty reduction; and that rising urban inequality is a major concern. The urban poor are vulnerable to national growth downturns, and are affected disproportionately by macro-economic reforms, particularly in large urban centres.

The poor engage in economic growth and adjust to economic change through their position in labour markets, but not all households adjust equally. The economic characteristics of the urban poor include: weak labour market positions; dependence on the informal sector; lack of employment; and casual employment. Generating demand for unskilled and semi-skilled labour is critical. The reality, however, is that these sectors often contract as urban economies restructure.

Urban population growth does not always reflect urban economic growth or the expansion of employment opportunities, but population growth is propelling structural changes in urban economies, with major implications for urban poverty dynamics. This Briefing Paper examines the benefits and constraints from the labour market perspective, and offers a series of policy 'next steps' for municipal governments.



Hyderabad, India: people earn a living by scavenging on an urban rubbish dump.

Urban labour markets and poverty dynamics

Labour may be the most important asset for urban poor households and it is through labour that they benefit most directly from economic growth. The clear 'pros and cons' to urbanisation are summarised in Table 1. The over-arching reality is that most urban poor people have to work until they die, in insecure livelihoods that pay poorly and that limit their chances to escape from poverty.

The way in which people enter the labour market is key to urban poverty dynamics. Those who are not poor tend to be clustered in formal employment, while chronic poverty is associated with casual labour or female business activities. Informal work is a mixed blessing – depending on context – offering an escape

Table 1: Is urbanisation good or bad for the poor? The pros and cons

Pros	Cons
Greater economic opportunities create job opportunities	New opportunities may be confined to those with skills or from particular groups/classes
Population density means lower per-capita costs for basic services	Those who are unregistered or 'illegal' may be overlooked in plans for basic services and face high prices for access
Easy access to mass media and other information channels	Loss of extended family links mean potential erosion of family cohesion
Large numbers of citizens can be mobilised around shared problems	Overcrowding, spread of disease, pollution
People can pool resources, ideas, creativity and innovation	Population density makes cities fertile ground for drugs trade, gang violence
More liberal attitudes make it easier for women to enter the labour market	Easy entry into the informal labour market may extend to child labour

from poverty where informality is the norm, but not where informal workers are more isolated.

Increasing the number of economically active members in a household can increase the chances of such an escape, but this depends on the quality of labour acquired. Evidence from urban Peru and Madagascar indicates that the more household members that are involved in the informal sector, the poorer they are (Herrera and Rouband, 2003) indicating the poor returns from their work.

Evidence from Ethiopia suggests that 27.5% of the heads of chronically poor urban households work as casual labourers or in female business activities, compared to only 7.7% of those who are never poor, who are far more likely to be wage workers. There are significant numbers of unemployed household heads among the poor, but the proportions are highest among the chronically poor (Kedir and McKay, 2003).

Those who obtain and retain jobs in the formal sector certainly experience improved income levels, but these jobs are rare in most developing cities. In urban Ghana, for example, only one-fifth of households were engaged in waged employment in the 1990s. The urban informal sector created few waged jobs, and the lack of private sector investment at the time contracted formal wage employment (McKay and Aryeetey, 2004).

Urban economic growth

Urban areas differ in their economic diversity and their ability to respond to higher concentrations of consumers. It can be argued that costs are likely to be higher in cities that are experiencing economic growth, because growth entails higher monetisation of basic services and other non-food items such as housing, transport, and informal payments to maintain livelihoods. This is particularly true for the informal sector. The impact on expenditure and earnings is not entirely clear. While costs of living are higher in rapidly-growing cities, there may also be more income-earning opportunities. However, it is not

necessarily clear that more opportunities translate into better working conditions or remuneration for the poor.

Countries may have to choose between increasing employment in the unskilled sector to lift large numbers of people out of poverty, or upgrading skills and developing niche markets. Integration into global markets can create new opportunities but may reduce labour stability as a result of increased competition. Global buyers demand high quality at low prices with fast delivery (Jenkins, 2003). While growth in sectors that require a highly skilled labour force (e.g. software industry growth in Bangalore) can generate indirect employment elsewhere (with skilled workers needing shops and other services), this growth may, in fact, displace the informal sector.

The development of sectors that support a large casual labour market may have a strong impact on poverty if it also ensures general well-being of workers, minimising the effects of hard physical labour that can damage health and inhibit future earnings (e.g. rickshaw pulling in urban Bangladesh, or port work in Vishakapatnam). These workers rarely have sickness benefits or employment contracts and are more likely to be laid off in times of low labour demand. Flexible employment to enable more women to join the labour force is also welcome if women are employed on the same terms as men. Women in the export sector in Bangladesh, for example, tend to be younger, single and new migrants to cities, and come from poorer rural households with no alternative employment, making them vulnerable to lower wages.

Links between urban and rural markets

There is a need to move beyond rural-urban stereotypes and to recognise that measuring the extent of poverty over-simplifies complex rates and patterns of change. The connections between different areas are strong, particularly during hard times. A strong domestic agriculture market, for example, may affect urban staple food prices, and increase the supply of goods that are produced locally. Prudent agricultural policies can make efficient use of rural unskilled labour and reduce the pressure of rural-urban migration on informal wages.

While remittances from migrant workers to rural households are important, the flow of people into cities can be destabilising and push urban wages down. Political deterrents to migration include denying migrants permanent registration. As long as the underlying economic incentives for migration remain strong, such deterrents will make migration more costly for migrants, but will not stop them coming. As a result, growing numbers of migrants live in the informal sector, confined to unskilled, low-paid, low-security work.

Economic reforms and public spending

Macro-economic reforms have disproportionate effects in urban centres, on urban labour and, in particular, on unskilled workers. In Peru the impact has been

huge. Privatisation has, in effect, abolished job stability and reduced dismissal costs, deregulation has increased job insecurity, and unionisation has plummeted (Vedera, 2000, in Herrera and Rouband, 2003). Liberalisation was a major policy thrust during the 1990s, creating both new income earning opportunities for some, but less stable working conditions for many others. The restructuring of the formal sector and increased competition in the informal sector has contributed to declines in some household incomes.

Cuts in public spending may be inevitable in countries experiencing economic difficulties. Investment cutbacks in urban infrastructure have left cities in a general state of dilapidation, exactly where demand is greatest. Reductions in water supply, for example, can be particularly problematic, with the poor often resorting to ponds or streams, or buying drinking water at inflated prices from vendors. This can reduce household income and time resources for income generation.

Informal, unregistered and illegal work

With wage employment so limited in developing countries, there has been a trend towards informalisation of the labour market in recent years and there is potential for considerable wealth generation outside the formal sector. However, these profitable informal sectors are often controlled by particular groups, backed by caste, ethnicity or other social norms that make them more difficult for others to enter (Amis, 2004a:148). The drugs trade is the clearest example. Discounting criminal activity, the informal sector may be approaching saturation in some urban centres, reflecting the relative ease of entry for those with few alternatives.

The informal sector has its own obstacles, particularly for those working illegally or without registration. Inadequate access to credit, bureaucratic licensing requirements and regulatory restrictions, as well as over zealous policing (e.g. removal of informal vendors, demolishing kiosks, confiscating stock, denying licences, etc) can all destroy jobs and urban livelihoods (Rakodi, et al., 2000).

The distinction between informal and formal labour markets (and economies generally) should not be exaggerated. The lines can be blurred and the linkages are important. Individuals can reside and work within both sectors and move between them (Amis, 2004). There are many situations where informal enterprises may be illegal in terms of health and safety or social security legislation, but may also be paying local taxes (Grindle, 1980). Relaxation of laws and regulations can have a positive effect in developing these linkages and strengthening local labour markets.

Urban labour exploitation

Urban work can be highly exploitative and urban labour markets are often skewed against the poor-

est – those who may be least able to respond to new opportunities. Maids, for example, often live in the homes of their employers and are vulnerable to abuse (Perlman, 2003:12), but they do not necessarily register among the urban poor as they ‘live’ within non-poor households. They may be overlooked by policy-makers.

Labour markets can increase the vulnerability of certain people. Older people, particularly those on their own, are often dependent on wage labour and this is a feature of their poverty (Mitlin, 2003). It could be argued that they have to undercut their wages to remain in the informal labour market – barred by age restrictions from working in the formal sector.

Self-employed women in the informal sector are concentrated in low-paying activities, such as petty trade, hawking or street-vending. Young mothers are particularly vulnerable, as they are also care-providers.

Children in female-headed households are the children most likely to enter the labour market, along with children from households where adult members are ill and unable to earn a livelihood, or other households with falling incomes. Children may work in hazardous jobs, such as scavenging on garbage sites or performing tricks at traffic lights, or be exploited as beggars or commercial sex workers. The most vulnerable are older siblings and girls.

Policy ‘next steps’ for municipal governments

While some urban areas have expanded demand for labour, most municipal administrations have little understanding of the urban economy’s strengths and weaknesses, and a city’s economic policy tends to focus on attracting investment through such incentives as tax breaks with little regard for the true costs of such incentives (Amis 2004).

There are a number of indirect ways in which governments can expand entry into the labour market, and improve the quality of jobs for the urban poor. These include support for health, education and other services as well as flexible migration controls. More direct measures include:

- **The promotion of labour-intensive growth.** Urban employment does not feature prominently in national Poverty Reduction Strategy Papers (PRSPs) and few cities pursue labour-intensive growth paths. Labour-intensive programmes are fairly common, but are not, in general, strategic economic policies. Most are programmes providing short term employment to the beneficiaries (not always the poorest) and building infrastructure for poor communities. They often benefit the targeted workers, but the benefits rarely outlive the programme itself. Even improvements in infrastructure can unravel without sustained maintenance. These programmes need better linkages to city-wide economic development, to generate longer term, sustainable employment.

- Labour welfare legislation and social protection.** The daily rate for casual labour can underpin an entire local labour market and can determine whether or not the benefits of growth pass to poor workers. Workers in the informal sector rarely have any labour protection and may be engaged in hazardous activities that damage their health in the long run or constitute abuse, but have limited channels for complaint. Evidence on the impact of regulation and legislation is mixed. They can lead to a decline in employment (for domestic workers, for example) and inhibit the development of a sector. It remains the case, however, that flexible workers need greater social protection – welfare measures that will protect them, and their families, against extreme poverty, ill-health and lack of education. Jenkins (2003) argues that labour protection does not have to undermine the competitive position of a sector, but can result in much enhanced worker loyalty, higher productivity, and – within global markets – a better ability to provide overseas buyers with quality products.
- Flexible trading laws and associated land use regulation.** It is important that city governments do not destroy jobs by over-zealous regulation. Given the inherent difficulties in implementing diverse legislation, municipal (and national) governments tend to be selective (or perhaps arbitrary) in what they implement (Grindle, 1980). They often respond to non-poor demands for city beautification or master-planning approaches, but can damage the productivity of the urban poor. Relaxation of laws can have a positive effect and often occurs in response to organised protest by vendors. Municipal governments need to acknowledge the importance of informal labour markets to the urban poor, and operate more tolerant policies.
- Encourage private/commercial sector investment.** Private sector development requires governments to provide appropriate regulatory frameworks, an attractive infrastructure investment, and a workforce with at least a basic education. They

need to make the transition from informal to formal activities as simple as possible. Private sector investment requires careful design to respond appropriately to the reality of local labour markets. The encouragement of high-tech industry in Bangalore, for example, has not favoured local employment development, but has, instead, increased land values and forced out small enterprise, undermining the local economy (see Grant, 2004). There are important equity issues and governance issues (e.g. corruption and transparency) that need to be taken seriously.

Conclusion

It is impossible to think about opportunity without considering the underlying institutions that drive market formation and development. It is easy to destroy income opportunities (Amis 2004), but harder to create them or manage the labour market in ways that protect the most vulnerable from exploitation.

The foundations upon which urban expansion occurs has major implications for whether and how the economy transforms, stimulates economic activities and absorbs low skilled and unskilled labour. There will be winners and losers from policies and investment choices – choices that are often made on the basis of efficiency rather than equity. However, there is a worrying trend towards increased inequality in urban areas and, as urban areas grow, there is mounting demand for more strategic urban governance. Urban management not only influences whether economic growth occurs, but whether it occurs in a manner that redistributes. It is far too easy to destroy urban livelihoods in order to promote fast urban growth, and if this happens, specific policy responses are required.

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