

Views on Development

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Decent Work in a Post-2015 Development Agenda

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Towards an independent goal for employment

The Millennium Development Goals (MDGs) are approaching their overall target year 2015, and the debate about what shape a post-2015 development agenda should take is in full swing. Subject to debate is not only its focus (poverty vs. sustainability) and whether the new agenda should have a similar architecture as the current one, but also the dimensions (e.g. climate, inequality, health, education, employment) to be included. A dimension of significant relevance for human development is employment.

The current structure of the MDG agenda considers employment mainly as a *means* to fight poverty. *Achieving full and productive employment and decent work for all*, for example, is one target (1B) of the overarching goal of *Eradicating extreme poverty and hunger* (MDG 1). However, because of the centrality of employment and decent work not only to poverty reduction but also to human development in general, we rather understand decent work as an end itself. Employment has multi-dimensional impacts on a worker's life as a source of livelihood, personal fulfilment, recognition and social participation. Hence, we support the idea of having an independent goal for employment (*“Achieve decent work for all”*) and a corresponding set of targets and indicators in the post-2015 agenda.

Without going into further detail here, we believe that the current MDG agenda had its strongest impacts through its quantification of development targets. Yet, a meaningful quantification is particularly challenging with regard to employment. Decent work has various dimensions and many of them are difficult to conceptualise. Important aspects of decency in employment, such as job satisfaction, social integration, or the freedom to participate in decisions that affect one's life, are highly subjective and can hardly be captured quantitatively. In addition, as we argue below, most of the current employment-related indicators have serious weaknesses with regard to their conceptualisation and interpretation. Hence, we propose a modified and improved set of indicators that is, however, still neither comprehensive nor free of ambiguities and problems. Further, we support the idea of defining country-specific indicator targets in order to account for the great heterogeneity of poverty reduction and growth trajectories across countries.

A further complication of developing an improved set of employment-related indicators arises from the important interactions of employment with other aspects of human development, in particular equity and vulnerability. Labour market outcomes and decency of pay are very closely related to various facets of equity – be it the inequality of education and labour market opportunities or income inequality. Vulnerability is partially caused by the

lack of social protection, for example unemployment or health insurance, which, in turn, is often linked to employment. Because of these broader dimensions of employment the proposed set of targets and indicators includes aspects related to equity and vulnerability. In principle, employment-related targets could also be interpreted as a cross-cutting theme of a development agenda (similar to gender); and it eventually depends on the overall architecture of the post-2015 agenda where to accommodate those targets.

A discussion of current employment-related MDG indicators

In 2007, the United Nations acknowledged the fundamental linkage between employment and poverty reduction by amending the MDGs with the target 1.B of *full and productive employment and decent work for all*. To evaluate progress towards this target, four indicators were developed: The annual growth rate of GDP per person employed, the employment-to-population ratio, the working poverty rate, and the vulnerable employment rate. In addition, a fifth employment-related indicator addresses gender equality and the empowerment of women (target 3.A) in the labour market through the share of women in employment in the non-agricultural sector.

The first of these indicators is the **annual growth rate of GDP per person** employed. While this indicator captures average labour productivity and is, hence, indicative of productive employment, its relevance depends on two assumptions that are often violated in the context of poor countries. First, it assumes that an important share of value added is generated by the labour employed in an economy. While this holds for the average country, there may well be economies where other production factors, in particular natural resources and land, generate a considerable share of value added with factor income being earned by the respective owners. Second, there should not be large differences in labour productivity across economic sectors. Many poor economies, however, may have some highly productive labour in some sectors, for example in mining, and a large share of its workforce in low-productivity sectors, such as subsistence agriculture and urban informal

sectors. If these two assumptions are violated high GDP growth rates can prevail without any improvement of labour productivity for large parts of the workforce.

The **employment-to-population ratio** is the second indicator, which is defined by the share of a country's working-age population that is actually employed. It is intended to measure an economy's ability to provide employment: the higher the ratio, the more people are employed. The International Labour Organisation suggests that appropriate employment-to-population ratios can be found in a range from 50 to 75 per cent. Such an "optimal" rate will depend on a whole range of an economy's characteristics, in particular its demographics and industry composition. The lack of a clear target or even a desirable direction renders the interpretation of this indicator difficult and ambiguous. A high ratio, for example, might be indicative of a well-functioning labour market, but it may also be a sign for a lack of social protection systems that forces people to take up any work to ensure survival. Another example where high ratios may not signal desirable outcomes are agricultural economies with large shares of smallholders that also exhibit high labour market participation rates. Further, a low employment-to-population ratio is not per se tantamount to insufficient employment opportunities. For example, the ratio may be low because a large fraction of the working age population attends school or university.

The relevance of the **vulnerable employment rate**, which measures the proportion of own-account workers and contributing family works in total employment, is debatable, too. The underlying idea of classifying these two employment status groups as more vulnerable than others is based on the assumption that they are particularly likely to face low and unsteady income flows, a lack of formal labour agreements and social protection. Many own-account workers live on the breadline indeed. The assumption that they are *per se* more vulnerable than others is however fairly problematic. It does ignore the possibility of voluntary self-employment and neglects the great heterogeneity among enterprises and employment circumstances. Empirical evidence suggests that a significant number of own-account workers run productive and profitable enterprises. Furthermore, in many developing countries wage workers (not to mention casual or seasonal workers in agrarian economies) may not be covered by social protection

and do not have legally enforceable labour contracts.

Another indicator is the **share of women in wage employment in the non-agricultural sector**. While there is indeed some evidence that wage-employment outside agriculture improves the situation of women, the general discrimination against self-employment (see the argument above) and agriculture does not stand on firm empirical grounds. There may well be jobs in agriculture, both as self- and wage-employed, that provide much better working conditions and more decent pay than jobs in non-agricultural sectors.

The fifth indicator is the **working poverty rate**, i.e. the proportion of the working poor in total employment. The working poor are defined as employed people being part of a household whose members are estimated to be living below the international poverty line of \$1.25 a day. A virtue of the working poverty rate indicator is that it combines poverty data with labour market data. Yet, in practice aggregate poverty and labour force data are often used instead of micro data. The use of aggregate data comes with the problem that differences in the fraction of the working age population in total employment as well as in labour force participation rates among poor and non-poor households are neglected. Inaccurate figures of the incidence of working poverty are the consequence. However, if based on micro data, the working poverty rate proxies well whether employment (of all household members) provides sufficient means to meet a household's basic needs. If this is not the case, then the jobs of those household members are unlikely to fulfil other requirements of decent work.

Employment-related targets and indicators in a post-2015 development agenda

Because of the importance of employment to human development, we propose to put more emphasis on employment in the post-2015 development agenda. Specifically, we propose two targets under a goal of "*Achieve decent work for all*" with a first target "*Achieve productive work and decent pay for all*" and a second target "*Reduce vulnerable employment*". The new set of indicators attached to these targets makes an attempt to overcome some of the weaknesses of the current indicators laid out above and explicitly introduce elements of equity and social protection.

The first target "*Achieve productive work and decent pay for all*" should be operationalized

through three indicators: The growth rate of labour value added per worker, the working poverty rate and the share of workers receiving less than 60 per cent of the median labour income.

The growth rate of labour value added captures both the productivity of the worker and what share of production actually accrues to labour. The indicator hence reduces the problem of non-labour income being taken as a sign of productive work, but it still averages over sectors, while an ideal indicator would probably account for some more heterogeneity. In countries where labour value added is not provided frequently enough by the national accounts system, it can be proxied by GDP minus some components (of GDP) that account for considerable shares in some poor countries, in particular natural resource rents and aid. The corresponding indicator target would be the *increase in labour value added by a certain country-specific percentage annually until 2030*.

The working poverty rate captures fairly well the concept of work as enabling people and their families to earn a decent livelihood. In terms of operationalization, we want to stress that it has to be computed by using household or labour force survey data that is widely available. The indicator target would be the *reduction of the incidence of working poverty by a certain country-specific percentage until 2030*.

An important aspect of decent work that could be measured quantitatively is the level of *individual* income from (independent or salaried) work, i.e. whether work is decently paid. Note that the working poverty rate measures the incidence of working poverty at the *household* level. It hence takes into account a whole range of other factors, for example household size and composition as well as other income sources that are not directly related to employment. It is thus possible that a person earns a labour income that would be considered decent if earned for a four-person household while it may not be sufficient to provide the livelihood for an eight-person household. In our view, it would be useful to disentangle household-level and individual-level factors, i.e. individual decent pay, more clearly. An appropriate indicator for individual decent pay is the proportion of workers receiving a labour income below a specific minimum labour income threshold. This threshold should define a minimum labour income level deemed to be decent by society.

This may call for an absolute threshold, i.e. an “international minimum wage” in analogy to the 1.25 dollar-a-day poverty line, but many would argue that it can also be defined in relative terms, for example a certain percentage of the mean or median labour income. In the latter case, the indicator would obviously put more emphasis on equity. A major strength of an indicator based on an absolute “international minimum wage” would be its unambiguous interpretation. Yet, the computation of such an “international minimum wage” comes with a number of conceptual (e.g. whether current minimum wages really reflect decent pay?) and practical problems (e.g. data availability and appropriate PPP adjustments). These problems probably preclude the possibility of using an absolute threshold. We therefore propose a relative indicator, more specifically, *the share of workers earning less than 60 per cent of the median labour income by a certain country-specific percentage until 2030*. The 60 per cent are motivated by the fact that the European Union, for example, bases its poverty figures on this percentage of the median per capita income. Some preliminary exemplary computations for low-income countries by the authors also rendered fairly reasonable figures. Instead of the median, one may also use the mean labour income as a reference point. In that case, a smaller percentage (say in the range of 30% to 40%) would be more appropriate. A relative indicator based on mean labour income would be more sensitive to income gains of the richer parts of the employed workforce, which may not be a desirable property of the indicator. Using the median income as a reference point comes with some problems as well, especially in economies where the median income earner is very

poor. In such a case, the proportion of those earning less than 60 per cent of the median could be very small despite a lack of decency of pay. However, the WPR would take a high value in these circumstances. More generally, the proposed indicator does not respond to labour income increases that do not affect the distribution of labour income. It hence introduces a strong element of equity into the employment-related MDG targets. Together with the working poverty rate and the growth rate of labour value added, it provides a set of targets that balances the efficiency (growth and productivity) as well as equity aspects of productive work and decent pay.

For the second target “*Reduce vulnerable employment*” we propose two indicators: the proportion of workers without health insurance and the proportion of wage-workers without a written work contract. Most workers in developing countries are not covered by health insurance. Therefore, sickness is often accompanied by a sudden loss of income that is difficult to cushion. For some poor individuals, such losses can threaten survival. It is well established empirically that the lack of (health) insurance and the recurrence of (health) shocks in high risk-environments without functioning credit markets can cause poverty traps. The threat of temporary income losses due to sickness also forces many people to build-up precautionary savings, thereby tying up scarce financial resources that could be used more productively otherwise. We hence consider the proportion of workers without health insurance as an appropriate indicator and propose the *reduction of the proportion of workers without health insurance coverage by a certain country-specific percentage until 2030* as the corresponding indicator target.

The second indicator informing about vulnerable employment is the proportion of wage-workers without a work contract. Although we acknowledge that the degree of job security can strongly depend on the contract design, we believe that the existence of a contract is a fairly good proxy for job security. The corresponding indicator target would be the *reduction of the share of wage-workers without a work contract by a certain country-specific percentage until 2030*. The necessary information on work contracts (and health insurance coverage) is available in most household and labour force surveys.

Concluding remarks

Our considerations reveal the challenges in developing meaningful employment-related indicators. The detailed discussion of our third indicator (share of workers receiving less than 60 per cent of the median labour income), for example, illustrates both the difficulties in defining an appropriate measure of progress towards achieving decent pay and the necessity to jointly interpret the three indicators. Nonetheless, we are of the opinion that the post-2015 development agenda should acknowledge the fundamental role of decent work for human development. Hence, we argue in favour of having an independent goal for employment (“*Achieve decent work for all*”) in the new agenda. We further propose an alternative set of employment-related indicators that overcome some of the ambiguities and conceptual problems of the currently used indicators. The new targets and indicators proposed in this note attempt to reflect some of the broader dimensions of employment, and explicitly include decent pay as well as aspects related to equity and vulnerability. ■