



**UNRISD**

UNITED NATIONS RESEARCH INSTITUTE FOR SOCIAL DEVELOPMENT

---

**DRAFT**

Employment, Economic Development, and Poverty  
Reduction: Critical issues and policy challenges

James Heintz

Political Economy Research Institute  
University of Massachusetts, Amherst  
[jheintz@peri.umass.edu](mailto:jheintz@peri.umass.edu)

Commissioned for the  
**UNRISD Flagship Report on Poverty**  
**Project on Poverty Reduction and Policy Regimes**

June 2009 ▪ Geneva



The **United Nations Research Institute for Social Development (UNRISD)** is an autonomous agency engaging in multidisciplinary research on the social dimensions of contemporary development issues. Its work is guided by the conviction that, for effective development policies to be formulated, an understanding of the social and political context is crucial. The Institute attempts to provide governments, development agencies, grassroots organizations and scholars with a better understanding of how development policies, and processes of economic and social change, affect different social groups. Working through an extensive network of national research centres, UNRISD aims to promote original research and strengthen research capacity in developing countries.

Research programmes include: Civil Society and Social Movements; Democracy, Governance and Well-Being; Gender and Development; Identities, Conflict and Cohesion; Markets, Business and Regulation; and Social Policy and Development.

A list of the Institute's free and priced publications can be obtained by contacting the Reference Centre.

UNRISD, Palais des Nations  
1211 Geneva 10, Switzerland

Tel: (41 22) 9173020  
Fax: (41 22) 9170650  
E-mail: [info@unrisd.org](mailto:info@unrisd.org)  
Web: <http://www.unrisd.org>

Copyright 2009© United Nations Research Institute for Social Development (UNRISD).

This is not a formal UNRISD publication. The responsibility for opinions expressed in signed studies rests solely with their author(s), and availability on the UNRISD Web site ([www.unrisd.org](http://www.unrisd.org)) does not constitute an endorsement by UNRISD of the opinions expressed in them. No publication or distribution of these papers is permitted without the prior authorization of the author(s), except for personal use.

# Employment, Economic Development, and Poverty Reduction: Critical issues and policy challenges

James Heintz  
Political Economy Research Institute  
University of Massachusetts, Amherst  
June 2009  
jheintz@peri.umass.edu

Processes of economic development that improve employment opportunities will be more egalitarian than growth regimes in which the quality of employment stagnates, or deteriorates, over time. Similarly, unequal access to decent work and persistent labour market inequalities will frustrate efforts to reduce poverty. This paper is concerned with the structure of employment, economic development, and poverty – including the role of policy in enhancing or undermining the material well-being of individuals who must work in order to survive.

We highlight three broad themes at the onset which are developed at length in the paper. First, employment cannot be taken for granted. There is no guarantee that economic growth or a particular pattern of development (e.g. industrialization) will necessarily lead to sustained improvements in employment. Second, policy is critical for realizing better quality employment. The free market orientation of much development policy over the past several decades has been associated with expanding labour market inequalities, persistent informalization, and the emergence of nonstandard and precarious forms of employment in many countries around the world. However, there is no ‘one-size-fits-all’ approach to employment policy – effective interventions will depend on the structural of employment and the particular institutional and economic context.

Third, the critical institutions and policies that determine the relationship between employment and poverty often lie outside of the labour market itself. Macroeconomic policy, financial institutions, the international structure of production, the nature and composition of households, and gender dynamics, all influence employment outcomes and the potential of better opportunities to translate into real differences in people’s lives.

The paper first explores the relationship between economic development and the structure of employment, using the Kaldorian model of industrialization as a baseline. We examine the extent to which the traditional logic of industrialization holds in an open economy setting and the implications for employment outcomes and the role of policy. The subsequent section extends the analysis of the structure of employment with an empirical overview across a range of countries and over time. Specifically, we examine the relationships between the structure of employment and per capita income, employment growth and productivity, urban labour supply and industrial employment, and the employment effects of natural resource based exports. The third section documents significant global changes in the supply of labour: women’s labour force participation, urbanization, global integration of labour forces, and international migration.

Following this general background, we then look at several brief country case studies, including Korea, Brazil, the Philippines, India, Kenya, and Cambodia, with an eye to identifying similarities, but also documenting differences. In each case, we examine the structure of employment, identify major trends, and point out the implications for poverty and living standards. In the fifth section, we bring the household into the analysis. Since income poverty is defined and analyzed at the level of the household, changes in household composition and dynamics will influence how employment impacts poverty outcomes. To illustrate the relationship between employment and poverty more directly, we estimate working poor poverty rates for Brazil and Kenya, showing how economic risks are distributed across different types of employment. The paper concludes with a discussion of policy issues.

### *Structure of employment, structure of production, and economic development*

As economies grow and develop they typically undergo changes in the structure of production that have direct implications for the quality and quantity of employment opportunities. Put another way, an evolving structure of production implies an evolving structure of employment.<sup>1</sup> Employment represents the single most important source of income for the majority of the world's population – directly through individual labour market participation and indirectly through membership in households that sustain themselves on earnings from employment. Shifts in the structure of employment therefore have immediate implications for living standards and risks of income poverty.

One stylized scenario of economic development is a shift away from agriculture towards manufacturing, other types of industrial production, and services (Kaldor, 1967; Kuznets, 1971). Such a change in the productive structure will generally be associated with changes in the structure of employment. Labour tends to move out of agriculture and into industrial activities and services. However, changes in the sectoral shares of employment will not mirror those changes in the sectoral shares of production, except under exceptional circumstances. It is quite possible for manufacturing to account for a growing share of production and a stagnant, or even shrinking share, of employment, if, for example, labour productivity in manufacturing is rising rapidly. Many developing countries – e.g. India and South Africa – have experienced episodes of 'jobless growth' in their formal manufacturing sectors in recent years.

Earlier research on the changes in the structure of production and employment indicated that the industrial share of output would rise with income per capita (Kuznets, 1971). As the share of industrial production increased, the structure of employment changed – agricultural employment declined as a share of total employment and the share of industrial and service employment increased. Since earnings were higher outside of agriculture, these structural shifts in employment had important implications for average standards of living for the working class, particularly as any surplus labour in the agricultural sector was absorbed by growing industrial demand for labour (e.g. Ranis and Fei, 1961).

Shifts in the composition of consumption expenditures provide one explanation of this pattern of economic development and the associated changes in the structure of

---

<sup>1</sup> Throughout this paper, we use the term 'employment' to refer to work producing goods and services which would be included, at least theoretically, in the system of national accounts. We use the term 'unpaid labour' to refer to non-market work in services which are excluded from the system of national accounts. Note that unpaid family workers on enterprises that produce marketed goods or services represent a particular category of employment – i.e. 'contributing family worker.'

employment. Technological and productive innovations raise productivity and average incomes. If demand for agricultural goods is relatively income inelastic and demand for industrial goods and services is more elastic, then we would expect consumption patterns to shift in favour of services and industrial goods (Kuznets, 1971). The expanding markets for services and industrial goods would generate profitable new investment opportunities in these areas and growing labour demand. The scope for productivity improvements in manufacturing is particularly large due, in part, to economies of scale (Kaldor, 1967). As labour and capital move into these activities, average productivity in the economy climbs, further enhancing the demand for services and industrial products. Productivity improvements in agriculture will also be needed, to provide foodstuffs for the growing urban, industrial population given a declining rural labour force (e.g. Ranis and Fei, 1961). Economic growth is endogenous in this framework, since the changing structures of production and employment provide an impetus for productivity growth.

In this paper, we refer to this traditional pattern of economic development as ‘Kaldorian,’ after Nicholas Kaldor who theorized these relationships between the structure of production and economic development (e.g. Kaldor, 1967). Kaldor emphasized the importance of industrialization and the expansion of manufacturing in fueling economic growth.<sup>2</sup>

Open economies, globalized production and trade, and market dynamics have altered the original Kaldorian logic of endogenous structural change. Growth in average incomes may still be associated with a movement out of agriculture, due in part to inelastic demand. However, imported foodstuffs weaken the link between domestic agricultural production and urban demand for agricultural products. Balance of payments and foreign exchange frequently replace agricultural productivity as a binding constraint. Moreover, it is unclear that a movement out of agriculture will be associated with a concurrent expansion of industrial employment. Demand for manufactured goods may also be met through greater imports, due to the availability of low-cost substitutes. Intense competitive pressures among producers of manufactured exports mean that price elasticity often matters as much, if not more, than income elasticity in determining patterns of production.<sup>3</sup> Growth in industrial production now requires productivity improvements to keep unit labour costs low. However, high rates of productivity growth in industrial activities can cause industrial employment to fall behind industrial production, particularly if demand does not respond vigorously to the cost savings brought about through higher productivity.

Growth in service employment often outstrips the expansion of industrial employment. This was evident in earlier studies of the Kaldorian-type development trajectory (Kuznets, 1971; Kaldor, 1967). Three factors help explain the rapid growth of employment in services. First, marketed services tend to have reasonably high income elasticities. Second, the scope for sustained productivity improvements in many service activities lags behind that of industrial production – therefore, employment tends to

---

<sup>2</sup> Others have adapted Kaldor’s analysis to other development models. For example, Dasgupta and A. Singh (2006) examine the possibility that the service sector could play the role of manufacturing in a Kaldorian framework.

<sup>3</sup> Higher productivity gains in manufacturing than in service activities may also affect the relative consumer prices of manufactured goods and services in the course of economic development, with manufactured goods becoming less expensive (Dasgupta and A. Singh, 2006). If productivity improvements in manufacturing are captured as lower consumer prices, and if the income elasticity of manufactured goods declines as incomes rise, lower prices could free up income to be spent on relatively more costly services.

expand along with output. Finally, many types of services are less tradable than manufactured goods, suggesting that a growth in domestic incomes will increase demand for domestic services.

Therefore, contemporary movements out of agricultural may be associated with little or no growth in industrial employment and a large increase in service employment (Ghosh, 2008). Many countries appear to 'skip' the step of industrial employment growth. The potential for rapid productivity improvements in service activities is limited, on average, relative to the potential for rapid productivity growth in industry. This affects the feedback loop in the traditional economic development cum industrialization story. Of course, there are service activities that are highly tradable and activities which are driven by technological innovations – e.g. the information/telecommunications sector (Ghosh, 2008; N. Singh, 2008). High levels of global demand have led to the rapid expansion of these activities in certain circumstances. However, it is unclear that high value-added services can substitute perfectly for industrialization in the original Kaldorian logic.

In recent decades, a small number of countries have undergone an industrial transformation similar to the Kaldorian industrialization experienced in the high-income countries of North America and Western Europe. Most notably the so-called Asian Tigers, or 'newly industrialized countries,' relied on exports of manufactured products to drive their industrializations. The strategic development of other domestic sectors – e.g. capital goods and steel – was linked to the demand for inputs required of rapidly industrializing economies. Interventionist industrial policies, managed trade, and close finance-industry linkages supported this development path (Amsden, 2001; Chang, 1994). As we will see in the case of Korea, the share of industrial employment grew and living standard rose significantly – but maintaining a standard of decent work is difficult even for these successful industrializers.

For many developing countries, informal employment represents a sizeable share of total employment. Many of the earlier theories of the structural transitions associated with economic growth included a role for 'surplus labour' – often assumed to work in the agricultural sector or in informal activities (Lewis, 1954; Ranis and Fei, 1961). In surplus labour frameworks, the jobs provided by the formal economy at the prevailing wage falls short of total labour supply. Individuals who cannot find formal employment work in subsistence activities. In surplus labour theories of informality, informal employment becomes an undifferentiated residual – a kind of employment of last resort. The marginal productivity of this surplus pool of labour is often assumed to be zero. As an economy develops, productivity improvements in the formal economy increase labour demand and reduce the amount of surplus labour. Labour is re-allocated away from zero productivity activities, resulting in efficiency gains, and eventually the informal residual would disappear.

Other researchers introduced a new conceptualization of employment outside the formal sector, one that was based on the observations of livelihood strategies adopted by the urban poor (Hart, 1973; ILO, 1972). They saw the informal sector as consisting of a diverse set of activities that represent a critical source of employment income. These activities exhibited positive productivity, albeit often at low levels. Earnings in non-agricultural informal employment are typically lower than earnings in formal employment, and yet are higher than earnings in agricultural employment (Chen et al., 2005; Heintz, 2008). The higher earnings in both formal and informal non-agricultural employment provide an impetus for rural-to-urban migration (Fields, 1975; ILO, 1972).

If the growth in formal industrial employment failed to keep pace with on-going urbanization, one outcome would be the growth of employment in urban services and informal activities. Although not all non-agricultural informal employment is in the service sector, services often constitute the majority of such activities.

Therefore, we can imagine alternative trajectories for the changes observed in the structure of employment in developing countries today. A movement out of agricultural still occurs, but this labour is not automatically absorbed by a growing industrial sector. Instead, the workers move disproportionately into the service sector and informal employment. Earnings are higher, at least on average, than in agriculture. However, the scope for sustained growth in productivity is limited. Therefore, the virtuous self-reinforcing cycle of industrialization (industrialization – productivity growth – higher incomes – growing investment and domestic demand – further industrialization) never gets off the ground. A select group of countries are able to industrialize using interventionist policies and relying on dynamic export demand. However, the policy space to adopt a similar approach is not available to many countries, partly due to the intensive competitive pressures in global markets and the widespread adoption of market-driven development policies.

This discussion suggests that the changes in the structure of employment that occur over time will depend on differences in the institutional setting, the policy environment, the nature of integration into global markets and production systems, resource endowments, and the productive structures that exist. History matters and the future evolution of employment will depend, in part, on past patterns of development. Although there is no single, invariant path for the evolution of the structure of employment, we can learn from an analysis of key relationships and draw a number of general lessons.

The structure of employment will change in the course of economic growth and development. However, the direction of causation runs in both directions. The structure of employment also affects the course of economic development. Concentration in low-productivity activities with limited opportunities for upward mobility will adversely impact economic growth and living standards. This, in turn, will retard the development of domestic markets with feedback effects on the composition of employment and the scope for productivity growth. Similarly, a significant share of employment in sectors with the potential for rapid productivity growth will provide a foundation for improvements in living standards and the expansion of domestic purchasing power.

The relationship between informal employment and economic growth provides an illustration of this two-way relationship. Although time series data are limited, analysis has shown that changes in informal employment as a share of total employment are negatively related to the rate of per capita growth (Heintz and Pollin, 2003). Note that even though there is a negative relationship between the change in informalization and economic growth, the change in informal employment may still be positive even at respectable rates of growth – the increase in informal employment is simply smaller than would be the case at low rates of growth. The fact that informal employment tends to be concentrated in lower productivity activities explains why an increase in the share of informal employment may be associated with slower growth (e.g. Levy, 2008). However, lower rates of growth would also be associated with the slower expansion of formal jobs opportunities relative to the expansion of the labour force. The result would be an increase in informalization. Both effects will be evident to varying degrees in different countries. The more general point is that informal employment provides an

example of how economic growth affects the structure of employment and how the structure of employment impacts economic performance.

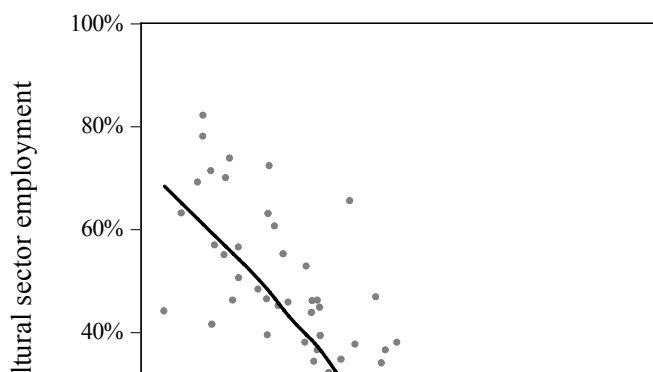
What is also clear from this initial discussion of the structure of employment and development paths is that policy matters. The Asian Tigers were able to transform their employment structures through the implementation of a set of policies that encourage rapid, and strategic, industrial development. Market-driven policies associated with neoliberal stabilization programmes have failed to deliver similar results. We will discuss policy implications in greater depth at the end of this paper.

### *Empirical overview: structure of employment and economic development*

#### i. Structure of employment and per capita income

The general patterns in the broad, sectoral distribution of employment discussed above are evident when we explore cross-country comparisons of employment in agriculture, industry, and services. Figures 1 to 3 examine the changes in employment shares across countries in more detail. Figure 1 shows the relationship between per capita GDP (expressed in natural logarithms) and the share of agricultural employment for 120 countries. To minimize the impact of short-term fluctuations, the agricultural share of employment and per capita GDP are measured as 10-year averages over the period 1997-2006. A distinct negative relationship is evident – as per capita income increases, agricultural employment, as a share of total employment, drops significantly, approaching zero among the highest income countries.

Figure 1. The share of agricultural employment and per capita GDP (natural logarithm), averages 1997-2006.



预览已结束，完整报告链接和二维码如下：

[https://www.yunbaogao.cn/report/index/云报告?reportId=5\\_21102](https://www.yunbaogao.cn/report/index/云报告?reportId=5_21102)

