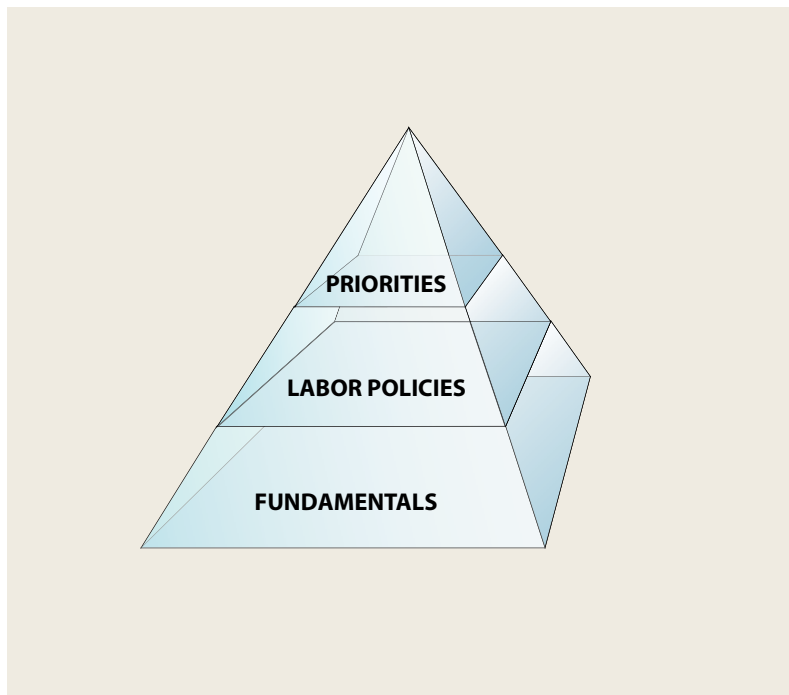


Introduction to Part 3

Most jobs are created by the private sector. While public works and targeted employment programs are justified in certain situations, the primary role of government is not to directly provide employment. It is to set the conditions for job creation by the private sector, and especially to remove the obstacles to the creation of more of the jobs with the highest development payoffs, given the circumstances of the country.

When faced with jobs challenges, policy makers tend to look first at labor policies as either the solution or the problem. It is important, then, to understand the role and the impacts of policies and institutions like labor market regulation, collective bargaining, active labor market programs, and social insurance. But the main constraints to the job creation often lie outside the labor market, and a clear approach is needed to support appropriate policy responses.

- *Fundamentals* are necessary for growth and are a precondition for strong job creation by the private sector. Macroeconomic stability, an enabling business environment, human capital, and the rule of law, including the progressive realization of rights, are the key policy fundamentals.
- *Labor policies* need to be adequate for growth to translate into jobs. Policies should seek to avoid the distortive interventions that stifle labor reallocation and undermine the creation of jobs in functional cities and global value chains. But policies should also



Source: World Development Report 2013 team.

ensure voice and social protection, especially for the most vulnerable.

- *Policy priorities* have to be established in support of good jobs for development. Ideally, policies should aim at removing the market imperfections and institutional failures preventing the private sector from creating more of those jobs. If the constraints cannot be easily singled out or are difficult to remove, offsetting policies may be considered.

Labor policies revisited

Labor policies can address labor market imperfections. But interventions can hinder dynamism in some cases, while the lack of mechanisms for voice and social protection affects the most vulnerable.

Labor markets have imperfections in the form of inadequate information, uneven bargaining power, limited ability to enforce long-term commitments, and insufficient insurance mechanisms against employment-related risks. Imperfections like these create gaps between the individual and the social value of jobs. They can thus result in a level and composition of employment that are not optimal from a social point of view.

Labor policies and institutions—regulations, collective representation, active labor market programs, and unemployment insurance—can in principle be used to address these imperfections. Other policies, such as pensions and other forms of social insurance, address imperfections elsewhere in the economy but can have important implications for the functioning of the labor market.

Labor policies and institutions are bundled in different ways in different countries (figure 8.1).¹ Their configuration tends to vary by level of development, with policies and institutions generally more developed in industrial countries. This is especially so for institutions providing a vehicle for collective voice, such as bargaining between employers and employees, and for social insurance. But the nature of the labor policies and institutions in any country is affected by more than just the level of development and must be seen in the context of the

country's legal traditions, politics, and social norms and values.

The impact of labor policies is often the subject of heated debates. In the past decade, improved data and methods have generated a great deal of new information not only in industrial countries but increasingly in developing countries as well. The analyses of these data have led to fresh insights. Estimated effects prove to be relatively modest in most cases—certainly more modest than the intensity of the debate would suggest. Excessive or insufficient interventions can certainly have detrimental effects on productivity. But in between these extremes lies a “plateau” where effects enhancing and undermining efficiency can be found side by side and most of the impact is redistributive. Overall, labor policies and institutions are neither the major obstacle nor the magic bullet for creating good jobs for development in most countries.

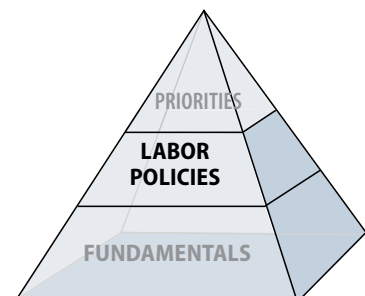
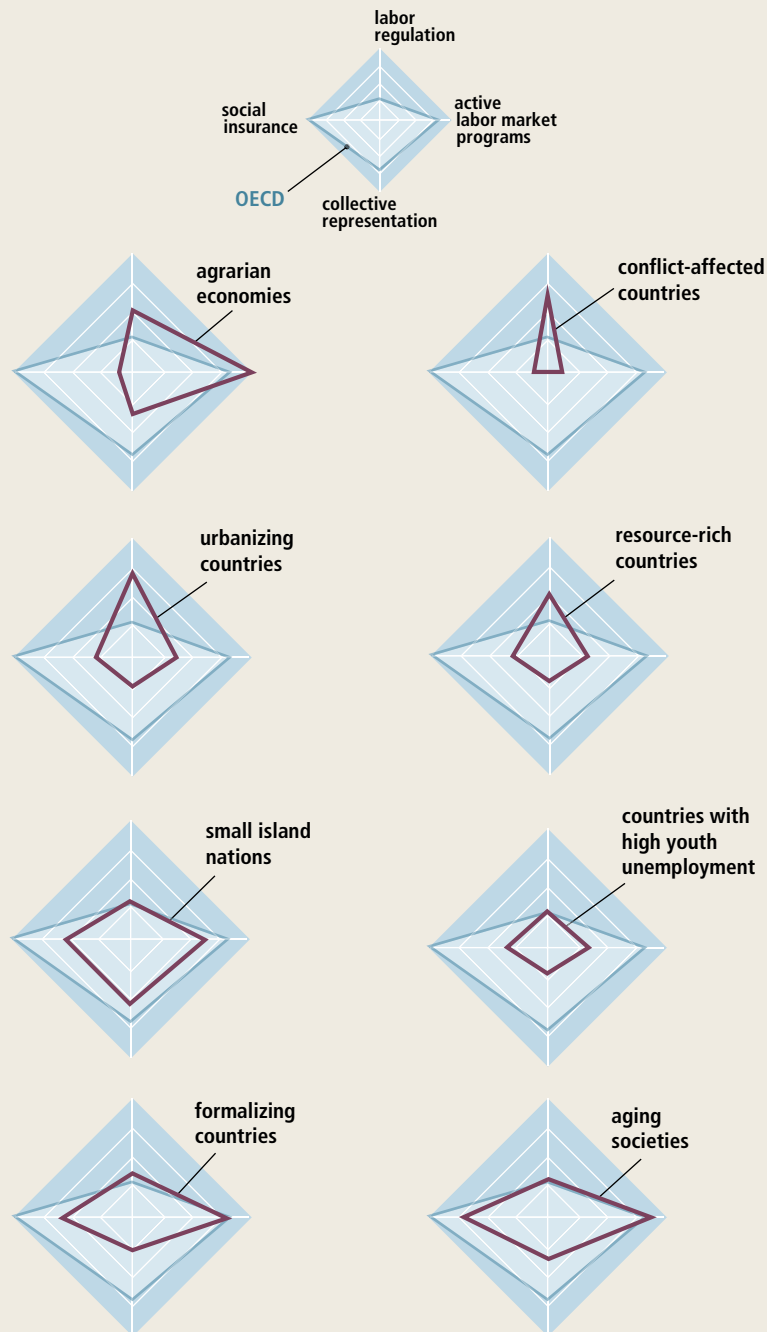


FIGURE 8.1 *The mix of labor policies and institutions varies across countries*



Sources: World Development Report 2013 team estimates based on Eurostat Public Expenditure on Labour Market Policy (LMP) Interventions (database), European Commission; Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS) (database), Amsterdam Institute for Advanced Labour Studies, Amsterdam; Pallares-Miralles, Romero, and Whitehouse 2012; Public Expenditure and Participant Stocks on Labour Market Programmes (database), Organisation for Economic Co-operation and Development, Paris; Robalino, Newhouse, and Rother, forthcoming; and World Bank, forthcoming.

Note: OECD = Organisation for Economic Co-operation and Development. Figures are averages across OECD member countries. *Labor regulation* indicates the ratio of minimum to average wage. *Active labor market programs* is the share of gross domestic product spent on them. *Collective representation* is the coverage of collective bargaining agreements divided by the labor force. *Social insurance* indicates workers contributing toward old-age pensions as a percentage of the labor force. Countries were classified in the eight groups by the World Development Report 2013 team. One country can belong to several groups. The figure shows unweighted averages across countries.

Labor regulations: A “plateau” effect

Labor regulations can be designed to address labor market failures that result in inefficient or inequitable outcomes. Difficulties in enforcing long-term contracts between employers and employees may lead to excessive churning and underinvestment in training. Inefficiencies in the organization of insurance schemes may leave workers unprotected in the case of dismissal, which could force them to curtail their job search before finding the right match. Uneven market power can enable firms to set wages that are lower than would be agreed upon under more competitive conditions. Discriminatory practices can have the same effect. Uneven power or incomplete information may lead to an unsafe workplace. These market imperfections and institutional failures can affect job creation and lead to gaps between what workers gain from employment and the social value of their jobs.

Employment protection legislation and minimum wages

Employment protection legislation (EPL) and minimum wages have been widely adopted to address some of these failures. EPL consists of rules governing hiring and termination and de-

fining the degree to which job security is guaranteed (box 8.1). Virtually all countries regulate hiring and termination in some way—severance payments, for example, are mandated by law or through collective agreements in 170 countries.² Similarly, more than 100 countries have ratified International Labour Organization (ILO) conventions regarding minimum wages, and many others have established minimum wages even though they have not ratified these conventions.³ However, the specific nature of labor regulations reflects the society for which they are written. Important determinants include a country’s legal tradition, as well as civic attitudes toward solidarity, inequality, and trust.⁴ The content, as well as the impact of regulations, is also influenced by interactions with other potentially complementary institutions such as collective representation and social insurance.

Views on labor regulations can be polarized, with contrasting implications for policy making. Fundamental questions, such as whether labor policies should protect jobs or workers, often spark heated debates (question 8).

For some, these regulations provide necessary guarantees for workers against economic volatility and the strong bargaining power of firms.⁵ EPL can offer job security, deterring precarious forms of employment. Minimum wages can prevent extreme poverty among workers and address the inefficiencies that stem from

BOX 8.1 *Employment protection legislation covers more than firing rules*

Employment protection legislation, or EPL, can be classified into two main groups of rules, one pertaining to hiring, the other to termination. Rules on hiring dictate what types of labor contracts are permissible under what conditions—for instance, open-ended, fixed-term, part-time, and apprenticeship contracts. Rules on termination govern the ending of contracts including causes (voluntary and involuntary, justified or unfair), end-of-service compensation (severance pay), and procedures (for instance, third-party notification or approval, advance notice, and vesting periods). The mix and stringency of these rules result in a continuum of regulation across countries, which has been subject to different measurement efforts.^a

Other types of labor policies can also have implications for job security. Some regulations set specific conditions for the employment of women and young workers. They include maternity leave, the need for child care facilities, first-contract waivers, or reduced minimum wage for apprentices. The aim of these policies is to facilitate the participation of more vulnerable population groups and to protect them once they are employed. Antidiscrimination regulations address socially unaccepted differences in the treatment of workers, with the goal to reduce inequality and enhance social cohesion and fairness in employment.

Source: World Development Report 2013 team.

a. Measures attempting to summarize EPL include those proposed by Botero and others 2004; Employment Protection indicators (database), Organisation for Economic Co-operation and Development, Paris; and Doing Business Indicators (database), World Bank, Washington, DC.

noncompetitive labor markets.⁶ By establishing a reference wage, minimum wages can even benefit uncovered workers through the so-called lighthouse effect.⁷ EPL and minimum wages are also seen as creating the conditions for human capital accumulation and associated productivity gains.⁸

Critics of strong EPL and minimum wages hold that they tend to reduce employment, hinder productivity growth, and can lead to divisions in society between those who benefit from the regulations and those who do not. According to this view, to the extent that EPL and minimum wages raise labor costs, they can increase poverty by pushing low-skilled workers, young people, and women into unemployment or into informal sector jobs.⁹ Hiring and termination restrictions can slow down labor reallocation and hence constrain productivity growth. Finally, because they are often perceived as part of the social contract, labor market regulations can be difficult to reform, when circumstances change, generating discord and even conflict.¹⁰

Modest impacts overall . . .

New data and more rigorous methodologies have spurred a wave of empirical studies over the past two decades on the effects of labor regulation.¹¹ These studies examine the influence of EPL and minimum wages on employment, wages, the distribution of wages, and to a lesser extent, productivity. Few have looked at wider impacts on social cohesion.

Based on this wave of new research, the overall impact of EPL and minimum wages is smaller than the intensity of the debate would suggest (tables 8.1 and 8.2).¹² Most estimates of the impacts on employment levels tend to be insignificant or modest.¹³ Studies of EPL in Latin America and the Caribbean, for example, report mixed results: negative employment effects of job security rules have been found in Argentina, Colombia, and Peru, while no significant effect was evident in Brazil and some Caribbean countries. Different studies for Chile have reached both results.¹⁴ Overall, the ma-

TABLE 8.1 *There is a wave of new empirical evidence on the impacts of EPL*

Dimension	Indicator	Findings	Comments
Living standards	Aggregate employment and unemployment	Either no impact or modest negative (positive) impact on employment (unemployment)	Evidence for both industrial and developing countries (largely Latin America) Results tend not to be robust.
	Employment for particular groups	Prime-age males favorably affected Youth, women, and low-skilled unfavorably affected	Partial reforms for two-track labor markets lead to more precarious employment for affected groups.
	Employment dynamics	Longer durations in employment, unemployment, and out of the labor force Smaller flows between different types of work status	
	Adjustments to shocks	Increases in negative impact of shocks	Consensus not strong
	Wage distribution	Reduces wage dispersion	
Productivity	Labor and multifactor productivity growth	No consistent conclusion	Very little evidence for developing countries
	Training	Positive effect	Longer-duration employment spells and greater human capital investments
	Technological change	Negative effect	Few studies
	Reallocation of labor	Negative effect because smaller labor flows	
Social cohesion	Fairness	Signals social responsibility of employers	Depends on enforcement and coverage "Two-track" regulations can be seen as unfair.
	Security	Positive because of longer tenure	Depends on enforcement and coverage
	Equality	Greater wage equality has modest equalizing effect on income distribution.	Evidence mostly for industrial countries

Source: Betcherman 2012 for the World Development Report 2013 based on a review of empirical studies of EPL.

Note: EPL = employment protection legislation.

TABLE 8.2 *The impacts of minimum wages are a favorite research topic in labor economics*

Dimension	Indicator	Findings	Comments
Living standards	Aggregate employment	Either no impact or modest negative impact	Both industrial and developing countries Some studies show positive employment effect.
	Employment for particular groups	Negative employment impacts concentrated on youth and low-skilled	Some studies show positive employment effect.
	Wages	Positive effect	Effect strongest around minimum wage Some evidence of positive effect in informal sector
	Wage distribution	Reduces wage inequality	
	Poverty	Reduces poverty	Some studies find no effect.
Productivity	Labor and total factor productivity	No consistent conclusion	Rarely analyzed
Social cohesion	Fairness	Provides “decent” wage	Depends on enforcement and coverage

Source: Betcherman 2012 for the World Development Report 2013 based on a review of empirical studies of minimum wages.

majority of minimum wage studies do find negative employment effects, especially on young workers. But magnitudes tend to be small and a number of studies report no effect, or in some cases, even positive effects.¹⁵ EPL and minimum wages can shift employment away from young people, women, and the less-skilled and toward prime-age men and the better educated.¹⁶ Their effects can vary within a country. In Indonesia, increasing minimum wages during the 1990s had a negative effect on employment among small firms but not on large firms.¹⁷ Across countries, both EPL and minimum wages are associated with a reduction in wage inequality.¹⁸

EPL has clear dynamic effects, reducing labor market flows and increasing durations in both employment and unemployment.¹⁹ In this way, strong job security rules slow down labor reallocation and limit the efficiency gains from creative destruction. Studies on the overall impact of EPL on productivity are mixed, however, with some finding negative productivity impacts and others finding positive or no significant effects.²⁰ This mix of findings may be caused by other influences of job security rules, such as incentives to invest in training, which can counteract the lower rates of labor reallocation. Some countries have tried to reduce EPL by implementing partial (“dual-track”) reforms that increase the scope for nonpermanent employment. However, unless accompanied by reductions in the protection of permanent jobs, this approach seems to result in the more vulnerable groups ending up in more precarious employment.²¹

In many developing countries with large informal sectors, the generally modest impacts of EPL and minimum wages may stem in part from poor coverage and weak enforcement. In Brazil, employment effects of strong job security provisions were negative in municipalities where enforcement was strong.²² Mechanisms for voice and representation and the capacity of government to effectively administer regulations influence the effectiveness of enforcement. Certainly, poor rules coupled with weak enforcement are not a desirable combination to address labor market imperfections.

But many countries appear to set EPL and minimum wages in a range where impacts on employment or productivity are modest. Within that range, or “plateau,” effects enhancing and undermining efficiency can be found side by side, and most of the impact is redistributive. The distributional effects tend to be equalizing among those who are covered by these regulations, but divisions can be accentuated between those covered and those who are not. With efficiency effects relatively modest on the plateau, countries can choose where they want to be depending on their normative preferences for redistribution.

... but cliffs at the edge of the plateau

However, when the edge of the plateau is reached (either on the too-strict or too-loose side), impacts are more negative. Some studies have found that Indian states with more restric-

tive EPL have significantly lower employment and output, and this effect is strongest where dispute resolution is ineffective or costly.²³ Large increases in the minimum wage in Colombia in the late 1990s led to significant employment losses, exacerbated by weak labor demand at the time.²⁴ At this edge of the plateau, which can vary according to the country situation, labor regulations can slow down job creation in cities, or in global value chains, and can cause countries to miss out on jobs supporting agglomeration effects and knowledge spillovers. Forgoing the development payoffs from urbanization and global integration would be one way to fall off the cliff.

It does not follow that minimal regulation is the answer. If rules are too weak, or not enforced, the problems of poor information, unequal bargaining power, or inadequate risk management remain unaddressed. This cliff may be less visible than excessive labor market rigidity, but it is no less real.

The main challenge is to set EPL and minimum wages so that they address the imperfections in the labor market without falling off the plateau. The edges of the plateau vary across countries and even within countries over time, as conditions change. In Brazil, for example, minimum wages had negative impacts on employment in the 1990s but not over the past decade, even though they were increasing relative to average wages.²⁵ It is important, then, to monitor impacts closely and reflect on the design and implementation of regulations and their interaction with other institutions.²⁶ Although EPL and minimum wages may not address labor market imperfections effectively, in most countries good jobs for development are lacking for other reasons.

Collective representation: New forms of voice

Collective bargaining and other forms of “voice” can address information failures at the workplace in ways that enhance productivity as well as employment security and earnings. For instance, workers may have knowledge about the details of production and operations that those making decisions do not have. Employers are likely to be informed about certain aspects of

the business that would be relevant and useful for workers. Information sharing can generate additional efficiency gains by providing a mechanism for resolving conflicts and reducing wasteful turnover.

Collective representation and bargaining can also address problems of uneven market power whereby firms may be able to impose lower wages or inferior working conditions on individual workers than would be the case under competitive conditions.

Bargaining between firms and workers

The coverage of unions and collective bargaining varies considerably around the world (figure 8.2). Coverage rates are generally low in developing countries, where few workers out of the civil service or protected sectors belong to a trade union. In most countries where regular data are available, the coverage of collective bargaining agreements has declined during the past two decades.²⁷ The shift of employment toward the services sector, globalization, technological progress, evolving social values, and legislative changes have all been advanced as causes of this decline.²⁸

The vast majority of the evidence confirms the existence of a wage premium in favor of union members and other workers covered by collective agreements. Estimates of the adjusted union wage effect (controlling for other factors) range from around 5 percent in Japan and the Republic of Korea, up to 15 percent in countries as varied as Brazil, Canada, Germany, Malaysia, Mexico, and the United States.²⁹ South Africa stands at the upper end, although there is controversy on how high the union wage effect actually is (box 8.2). Wage effects tend to be strongest for women and in countries where union membership is high. It is also clear that unions and collective bargaining have an equalizing effect on earnings distributions by compressing wage differentials. Research has shown that wage inequality falls during periods when union density is increasing and rises when union membership is in decline.³⁰ Little evidence exists on the impact of unions on poverty.

One relevant question is whether union wage gains come at the expense of reduced employment. Unfortunately, few studies have addressed this question in developing countries. In in-

FIGURE 8.2 *The coverage of collective bargaining is low in developing countries*

Sources: World Development Report 2013 team based on ICTWSS database, Visser 2011, and World Bank 2011b.
 Note: The reported variable is either union membership or collective bargaining coverage as a share of total employment.

dustrial countries, studies are divided between those finding that unions reduce employment (or increase unemployment) and those finding no significant effect. Where negative impacts are found, the magnitude is modest. The most recent estimates by the Organisation for Economic Co-operation and Development (OECD) find that a 10 percentage point decline in union coverage is associated with an increase in employment of 0.8 percentage points.³¹

Industrial relations and productivity

The impact of collective bargaining on productivity reflects the balance of two opposing forces. On the one hand, voice may lead to better information sharing, while higher labor costs under unionization may encourage management to invest more on training and technology, leading to higher productivity. On the other hand, unions may also be able to negotiate restrictions in hours worked and pay rules that reduce effort, hindering productivity. The net effect of these forces is then an empirical mat-

ter. The evidence collected on productivity in the United States and Europe is not conclusive.³² In developing countries, effects are positive in Malaysia, Mexico, and Uruguay, but negative in Brazil.³³ Findings suggest that unionized firms undertake more training than nonunionized firms. But differences in the introduction of new technologies are not significant.

The institutional structure for collective bargaining can differ considerably across countries, especially in the degree of centralization and coordination. Arrangements vary from firm-level bargaining with no influence on other firms to industry-based bargaining to centralized bargaining with national coverage. Prior to the 1990s, researchers found that both centralized and decentralized bargaining led to better employment performance. Analysis has been less conclusive since then, however.³⁴

With policy changes, some developing countries and emerging economies have extended worker representation and are seeing new forms of collective bargaining. In China, for example, a number of legislative reforms appear to have

BOX 8.2 Are bargaining councils the cause of unemployment in South Africa?

With unemployment rates well above 20 percent, the South African labor market is very different from that of other developing countries, usually characterized by low or moderate levels of open unemployment. Diverse explanations have been put forward, including growth concentrated in low-labor-intensity sectors, skills deficits, work disincentives created by social benefits, and various legacies of apartheid. South Africa's distinct collective bargaining arrangements are also frequently mentioned as a possible explanation for the lack of jobs.

Since the 1920s, bargaining over wages and working conditions in most of South Africa's manufacturing sector has taken place through industrial councils, now known as bargaining councils. Bargaining councils can request that agreements be extended to their entire sector, including to employers and workers who did not participate in the negotiations. Extensions are common but vary considerably across sectors and areas. Firm-level bargaining also occurs. It has been argued that sectorwide extensions of bargaining council agreements impose a heavy labor cost burden on small firms, undermining employment creation.^a

Estimates of wage premiums as high as 60 percent for union members appeared to provide some credence to this argument.^b A substantial part of this wage effect was associated with industries that could possibly reflect the influence of the councils. Subsequent research using more recent data and better methodologies has concluded that early studies overestimated the real wage effect of the bargaining council agreements. The latest research suggests the wage premium is in the 10–20 percent range.^c This level is signifi-

cant but more in line with union wage differentials observed in other countries. Evidence also suggests that bargaining council extensions do have effects as well, adding around 10 percent to the wages of nonunion workers within the bargaining council system.^d

These results imply that the South Africa's wage-setting institutions do have some employment effects, especially among small firms, whose contribution to total job creation is small by international standards. Bargaining councils are estimated to be associated with 8–13 percent lower employment in the firms they cover directly and with 7–16 percent lower employment in small firms.^e

While these effects are not trivial, bargaining councils can explain only a small part of South Africa's unusually high unemployment rates. Given the number of workers employed in industries covered by collective agreements, eliminating the employment effect of bargaining councils would reduce the unemployment rate by 1.5 percentage points, at the most.^f So the main constraints to job creation may lie elsewhere.

One clue is the relatively small size of the informal sector compared to other countries at a similar development level. South Africa is different from these countries in other ways, too. During the apartheid period, slum clearance, harsh licensing, and strict zoning regulations rid cities of black-dominated informal sector niches. Two decades after the end of apartheid, spatial segregation remains, and investment in black-dominated areas is low.^g The legacy of separation also results in high transportation costs for the unemployed, who tend to live far from where the jobs are. So South Africa's job creation problems may stem primarily from urban issues.

Source: World Development Report 2013 team.

a. Butcher and Rouse 2001.

b. Schultz and Mwabu 1998.

c. Magruder 2010.

d. Borat, Goga, and van der Westerhuizen 2011.

e. Magruder 2010.

f. Godfrey and others 2010; Magruder 2010.

g. Banerjee and others 2007; Kingdon and Knight 2004.

opened the door to a proliferation of unions and collective bargaining agreements (box 8.3).

Voice beyond the firm

Employers' organizations and unions also play roles as social and political agents. They may influence the laws that regulate labor markets and even policies beyond the sphere of labor relations. The nature of such involvement depends on the norms and institutional framework in the society in which they operate. Historically, labor unions have contributed to the establishment of social and labor rights, as well as to political change, in many countries. For instance,

Solidarność, a Polish trade union federation, was prominent in the fight against Communist rule, while the Confederation of South African Trade Unions played a leading role in the fight against apartheid.

In some countries, especially developing countries, the political involvement of unions can overshadow their activities at the workplace.³⁵ Because their membership is strong in the civil service and in protected sectors, unions have often opposed reforms involving fiscal consolidation, privatization, or liberalization. A comparison of economic performances in times of reform shows that developing countries with higher union membership and higher shares of

BOX 8.3 *New forms of collective bargaining are emerging in China*

Since the turn of the century, China has undergone important changes in labor policies, including enactment of new laws regarding trade unions (in 2001) and employment promotion, labor contracts, and labor dispute mediation and arbitration (in 2007). These changes have been accompanied by rapid growth in the number of unionized workers and workers covered by wage or collective agreements (more than 150 million at present). In addition to the spread of unionization and collective agreements, the International Labour Organization (ILO) has documented the gradual spread in the direct election of union representatives by workers. Such changes reflect a policy shift that “is intended to bring better protection of workers’ rights, to create a new balance between flexibility and security and to facilitate a dialogue between employers and workers on issues of mutual concern.”^a

Another notable change over the past decade has been the introduction of local, sectoral-based collective bargaining agreements. The first of these agreements was negotiated in 2003 in the wool-sweater manufacturing industry in the Xinhe district of Wenling in Zhejiang province.^b This is a district known as an example of transparency and local democracy. Since then, these agreements have been most prominent in Zhejiang, but have also spread to some other coastal provinces.^c For the most part, local, sectoral-

based bargaining has emerged where industries cluster around a district or village. By the end of 2010, this form of bargaining covered over 5 million workers through 73,000 agreements.^d

The spread of local, sectoral collective bargaining agreements has occurred against the backdrop of a vibrant private sector increasingly facing labor shortages and an inadequately regulated labor market that has led to many disruptive labor disputes. In some cases, these agreements appear to protect workers’ rights more effectively.^e At the same time, the private sector can also benefit from a more stable relationship with workers, a more reliable supply of labor, and more regular and transparent changes in labor costs.

The forms of collective representation in China are diversifying, with government encouragement. Although evidence is only gradually emerging about the consequences of these changes, some research suggests that sectoral bargaining at the district or local level holds the most promise.^f Centralized “top-down” efforts have been made to spur the proliferation of these agreements, with limited success. But the spontaneous spread of this spatial organization of collective bargaining suggests that it matches well the interest of the private sector in coordinating the operation of industrial clusters with the interest of workers to have voice in the workplace.

Source: World Development Report 2013 team.

a. Lee and Liu 2011a; 2011b, 8.

b. Wei and others 2009.

c. The Xinhe district of Wenling has also led the country in increasing transparency in local budgeting through introducing public deliberation in the process. See Ministry of Finance of the People’s Republic of China 2011.

d. workercn.cn 2011.

e. Liu 2010.

f. Liu 2010.

employment in the public sector (where most unionized workers are) experienced deeper declines in economic activity before the adoption of major reforms and slower recoveries afterward.³⁶ This finding is consistent with the reforms being adopted late, and their implementation being watered-down. On the other hand, the level of minimum wages and social security benefits did not affect performance, suggesting that trade unions made a difference because of their political activities, more than because of their impact on labor costs.

Trade unions organized around the employer-employee relationship are less suited to providing voice to those who do not work for a wage. The high incidence of self-employment in most developing countries, and the persistence of informality more generally, have created impetus for innovative institutions for collective representation. These institutions are different from traditional unions because the market imperfec-

tions and institutional failures they address do not involve conventional employer-employee relationships or workplace-based production structures. They are often organized to represent members’ interests with a particular municipal authority or local government.

Associations of self-employed workers are emerging as a vehicle to demand and protect their members’ rights and improve their working conditions. Some of them have drawn their inspiration from India’s Self Employed Women’s Association (SEWA), which was created 40 years ago. In many cases, groups such as street vendors in Lima, Peru, or garbage collectors in Pune, India, may not only negotiate with government authorities but also resort to litigation in the courts. Waste pickers in Bogotá, Colombia, organized to defend their right to provide services to municipalities (box 8.4). Street vendors associations in Durban, South Africa, filed cases in court against the construction of malls

BOX 8.4 *Recicladores forced changes in Bogotá's solid waste management policies*

Waste pickers, or *recicladores*, in Colombia's capital earn a living by recycling metals, cardboard, paper, plastic, and glass and selling them through intermediaries. Efficiency considerations aside, their experience shows how associations of informal workers can use legal frameworks to access rights.

When reforms for the tendering of public services allowed municipal governments to give exclusive contracts to private companies for collecting, transporting, and disposing waste and recyclables, the *recicladores* organized and filed legal claims. Organizations such as the Asociación de Recicladores de Bogotá (ARB), an umbrella association of groups representing more than 25,000 waste pickers, played a key role in aggregating claims and taking cases forward. In making its case, the ARB appealed to the constitution's provision of the "right to equality," arguing that waste pickers

need preferential treatment and judicial affirmative action in the tendering and bidding process for government contracts to manage waste.

In 2003, the Constitutional Court ruled that the municipal government's tendering process for sanitation services had violated the basic rights of waste pickers. Subsequent cases have referred to constitutional provisions including the "right to survival" as an expression of the "right to life." Article 11 of the constitution was invoked to argue the right to pursue waste picking as a livelihood and the "right to pursue business and trade." Article 333 was invoked to argue that cooperatives of waste pickers, not just corporations, can compete in waste recycling markets. The most recent case in December 2011 halted a US\$1.37 billion contract for the collection and removal of waste in the city.

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

and against harassment and confiscation of their inventories of goods by municipal authorities.³⁷

These nontraditional workers' organizations are increasingly participating in global institutions such as the ILO. For instance, the International Domestic Workers Network attended the International Labour Conference in 2009 in order to prepare for discussion and vote on a new ILO convention on domestic work at the International Labour Conferences in 2010 and 2011.³⁸

Active labor market programs: Effective within limits

Active labor market programs (ALMPs) can improve the efficiency of job matching by transmitting information on job openings and worker characteristics between employers and jobseekers. They can fill the gap when employers or workers underinvest in training because of various market failures, and they can mitigate the impacts of economic downturns by providing workers with temporary employment or creating incentives for employers to hire. ALMPs are politically attractive for governments eager to do something about job creation.

The most common active labor market programs are job search assistance, wage subsidies, training, and public works.³⁹ In terms of size, interventions range from huge public

works programs such as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), offering work to millions in rural India, to tailor-made life-skill courses for small groups of young participants in the Dominican Republic. All ALMPs strive to foster new job opportunities, often for those with the fewest chances in the labor market.

A panorama of programs

Job search assistance. These are services providing information on job vacancies and jobseekers and offering counseling and placement support. Evaluations indicate that job search assistance can improve employment and earnings at a low cost—but only when job vacancies exist. By providing information and making the labor market more meritocratic, more effective matching can have positive productivity effects. But job search assistance is less relevant in countries where a majority of the workers are farmers and self-employed.

In many high-income and some middle-income countries with largely formal labor markets, job search services have been overhauled in the past 10 years. Although public financing remains the norm, private provision of services has become more common. Performance contracts are being used to create incentives for providers. These contracts must ensure that providers reach those in most need and do not concen-

trate only on those who are easy to place.⁴⁰ Job search support is increasingly being integrated with a range of complementary services such as profiling to assess opportunities, life skills, or other training. “Activation” strategies requiring job seekers to be brisk, are also becoming more common. Ultimately, the success of job search services depends on the capacity of providers to reach out to employers’ needs.⁴¹

Potentially game-changing technological innovations are now extending the reach of traditional intermediation.⁴² Mobile phones and the Internet have opened up possibilities for inclusive information access, connecting unregistered firms and hard-to-reach youth. New actors, including both businesses and nonprofit organizations, have emerged and run services in various country settings (box 8.5).

Wage subsidies. These are direct transfers to employers or reductions in their taxes or social contributions to encourage them to hire new workers or to keep employees who might otherwise be laid off. Wage subsidies work best when they are targeted to particular groups, such as young people who need an opportunity

to demonstrate their skills, or the long-term unemployed who are at risk of suffering “scarring” effects.⁴³ But many studies show that they often do not have their intended effect of creating new jobs in a cost-effective fashion.⁴⁴

The real costs of wage subsidies are often hard to calculate; the direct toll on the public purse is only part of the story. To access the subsidies, firms might replace ineligible workers with eligible ones or dismiss and then hire the same worker under the subsidy program. If firms would have hired anyway, the employment effect of a subsidy is zero. Design can help increase cost-effectiveness. Improvements in the targeting and other features of a subsidy program in Turkey reduced this “deadweight loss,” although somewhere between 25 and 50 percent of all subsidized jobs would have still been created without the subsidy.⁴⁵ Proper cost accounting can reduce the estimated employment impact of wage subsidies by up to 90 percent.⁴⁶ Aggregate employment effects are hence low at best. Alternative designs, especially to reach the young and low-skilled, can include a wage subsidy linked to other active labor market programs such as training.⁴⁷ The Jóvenes programs and similar in-

BOX 8.5 *E-links to jobs: New technologies open new frontiers*

New technologies are revolutionizing how people connect with jobs. Mobile phones have spread widely and have penetrated low-income households around the world. Over 4 billion people have cell phone access, and 1.5 billion have regular access to the Internet.

Text messaging, voice, and mobile applications give jobseekers and employers access to information and job counseling services that improve résumés and interview skills and establish networks. Voice-based services are particularly important for illiterate jobseekers. Companies or nonprofit organizations such as Souktel, Assured Labor, Babajob, and Labournet, operating in places as diverse as Latin America, India, and the Middle East, have established thriving job matching networks. Souktel, for example, has 17,000 jobseekers and 600 companies registered in West Bank and Gaza alone. Sixty percent of registered employers reported they had cut recruiting time and costs by more than 50 percent.

Some organizations, such as Assured Labor, specifically focus on services for middle- to low-wage workers, most without college degrees. Currently, Assured Labor has 150,000 registered jobseekers and 2,000 employers in Mexico. Similarly, Babajob and Labournet in India serve 200,000 and 100,000 jobseekers who can search for employment in databases containing 40,000 and 45,000 employers, respectively. Labournet is unique in that it serves the informal labor

market, focusing on sectors such as construction and facility management.

While these companies and organizations have been successful, others such as Konbit in Haiti and PULS in Pakistan had to overcome significant difficulties. Challenges have included attracting sufficient numbers of jobseekers and employers, building trust among users, and ensuring adequate assurance on the quality of jobseekers. In response, Konbit has tried to increase the number of users by partnering with a locally famous radio disk jockey and mobile phone provider to advertise its service. Through these efforts, the company was successful in attracting 10,000 jobseekers in one month.

The Internet also brings together jobseekers and employers through online platforms. The large and fast growing oDesk connects about 350,000 companies (mainly small and medium enterprises) with individual contractors worldwide. From April to June 2012, oDesk posted online close to 450,000 jobs and more than 280,000 job applications. Jobs range from typing, web research, and translation to software development and back-office legal services. Wages range from US\$1 to several hundred US\$ per hour. While this new phenomenon has the potential to create many new jobs and generate substantial new wealth, online platforms generally serve people with specialized and technical skills, and as such, reach few of the most vulnerable.

terventions in several Latin American countries have employed this model with positive results.⁴⁸

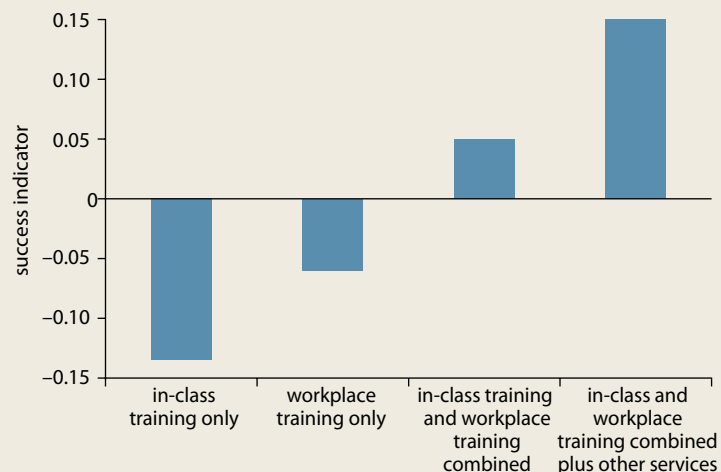
The impact of wage subsidies tends to rise with tight targeting and the extent of the disadvantage of the beneficiary group. In Morocco, the Idmaj youth wage subsidy effectively eased labor market entry for beneficiaries.⁴⁹ Argentina provided wage subsidies to employers hiring former participants in large public works programs. These workers exerted more effort in searching for jobs and were perceived as more trustworthy than other similar workers. That was true especially for women and young participants.⁵⁰ But the narrower the focus, the higher the potential stigma effects. In Poland, men eligible for the wage subsidies were actually less likely to be employed.⁵¹

Training for jobseekers. Training is the most widely used active labor market program. The growing body of impact evaluations underlines the importance of aligning the skills taught with labor demand. These evaluations show that positive benefits are not guaranteed and program costs can be substantial. When programs are well conceived and implemented, however, they can benefit those furthest from jobs the most. In Latin American countries, and in transition economies such as Romania, youth and women record significantly higher success rates from training than do middle-aged men.⁵²

Some design features are critical for success. Integrated programs that include both on-the-job and classroom components pay off. Especially in developed and Latin American countries, training for job seekers now often follows this integrated model, sometimes with complementary services such as life skills training and counseling. Such combinations increase success rates (figure 8.3).⁵³ The Jóvenes programs in Latin America, which combine life-skills and technical training with work experience, are a case in point. In Colombia, Jóvenes en Acción has increased employability of trainees, with an estimated rate of return of 13.5–25 percent for female participants.⁵⁴

In addition, providers need incentives to ensure that the training they offer is relevant for the needs of employers. Public training agencies often respond too slowly to changing demands from firms and jobseekers alike. Where a country's institutional capacity and supply of training

FIGURE 8.3 *Combining work and training increases the success rates of programs*



Source: Fares and Puerto 2009.

Note: The figure shows the correlation coefficient between type of training and reported success of a program, with success defined as improving employment or earnings and being cost-effective.

organizations allows, public training funds can be directed to private and nonprofit providers in competitive terms. Performance-based tendering can create incentives for more relevant training, while contracting can be designed so that the toughest-to-reach groups do not lose out. In Bulgaria, Hungary, Romania, Serbia, and Slovenia, public employment services purchase training programs from various providers through public tenders.

Research shows that at least some training programs help build trust and civic engagement, but information about how that happens is scant. In Tunisia, the inclusion of entrepreneurship training in education curricula reform improved participants' optimism about the future.⁵⁵ In the Dominican Republic, participants in the Juventud y Empleo program were more likely to have higher expectations for the future, higher job satisfaction, and more intensive search attitudes.⁵⁶ In northern Uganda, participation in a comprehensive intervention that combined grants, vocational training, life skills, and psychosocial counseling was successful in increasing community participation.⁵⁷

Public works. These programs offer short-term employment for wages or food. The evidence

from impact evaluations shows that public works programs can be useful as a safety net, especially when targeted toward those in the greatest need.⁵⁸ Careful setting of the wage level can be a self-targeting tool as has been done in Colombia's Empleo en Acción and Argentina's Trabajar programs. A similar targeting approach is being used in India's MGNREGA program, which is notable not only for its scale and cost but also for its rights-based approach in guaranteeing employment (box 8.6).

But seldom are public works a springboard for better jobs in the future. There is little evidence that they help participants get a job after they leave the program.⁵⁹ Compared with other ALMPs, public works programs have the lowest placement rates after completion and the highest costs per placement (figure 8.4). In Poland and Romania, public works have even adversely affected employability.⁶⁰ Their productivity impact, hence, tends to be very low at best.

To become a jobs ladder, public works programs need to go beyond poverty relief—a route some countries already are taking. In El Salvador and Papua New Guinea, participants in public works programs obtain additional technical and life-skills support. In Sierra Leone, the package comes with compulsory literacy and numeracy training, and in Liberia with life-skills training. In Bangladesh, the beneficiaries of a rural employment scheme were referred to microfinance institutions; three years after the program closed, almost 80 percent were still self-employed in microenterprise activities.⁶¹ But overall, very few public works programs succeed in improving the long-run employability of participants.

Public works have the potential to contribute to social cohesion though, especially in conflict-affected countries. Soon after the conflict ended in Sierra Leone, a workfare program was launched to help rebuild infrastructure and provide short-term employment opportunities to the poor and ex-combatants. Public works programs have also been launched and scaled up in Guinea, Guinea-Bissau, Liberia, and the Republic of Yemen. In Serbia, participants felt socially more included as a result of a public works program.⁶²

Striving to deliver better outcomes

While many programs have met expectations in countries with very different job challenges,

many others have not succeeded in improving outcomes for participants. Moreover, while some programs are affordable, others are expensive. Outcomes for ALMPs depend on their design but also on the institutional capacity of the country to provide services on a national scale and on a continuous basis.

Program and policy design has been revamped in many countries in recent years to achieve better performance. Public funds increasingly finance private or nonprofit provision. In aging and formalizing countries, a forthcoming attitude by jobseekers is increasingly required for them to remain eligible for unemployment and other social benefits. Such activation measures create incentives for job search through participation in training or education courses, counseling and other employment services, or public works.

Many industrial countries are implementing such policies through “one-stop shops” for the administration of both social benefits and ALMPs. Germany's Jobcenter and the United Kingdom's JobCentre Plus are examples. This integrated approach can in principle help workers maintain or create links in society, albeit evidence here is scant.⁶³ The one-stop-shop model is gaining momentum in a number of developing countries as varied as Argentina, Azerbaijan, and Bulgaria.

Another important delivery reform is the growing investment in identifying the employment constraints faced by jobseekers. Obstacles to finding jobs may range from inadequate skills to health issues to difficulties balancing family responsibilities with work. Statistical profiling, where individual characteristics of beneficiaries are linked with likely constraints and appropriate remedies, has become an important tool, especially in countries with significant institutional capacity.⁶⁴ Comprehensive programs like Chile Solidario invest heavily in linking beneficiaries to the most appropriate programs depending on their constraints.

In sum, ALMPs can make a difference, but they need to be well aligned to the needs of the labor market and designed to address the market imperfections and institutional failures that hinder desired employment outcomes. Overall, evaluations of programs with youth participants show that developing countries have better results than industrial countries in fostering employability.⁶⁵ The time horizon also matters:

BOX 8.6 *The Mahatma Gandhi National Rural Employment Guarantee Act launched the biggest public works program in the world*

Public works programs have been actively used in India since the 1950s. Yet no scheme has had a scope or budget on the scale of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). Launched in 2006 and implemented in three rollout phases, this program guarantees jobs to all districts with rural populations. The program aims to provide wage employment, improve the purchasing power of the rural poor, create assets for the community, strengthen natural resource management, and foster social and gender equality.^a

The program guarantees up to 100 days of employment a year to rural households with adult members willing to do unskilled work at a wage that is roughly the state statutory minimum wage.^b Rural households wanting to participate in the program are required to register with their respective village council (*gram panchayats*) and are issued a free job card with photographs of all members living in it. A job card holder may apply for employment and the government must provide it within 15 days. If the government fails to do so, in principle a daily unemployment allowance must be given to the applicant. Each household decides how to distribute employment among its members. Daily wages are based on the amount of work done and are paid directly into post office or bank accounts. The program includes some provision for adequate worksite facilities, including access to safe drinking water, shade, a first aid kit in case of accident, and crèches for women to leave their children. The program encourages the participation of women through a mandate that they should account for 33 percent of employed workers. In addition, wages have to be equal for men and women, work has to be provided within five kilometers of the applicant's village, and gender discrimination of any type is forbidden.^c

Most of the public works carried out under MGNREGA are labor intensive; contractors and machines are not allowed on work sites. Projects are meant to be chosen in open village meetings (*gram sabhas*) to reflect village priorities, and local councils play a substantive role in planning, implementing, and monitoring them. The projects mainly focus on developing and maintaining community assets such as water conservation and water harvesting, irrigation channels, and rural roads. Drought proofing, flood control, and land development are also supported by the program. The central government bears 90 percent of the total cost, covering participants' wages in full and 75 percent of materials and administrative expenses.^d State governments pay for 25 percent of materials and administrative costs, the daily unemployment allowance, and the expenses of the state employment guarantee council. The act also calls for accountability through the use of information and communication technology, social audits, and third-party monitoring.^e

During the program's first phase in 2006–07, the budget outlay was US\$2.49 billion. The program issued 37 million job cards and provided on average 43 person-days of work to 21 million households, totaling 0.9 billion person-days of work. Since then, the program has expanded substantially in its coverage and budget. During fiscal year 2010–11, 55 million households were provided an average of 47 person-days of work, totaling 2.5 billion person-days at a cost of US\$8.7 billion (0.51 percent of GDP).^f That makes MGNREGA the largest workfare program in the world. Participation of the poor and vulnerable has been quite significant according to administrative data.

Critics argue that MGNREGA may be affecting the functioning of rural labor markets. By setting the wage paid by the program at roughly Rs 100 (US\$1.80) a day, it may help to enforce a sort of minimum wage for all casual rural work. If that is above the normal wage offered, the program may be altering the supply of casual labor and crowding out private employers.^g It may also be constraining the process of labor reallocation out of agriculture and into more productive sectors.

The program has received considerable media attention because of alleged corruption, leakage, inadequate implementation, and the like. But few studies have attempted to assess its impact on rural households, rural labor markets, and productivity in a systematic way. Among the emerging evidence, a striking finding is that participation rates in areas where the program is most needed are not the highest.^h Household surveys show evidence of rationing and unmet demand, limiting the poverty alleviation impact of the program. Yet, despite the rationing, the program is reaching poor people and attracting women and disadvantaged castes into the workforce.ⁱ One study in the state of Andhra Pradesh suggests the program increases expenditure on food and nonfood goods.^j Evidence of effects on wage levels in rural labor markets and on labor reallocation is still inconclusive. Studies on non-labor-market effects of the program are scant.

Several challenges face the MGNREGA program. Addressing leakage and transparency is one. The government has taken this challenge seriously, for example, through the adoption of biometric-unique identification cards. Improving the quality and relevance of the communal assets to generate wider and long-term effects is another challenge. But the biggest one is ensuring that demand for work is met, and that wages are paid fully and on time. Also, if the program's objective is to lift the poorest, the program should accommodate those whose physical conditions do not allow them to perform hard manual work.^k

Source: World Development Report 2013 team.

Notes: GDP = gross domestic product.

a. Ministry of Rural Development 2012; World Bank 2011d.

b. Ministry of Rural Development 2012. Initially, the statutory minimum wage varied across states. But in 2009, the central government delinked MGNREGA wages from the state-level statutory minimum and established a uniform daily wage of Rs. 100, which is adjustable for state-specific inflation.

c. Ministry of Rural Development 2008; World Bank 2011d.

d. World Bank 2011b.

e. Ministry of Rural Development 2008.

f. World Bank 2011b. In terms of budget as a percent of GDP, the MGNREGA is comparable to the largest cash transfers programs such as PROGRESA/Oportunidades (0.4 percent GDP in Mexico) or Bolsa Família (0.36 percent GDP in Brazil). Yet in terms of household coverage, the massive scale of the MGNREGA stands out.

g. Basu 2011; Basu, Chau, and Kanbur 2009; Dutta and others 2012; World Bank 2011b.

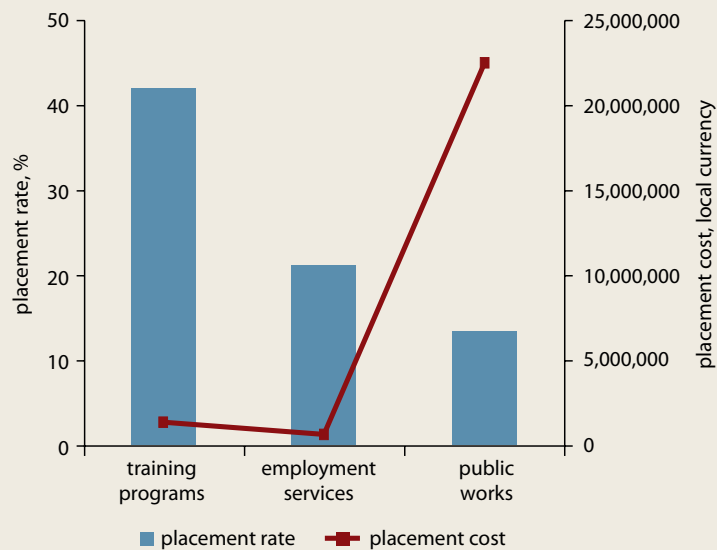
h. Dutta and others 2012.

i. Dutta and others 2012.

j. Ravi and Engler 2009.

k. World Bank 2011d.

FIGURE 8.4 *In Romania, public works programs have the lowest placement rate and highest placement costs*



Source: Rodríguez-Planas and Benus 2010.

Note: The placement rate is the percentage of program participants who get a job.

in industrial countries, training programs show their real value only in the medium to longer run.⁶⁶ But a thorough understanding of the jobs challenge faced and a good sense of institutional capacities are critical when deciding whether a specific ALMP could be part of the solution.

Even with these innovations, expectations for active labor market programs need to be kept in check. Job search and intermediation can work only if firms are creating jobs. Short training courses cannot solve a fundamental problem in the education system. Activation incentives will be fruitless if deep-rooted discrimination causes people to withdraw from a job search.

Social insurance: The challenge of expanding coverage

Many people are unable or unwilling to save against major risks such as job loss, disability, the death of a breadwinner, or aging without resources. Because insurers cannot accurately assess individual risk (adverse selection) and be-

cause individuals can influence that level of risk (moral hazard), markets do not provide adequate risk pooling. Social insurance is a package of programs that can potentially address market failures such as these. But social insurance programs are also shaped by history, values, and politics, so their design is not exclusively aimed at improving efficiency.

Some countries have introduced public unemployment insurance systems to help workers mitigate the risk of job loss. Many have disability insurance to cover situations where illness or injury affects employment opportunities. Most countries also have social safety nets that, while not directly tied to employment status, can provide a coping mechanism when earnings are insufficient to meet a basic living standard.

Other social insurance programs not directly related to labor market risks are often tied to the jobs that people have or to their employment status. The most important of these are old-age pensions and health insurance programs that are financed by payroll taxes (social security contributions) from employers, employees, or both. These benefits are publicly provided because of imperfections in the insurance market, not in the labor market. However, they can have important consequences for the types of jobs that are created and thus for productivity. Financing them through payroll taxes can affect labor demand and employer choices on whether to provide insurance coverage as part of the employment contract. It can also influence workers' behavior, including their incentives to take, keep, and switch jobs, to work in the formal or the informal sector, and to engage in work with higher risks and returns.

From a jobs perspective, the major questions are twofold: how to manage labor market risks and how to design the financing of other types of social insurance to have the most favorable impact on employment.

Managing labor market risks

In low-income countries, managing income loss is more important than managing the loss of a job. When most people are engaged in subsistence agriculture or are self-employed, open unemployment is not a common occurrence. In these contexts, social safety nets, including non-

contributory cash transfers and public works programs, can be critically important to cope with adverse shocks.⁶⁷

However, when wage employment is more prevalent, unemployment insurance may be a higher priority. Unemployment insurance can provide income support to workers who lose their jobs and prevent individuals and households from falling into poverty. By supporting a job search, it can result in better matches and efficiency gains. Effective coverage is far from complete, however; according to the ILO, only 15 percent of the unemployed worldwide received benefits during the recent financial crisis.⁶⁸ Another concern with unemployment benefit systems is that they may reduce incentives to keep jobs, look for jobs, or accept a job offer. Most of the evidence on the incentive effects of unemployment benefits comes from industrial countries and is mixed. Some studies find that more generous benefits—either through higher benefit levels, or longer duration of benefits—can increase either the length of unemployment or the unemployment rate.⁶⁹ Exits from unemployment typically increase when benefits expire.⁷⁰

Over the past decade, unemployment insurance eligibility and benefits have been reformed in a number of countries to reduce job search disincentives. While some disincentive effects are inherent in any unemployment insurance system, recent studies for Denmark, France, Germany, Ireland, Italy, and Spain found that even if workers remain unemployed for a longer period of time, they are eventually able to find more stable jobs.⁷¹ Studies of unemployment insurance in Brazil found that benefits did not affect the duration of unemployment, except when workers were moving from unemployment to self-employment. In this case the transition period was shorter, suggesting that benefits may have made it possible to start a new business.⁷²

Concerns about job search disincentives and hidden redistribution have led to some interest in unemployment insurance savings accounts. While the design can vary, workers make contributions to the accounts and can draw money from them during unemployment spells. Any remaining balance is paid out when the worker retires and can be used as a pension top-up. Some countries, mainly in Latin America but also Austria and Jordan, have adopted these savings accounts as an alternative approach to

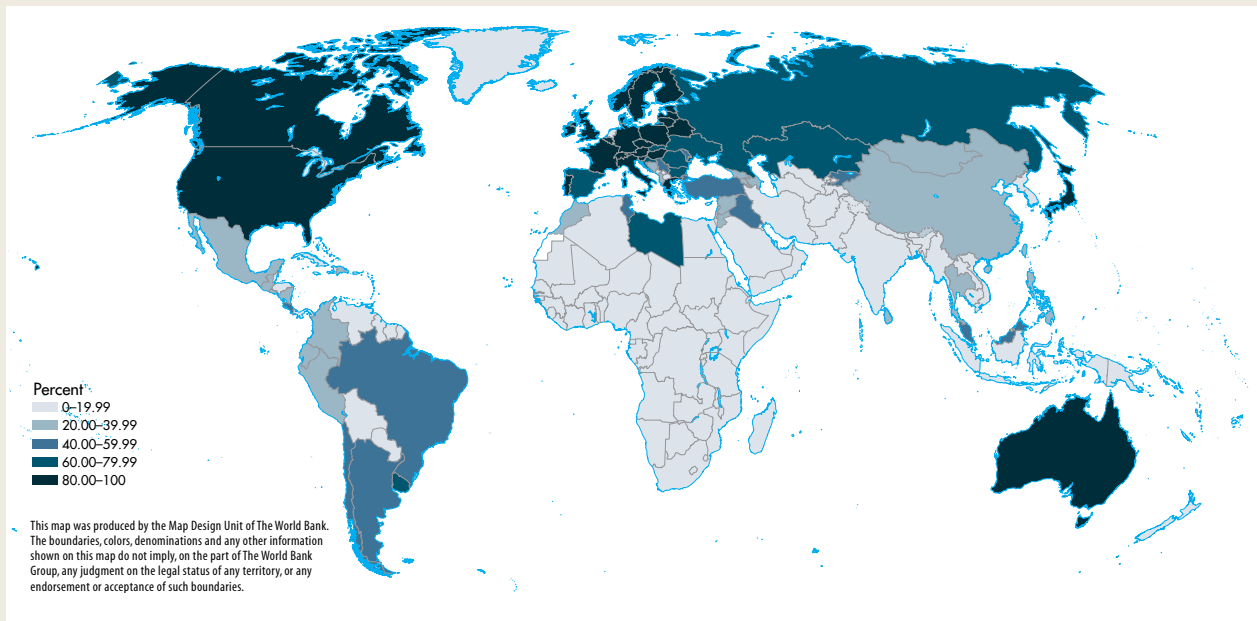
insurance-based programs. But insurance savings accounts do not allow for risk pooling, so that young workers and workers with frequent unemployment spells may not have adequate savings. To address this concern, some plans have a redistribution feature. For example, Chile's program includes a Solidarity Fund to support workers whose account balances are too low to provide adequate income support during unemployment.

In all countries, disability is an important labor market risk. According to recent estimates, the prevalence of disability is about 15 percent of the adult population. Rates are higher in low-income countries and in aging societies.⁷³ Although many people with disabilities do work, inactivity rates among them are significantly higher than for the overall population. In industrial countries, the inactivity rate for persons with disabilities is about 2.5 times higher than it is for those without disability.⁷⁴

Disability benefits can provide important income protection, but costs have mounted in some countries and the benefits can create work disincentives among the general population. Accommodation of workplaces to persons with disabilities is an important strategy to encourage them to seek employment. Benefit systems can be adjusted to this end as well. In-work payments, time-limited benefits, and working tax credits are all being tested in the European Union.⁷⁵ Countries without disability benefits need to emphasize accommodation and rely on social safety nets where disability is associated with poverty.

Financing social insurance

A salient feature of social insurance programs in developing countries is their low coverage.⁷⁶ Across the world only 30 percent of workers have access to social insurance; in Africa and Asia, the share is less than 25 percent (map 8.1). On average, coverage rates are highest in aging societies and formalizing countries and lowest in conflict-affected countries and agrarian economies, where less than 10 percent of the working population is enrolled in pension programs. In general, low-income workers are the least likely to be covered. In most countries in Latin America, coverage rates are below 10 percent in the bottom income quintile but above 50

MAP 8.1 Coverage of social insurance remains low in many countries

Source: World Development Report team based on Pallares-Mirallas and others 2012, and administrative data from Canada.

Note: Coverage refers to number of people who have contributed (at least for one month in the reference year) to an earnings-related mandatory pension scheme, measured as a percentage of the labor force.

percent in the top quintile.⁷⁷ Even if workers are covered on paper by social insurance, they may not necessarily receive benefits. Effective coverage can be reduced by fiscal pressures and low implementation capacity.

Coverage is low for multiple reasons, including limited fiscal space to finance programs, low institutional capacity to manage the administration and delivery of benefits, fragmented schemes that cover certain groups and not others, and program design providing weak incentives to participate. In many developing countries, workers and firms in the informal sector generally fall outside the scope of programs. Reaching the self-employed, farmers, and migrants is particularly difficult. Social insurance laws in many countries do not cover micro- and small enterprises, or these firms and farms opt out because they cannot afford minimum contribution costs.⁷⁸ Weak enforcement capacity also contributes to low coverage.

Payroll taxes (including contributions for social programs) have been the dominant means

of financing social insurance in most countries. But whether payroll taxes are the optimal model, especially for developing countries, is increasingly being questioned.⁷⁹ Financing social insurance through payroll taxes may exacerbate the coverage problem by creating disincentives for the creation of formal sector jobs.

Studies in countries such as Colombia, Turkey, and some transition countries in Eastern Europe and Central Asia have found that increases in the levels of social insurance contributions decreased formal employment, by varying amounts.⁸⁰ By contributing to the “tax wedge” (the gap between total labor costs and take-home pay), payroll taxes to fund social insurance can discourage both labor demand and the willingness to work. The size of this tax wedge varies considerably across countries. It is most significant in industrial countries, aging societies, and formalizing countries (figure 8.5).

However, a complete assessment needs to take into account the value that workers place on access to social insurance. Social contribu-

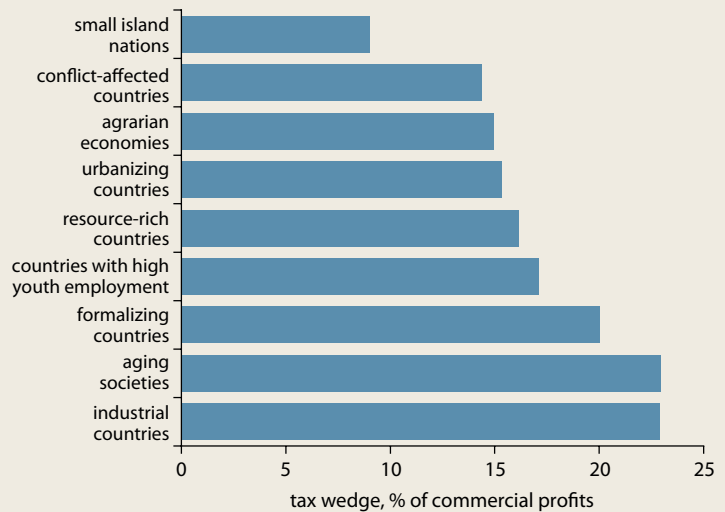
tions should not be seen as a pure tax when contributors attach value to the attendant benefits. And the evidence largely suggests that they do.⁸¹ When asked to name the essential elements of a good job, people in China, Colombia, the Arab Republic of Egypt, and Sierra Leone rated access to pensions and health insurance equally with good wages. In those countries, workers who participate in social insurance systems indicated that they would require substantial income increases to compensate for losing access to social insurance. At the same time, workers outside these systems would be willing to contribute a significant portion of their pay to participate (figure 8.6).⁸² But design and implementation matter, because the value attached to participation depends to a significant degree on the adequacy of benefits relative to contributions and the efficiency and transparency of benefits administration. The long-term credibility of the social insurance system is also a critical factor, especially in aging societies.

In trying to extend the coverage of social protection in developing countries, two important issues need to be addressed. The first one is which risks are the priorities to address. In low-income countries, pensions for old-age and disability and basic health insurance are more important than unemployment insurance.

The second issue is how to extend the priority programs to workers in the informal sector. Some countries are using technology in innovative ways to make participation by informal sector workers easier (box 8.7). But technology alone cannot overcome the market imperfections and institutional failures that result in low social protection coverage. For instance, mobile phones may make it easier for farmers to pay contributions toward health insurance, but those less prone to be ill may still choose not to enroll. This is why extending social protection coverage requires adequate regulations and resources, in addition to modern “technology.”

One approach is to run a parallel system for informal sector workers in conjunction with the contributory system. This approach addresses the coverage gap, but if the parallel system is funded out of general tax revenue, it discourages enrollment in the contributory system and can hinder the development of the formal sector. These problems could be addressed to some

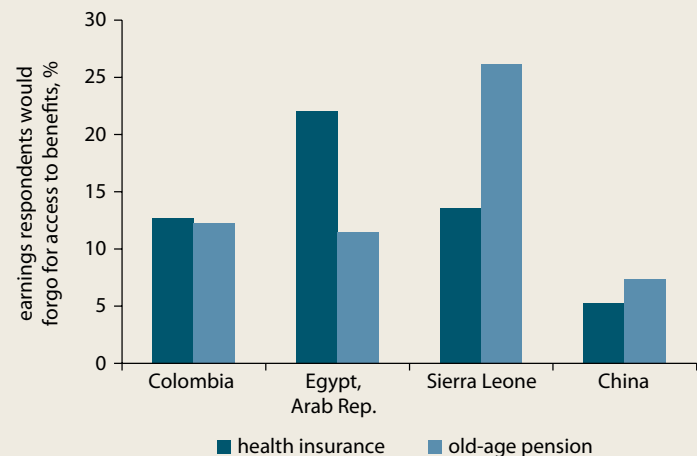
FIGURE 8.5 Labor taxes and social contributions vary across countries facing different jobs challenges



Source: World Bank 2011a.

Note: Labor tax and contributions measured as the amount of taxes and mandatory contributions on labor paid by businesses.

FIGURE 8.6 Workers are willing to give up earnings for access to health insurance and pensions



Sources: Bjørkhaug and others 2012; Hatløy and others 2012; Kebede and others 2012; and Zhang and others 2012; all for the World Development Report 2013.

Note: Data are for wage workers who do not receive health insurance or pension benefits paid by their employer. The figure shows the maximum amount (percentage of typical monthly income) they were willing to give up to receive benefits.

BOX 8.7 *Modern technology can reduce social protection costs, leakage, and corruption*

Innovative technology-based approaches are transforming the ways in which insurance and other cash benefits are provided. India's new health insurance scheme for the poor uses biometric smart cards both to verify that households are eligible and to keep track of hospital procedures not involving cash payments. Almost 30 million households now hold these smart cards. According to a recent report from the U.K. Department for International Development, "evidence from South Africa, India, Kenya, and Liberia has demonstrated that electronic payment systems involving smart cards or mobile phones can significantly reduce costs and leakage."^{7a} Another report, by the Consultative Group to Assist the Poor, finds significant reductions in transaction costs through electronic payments in Brazil and Colombia. These "front-end" applications help overcome several problems that have plagued service delivery in the past, including the need for beneficiaries to go long distances to obtain benefits and for middlemen to fill out forms.

Many developing countries lack robust systems for identifying people, allowing fraud of various kinds, and preventing many among the poor from accessing social programs. In the Dominican Republic, for example, one-quarter of eligible beneficiaries for a poverty program could not participate because they lacked proper documents. Poor identification also hampers efforts to coordinate across government and donor-sponsored programs and leads to duplication of costs. To confront this challenge, a growing number of countries is moving to biometric technology. India's unique identification program, known as Aadhaar, is the most ambitious so far, having collected digital fingerprints and iris scans for close to 200

million people. Applications such as mobile phones with fingerprint readers that would allow online verification of identity acceptable to service providers are now being piloted.

Less glamorous, but just as important, is the "back-end" part of social protection systems, which allows tracking of transactions on a regular basis and generation of key indicators and reports. The Management Information Systems (MIS) are arguably even more important for complex social insurance programs, especially as populations age and noncommunicable diseases become more prevalent. Keeping track of work histories allows for a better alignment of pension benefits and social security contributions. Databases of medical histories support a more efficient design of health protocols and payments to health care providers.

Information is no longer the sole domain of those administering the program, however. One of the applications of modern technology with the most potential impact is citizen reporting of acts of corruption and negligence through social media. Massive mobile phone penetration has been an especially empowering tool.

Technology is not a panacea, however, and failed projects are common. In most cases, the technology is not matched with a reengineering of the processes involved. Other common problems include poor planning and procurement practices, asymmetric information between government and vendors, and lack of trained personnel to operate the systems after they are in place. Despite these problems, the future of social protection will inevitably include creative ways of applying new technology.

Sources: World Development Report 2013 team based on Bold, Porteous, and Rotman 2012; Devereux and others 2007; DFID 2011; Gelb and Decker 2011; Palacios, Das, and Sun 2011.

a. DFID 2011, 9.

extent by differentiating the level of benefits between the two systems and financing the parallel system on at least a partially contributory basis.⁸³

Another approach is to partially subsidize participation by farmers and the self-employed in general social insurance programs. In Vietnam, those classified as poor get their health insurance cards fully paid by the budget, while the "near poor" get a 50 percent subsidy.⁸⁴ This second approach may look similar to the previous one, as funding relies on general tax revenue too. But it has the advantage of not discouraging formalization. From a social cohesion point of view it also allows building universal systems, rather than two-tier systems.

Well-designed social insurance and social protection systems have the potential to enhance the three transformations. Mitigating labor market distortions and covering priority risks can compensate for lost income; it can also contribute to subjective well-being by reducing uncertainty. Portability of benefits from one job to another and the capacity of systems to manage transitions can help workers move to higher-productivity jobs and encourage risk taking. And extending coverage can contribute to social cohesion through its role in building an encompassing social contract.⁸⁵

Policies that protect people are usually hailed as being better than policies that protect jobs. Providing income support prevents large drops in consumption and mitigates the risk of poverty among households affected by unemployment, underemployment, or loss of labor earnings. Relying on transitional income support and, in some cases retraining programs, rather than measures to protect jobs allows for the reallocation of labor, keeping up the process of creative destruction. Resources are thus allocated more efficiently and economic growth is enhanced. Preserving jobs that are no longer economically viable through government transfers and employment protection legislation prolongs an inefficient allocation of resources.

Moreover, job protection also entails a high risk of capture. It runs the danger of becoming permanent rather than temporary, creating enduringly unproductive, subsidized jobs. The development experience is full of examples in which explicit job protection has led to little other than large rents for business owners and workers in the sectors that benefited from it, stifling technological advance, structural change, and growth.

The conventional wisdom, then, argues against the protection of jobs. But in times when many jobs are lost or threatened at once and few are being created, such conventional wisdom needs to be revisited. The productivity of a protected job can still be higher than that of the alternative jobs the displaced worker may find. And the productivity gap may exceed the costs of keeping the job alive. This is likely to be the case when the alternative after displacement is to be jobless for a long period of time. In this case, in addition to the immediate loss in output, prolonged unemployment can depreciate skills and undermine social cohesion.

Importantly, it is the overall productivity of the job that needs to be considered, including its possible spillovers on the productivity of others. When people work together, or when they are connected through broader value chains, the loss of a large number of jobs may have ripple effects on productivity. In areas or activities

where jobs have important productivity spillovers, the aggregate loss of output is then more than the sum of the losses in individual earnings. Massive job losses can then lead to ghost towns and depressed regions, and this prospect suggests that the conventional wisdom may not always be right.

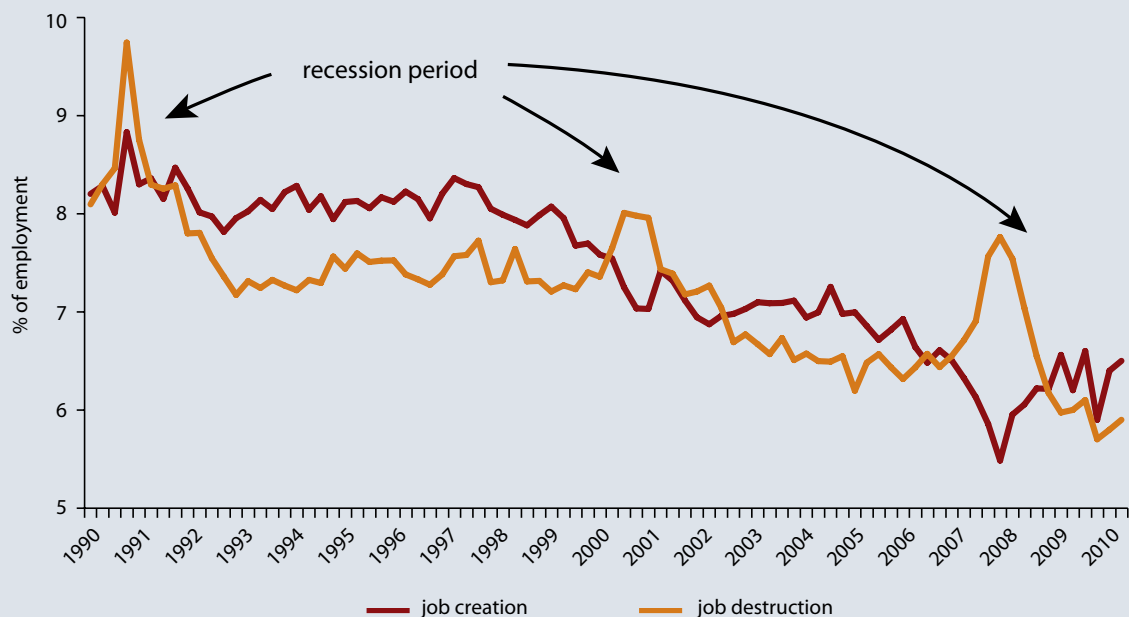
Turnover versus decoupling

Every day, jobs are created and destroyed. Workers are hired and dismissed, or they quit their jobs and start their own businesses; meanwhile some firms close and others are born. In industrial countries, this process of creative destruction affects around 15 percent of all jobs every year.⁸⁶ In normal times, the probability of job loss for an individual is largely independent of the probability of job loss for another. And the probability of landing another job is also independent of what happens to other workers. The employment shock is then what economists call “idiosyncratic.”

But there are exceptional times, when employment shocks are systemic. Then, a sustained decoupling of the normal process of job creation and job destruction occurs: jobs are lost in large numbers but not created at the same pace. This is what occurs in times of severe economic crises, when a decline in economic activity affects a broad swath of firms and industries. Job destruction accelerates, often sharply, and job creation levels off or even decreases (figure 8.7). This decoupling leads to unemployment in formalized economies and under-employment in less formalized ones.⁸⁷ In many countries, droughts, floods, or other natural disasters can have a similar impact. After the sources of the crisis dissipate, job creation picks up and unemployment or underemployment declines. The longer it takes for job creation to recover, the longer unemployment or underemployment lasts.

Decoupling can also occur in times of massive structural change brought about by rapid technical progress (for example, the introduction of computers) or policy reforms (for exam-

FIGURE 8.7 *Decoupling between job creation and job destruction was massive in the United States during recessions*



Source: Davis, Faberman, and Haltiwanger 2012.

ple, trade liberalization). Structural change can affect entire industries. In transition economies, such changes were enormous, as entire sectors economies had to cope with uncertainty and adapt to new incentives. Public sector restructuring or the privatization of state-owned enterprises can cause a similar shock. In all these cases, unemployment and underemployment can be large and long-lasting.

Losses in earnings and output are more pervasive with systemic shocks than with idiosyncratic shocks. But sometimes these two types of employment shocks can overlap. The recent financial crisis has led to an unusually deep recession in many countries. In the United States, high unemployment rates have persisted, unemployment spells have lasted longer than usual, and new job creation is still sluggish four years after the beginning of the crisis.⁸⁸ Some argue that the crisis is not a regular cyclical perturbation but the manifestation of a more enduring shift caused by technological change and globalization.⁸⁹

Decoupling hurts

Protecting people should have primacy if shocks are idiosyncratic—if the employment dislocation is limited and if turnover continues to be the norm. A variety of social protection mechanisms exist that support people in their transition from one job to another. They concentrate on sustaining standards of living through unemployment benefits and public transfers. Learning new skills or relocating to where job opportunities are can also play a role. By moving from an adversely affected activity to another job, there is a gain in output that over time outweighs the cost of the support mechanisms. Protecting people is thus good for individuals and for society.

If massive decoupling occurs—through either a wider crisis or large-scale structural change—protecting workers will rarely be enough. Intermediation services falter because jobs are simply not available. Training may help individual workers land a job, but it does not create many jobs at the aggregate level, because it does not

address the cyclical or structural causes of the employment shock. Income support through unemployment benefits and public transfers may suffer from inadequate funds or seriously affect fiscal accounts. Only sustained job creation can deal with the effects of decoupling, but even under the best of circumstances it may take several years to offset the employment decline from a systemic shock. The question then is whether providing income support on a large scale for long periods of time is preferable to temporarily supporting employment, while job creation picks up.

The long-term consequences and costs of decoupling can be higher than is usually thought. During periods of massive structural change, the reallocation of workers out of declining industries can lead to large output losses because little alternative employment is available. The productivity of jobs in declining industries may be low, but it can still be higher than the alternatives. Similarly, during crises, firms might not be insolvent but rather illiquid. Death of inherently solvent firms could cause loss of firm-specific human capital and intangible assets, disruption of value chains, and damage to surrounding communities. While the provision of credit would be the preferred solution, identifying insolvent firms might not always be feasible and could be marred by transparency problems. Temporary job protection policies can be a workable alternative to provide a lifeline for struggling, but inherently solvent, firms.

Long-term unemployment can also erode skills and workforce attachment. Aptitudes and attitudes to perform a given occupation can be lost.⁹⁰ “Scarring” can occur, with long-run consequences for finding employment with similar earnings.⁹¹ Human capital and skills depreciate. Regardless of whether decoupling is the result of severe downturns or major structural changes, workers may enter a spiral of unappealing jobs and lower living standards. The potential costs might be particularly disruptive to social cohesion. Social networks can be undone in ways that make it more difficult for the dislocated to reengage in work and even in other forms of social activity.⁹² Prolonged periods of high unemployment are of particular concern because they can affect young people’s transition from school to work, and may lead to disenfranchisement from society.⁹³

In some circumstances, then, job protection can be considered. What is meant by that is not permanent restrictions on hiring and firing through employment protection legislation, but rather time-bound policy measures that mitigate job destruction. In other words, these are selectively used active labor market policies that promote job creation or sustain existing jobs. Several countries adopted policies of this sort during the recent recession; Germany, which has a long tradition with such policies, averted job losses through a coordinated reduction of hours of work (box 8.8). The United States also took measures to protect jobs during the recent recession, most notably by salvaging its auto industry. But the United States relied mostly on aggregate demand stimulation and on extensions of unemployment insurance to protect workers, rather than on measures to protect jobs. In relative terms, changes in employment and unemployment in the United States were much larger than in Germany.⁹⁴

The pitfalls of protecting jobs

There are examples in developing countries as well. Chile and Mexico introduced work-sharing policies and compensatory subsidies to moderate the impact of the crisis. But these policies had a limited impact in their case. Given their novelty, they required new procedures that were difficult to implement quickly, resulting in very low take-up rates. More important, these policies are not well suited to countries where a large share of employment is informal, because they fail to reach the vast majority of employers. The experiences of Chile and Mexico, two countries with relatively high administrative capacity that have made progress in formalization, suggest that the usefulness of work-sharing policies is limited in developing “countries.”

There are positive examples as well. The different ways in which China and many Latin American countries handled the restructuring of their economies through the 1980s and 1990s are telling. At the beginning of its reform process, China had hundreds of thousands of uncompetitive state-owned enterprises (SOEs). But large-scale labor retrenchment would have pushed workers into even less productive jobs until the private sector developed sufficiently to absorb them. China thus supported its ail-

BOX 8.8 *Kurzarbeit has become a new word in labor market policies*

Kurzarbeit (which translates to “short work” or “reduced working hours”) has been used in Germany for a century. Under this program, employees in participating firms can be asked to cut down on working hours with a commensurate reduction in compensation. The German government, through the Federal Employment Agency, covers a percentage of the ensuing wage loss. Participation of the firm is tied to the consent of the workers affected.^a Thus there is an emphasis on social dialogue in the implementation of the program. During economic downturns, German employers tend to respond by reducing the number of hours worked, thereby mitigating the loss in jobs.

More than a dozen countries have adopted programs for reduced working hours based on the general *kurzarbeit* model but involving a variety of designs and regulations.^b The countries where these programs were in place before the global economic crisis experienced substantial increases in take-up rates during the 2008–09 period.

As a response to the crisis, several countries implementing a work-share program increased the percentage of wages covered, extended benefit duration, and relaxed the criteria for qualifying for the program. In Germany, the period during which firms could request subsidies was extended from 6 to 24 months; the government coverage of social insurance costs was increased to 50 percent; temporary help workers were made eligible; and the program was allowed to cover up to 67 percent of wage losses incurred by

affected employees.^c It is estimated that more than 1 percent of permanent jobs were saved in Germany through *kurzarbeit*.^d In 2009, more than 3 percent of the labor force was covered by the program.

The program is touted as beneficial in that it is less expensive for government to contribute funds toward paying the lost hours of work to the employee than to pay unemployment benefits. From the point of view of the employer, it helps retain skilled staff and reduces churning and retraining costs, thus maintaining firm productivity. From the perspective of the employee, the scheme prevents unemployment and the problems that come with it such as loss of income, depreciation of skills, decrease in life satisfaction, and insecurity. From the societal perspective, it cushions the impact of the economic downturn and spreads it more evenly across the labor force.

However, work-share programs only benefit formal sector employees, and not even all of them. The *kurzarbeit* is effective in saving permanent jobs but has no significant impact on temporary employment or on the hours worked by temporary workers.^e Work-share programs are also more effective in countries with less flexible labor market regulations, where take-up rates are higher.^f Furthermore, long-term reliance on this type of program can lead to significant delays in necessary labor reallocation and therefore could hinder growth and productivity in the medium term.

Source: World Development Report 2013 team.

a. If the adoption of the work-share program was foreseen in a collective agreement, the consent of the employees is not necessary; see Eurofound 2009.

b. These are Argentina, Belgium, Canada, Colombia, the Czech Republic, Denmark, Finland, Italy, Japan, Luxembourg, Mexico, New Zealand, Norway, Poland, and Turkey. See Hijzen and Venn 2011.

c. Burda and Hunt 2011.

d. Cahuc and Carcillo 2011.

e. Cahuc and Carcillo 2011.

f. Robalino and Banerji 2009.

ing SOEs through access to banking credit while rapidly modernizing its economy, preventing social disruptions in the process.⁹⁵ Latin American countries also embarked on the dismantling of inefficient industries that had developed under import substitution policies. But they did so more abruptly. Sudden downsizing may have caused a more durable rise in informality and led to slower productivity growth.⁹⁶

The risk with job protection policies is that they can create permanent inefficiency, especially in countries with weak institutions. Job protection policies involve firms or even whole

industries that can coordinate to engage in rent seeking to secure permanent government support. If such policies are adopted, it is necessary to establish and enforce trigger rules and sunset clauses that define the extent and size of the protection. If the institutional prerequisites to ensure that support is temporary do not exist, or are not credible, job protection policies can be dangerous indeed. And they should not be considered at all if job losses do not result from a systemic employment shock, involving a large decoupling of job creation and job destruction.

Notes

1. A particular country can be included in more than one group. Country types have been classified according to the following definitions. *Agrarian economies*: a rural share of population of 60 percent or above in 2010 (World Development Indicators [WDI], World Bank, Washington, DC, <http://data.worldbank.org/data-catalog/world-development-indicators>); *conflict-affected countries*: derived from a combination of two sources: (i) countries in the Uppsala Conflict Data Program database with at least 1,000 battle deaths in an internal or internationalized internal conflict in 2010, or (ii) with UN peace keeping and peace building missions (2012 World Bank fragility list); *urbanizing economies*: with 65 percent or less of the population living in urbanized areas in 2000, and with an increase of 4.5 percentage points by 2010 (WDI); *resource-rich countries*: with mineral exports accounting for at least 20 percent of total exports over 2005–10 (World Integrated Trade Solution); *countries with high youth unemployment*: with a “youth bulge index” score of 0.90 or above. The youth bulge index is calculated as total youth employment (2010) times youth unemployment rate (mean, 2001–10) divided by total population (2010, WDI); *formalizing economies*: pension contributors representing between 25 and 75 percent of the total labor force (PDB Provisional Pension Database, February 2012); *aging societies*: an elderly population (aged 65 or above) that is more than 8 percent of the working-age group (15-to-64-year-olds) (WDI); *small island nations*: island nations with a population of less than 2 million (UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States and WDI).
2. Holzmann and Vodopivec 2012.
3. One hundred sixteen countries have ratified conventions 26 and 131, which are related to the minimum wage. The World Bank’s *Doing Business Indicators 2012* report informs that 147 countries, of a sample of 182, have a minimum wage defined for a 19-year-old worker or apprentice.
4. Aghion, Algan, and Cahuc 2011; Aghion and others 2010; Alesina and others 2010; Botero and others 2004.
5. This applies to other areas of regulation as well. For example, restrictions of night and overtime work; provisions for sickness, vacation, and maternity leave; and health and safety regulations all establish a “floor” for workers.
6. Boeri and van Ours 2008; Eyraud and Saget 2008.
7. The term *lighthouse effect* was introduced by Souza and Baltar (1980). See also Boeri, Garibaldi, and Ribeiro 2011; Neri, Gonzaga, and Carmargo 2001.
8. Acemoglu 2001.
9. For more on the channels through which the minimum wage can influence poverty, see Fields and Kanbur (2007).
10. Cahuc and Kramarz 2004.
11. See Boeri, Helppie, and Macis (2008) and Freeman (2009) for reviews of many of these studies.
12. Betcherman 2012 for the World Development Report 2013.
13. For EPL, negative impacts on employment are found by Nickell and Layard (1999) for OECD countries; Heckman and Pagés (2000), but not Heckman and Pagés (2004), for OECD and Latin American countries; Mondino and Montoya (2004) for Argentina; Micco and Pagés (2006) for Chile; Kugler (2004) for Colombia; Ahsan and Pagés (2009) and Gupta, Hasan, and Kumar (2008) for India; Saavedra and Torero (2004) for Peru; Djankov and Ramalho (2009) for a large set of developing countries; and Kaplan (2009) for Latin America. In contrast, Baccaro and Rei (2007) and Bassanini and Duval (2006) for OECD countries; Paes de Barros and Corseuil (2004) for Brazil; Downes, Mamingi, and Antoine (2004) for three Caribbean countries; and Petrin and Sivadasan (2006) for Chile find no significant effect of EPL upon employment or unemployment. For minimum wages, among those who find negative employment effects are Fajnzylber (2001), Lemos (2004), and Neumark, Cunningham, and Siga (2006) for Brazil; Arango and Pachón (2004), Bell (1997), and Maloney and Núñez Méndez (2003) for Colombia; Kertesi and Kollo (2003) for Hungary; Alatas and Cameron (2003), Rama (2001), and SMERU Research Institute (2001) for Indonesia; and Strobl and Walsh (2003) for Trinidad and Tobago. Among those who find no effect are Lemos (2007) for Brazil; Gindling and Terrell (2007) for Costa Rica; and Bell (1997) and Feliciano (1998) for Mexico.
14. Micco and Pagés 2006; Petrin and Sivadasan 2006.
15. Card and Krueger 1995.
16. Although some studies have found that youth employment can be positively affected by minimum wage increases (for example, Card and Krueger 1995), most studies have found negative employment effects, although the magnitude is typically modest (for example, Montenegro and Pagés 2004 for Chile; Arango and Pachón 2004 for Colombia; SMERU Research Institute 2001 for Indonesia; and Neumark and Nizalova 2007

- for the United States). Employment of women has been found to fall in several cases as a result of minimum wage increases (for example, Feliciano 1998 for Mexico and Arango and Pachón 2004 for Colombia), although Pagés and Montenegro (2007) identified a shift in employment toward women in Chile. Where researchers have looked at employment effects of minimum wage increases on the less skilled, they typically find negative effects (for example, Arango and Pachón 2004; Kertesi and Kollo 2003; Montenegro and Pagés 2004; and SMERU Research Institute 2001). In general, workers in small firms are most likely to be affected by employment losses caused by increases in the minimum wage (Kertesi and Kollo 2003; Rama 2001). Regarding EPL, Montenegro and Pagés (2004) found that the introduction of more protective rules in Chile had adverse effects for women relative to men, for youth relative to the more experienced, and for the skilled relative to the less skilled. Similarly, cross-country analysis by the Organisation for Economic Co-operation and Development (OECD 2004) identified negative impacts of EPL on women and youth.
17. Alatas and Cameron 2003; Rama 2001.
 18. For minimum wages, a number of studies in Latin America find increased wage equality (for example, Fajnzylber 2001 for Brazil; Gindling and Terrell 1995 for Costa Rica; and Bosch and Manacorda 2010 for Mexico). OECD (2011) identifies declining real minimum wages and less restrictive EPL as factors behind increasing inequality in many countries.
 19. See Messina and Vallanti (2007) for European countries; Eslava and others (2004) for Colombia; Haltiwanger, Scarpetta, and Schweiger (2008) for OECD and Latin American countries; Bentolila and others (2011) for OECD countries; and Caballero (2004) for 60 developing and developed countries. Eichhorst and others (2010), however, found no systematic difference in adjustment to shocks by EPL differences for a sample of 20 OECD countries.
 20. Belot, Boone, and van Ours (2007) find positive effects, but only in environments where workers invested in firm-specific skills. Koeniger (2005) and Nickell and Layard (1999) find positive productivity effects, but results depended on estimation specifications. Autor, Kerr, and Kugler (2007) find that increases in employment protection had a negative effect on total factor productivity but a positive one on labor productivity. In contrast, Bassanini and Venn (2008) and Cingano and others (2010) find negative impacts. Bassanini, Nunziata, and Venn (2009) find that dismissal regulations have a depressing effect on labor but restrictions on the use of temporary employment do not. All of these studies are based on data from industrial countries. In a study of developed and developing countries, Micco and Pagés (2006) conclude that labor regulations do not robustly affect labor productivity. In a study of Asian and Latin American countries, DeFreitas and Marshall (1998) find that job security protections have a positive productivity effect in some situations and a negative effect in others. Bassanini and Venn (2007) find a positive effect of minimum wages on productivity in OECD countries.
 21. Blanchard and Landier 2002; Dolado, García-Serrano, and Jimeno 2002; OECD 2004.
 22. Almeida and Carneiro 2009.
 23. Ahsan and Pagés 2009; World Bank 2011b.
 24. Kucera and Roncolato 2008.
 25. Berg 2011; Fajnzylber 2001; Foguel, Ramos, and Carneiro 2001; Lemos 2004; Neumark, Cunningham, and Siga 2006.
 26. For an analytical discussion on the need for joint design of labor market institutions, see Blanchard and Tirole (2008). For a discussion of the design of labor market institutions in a developing country setting, see Blanchard (2005).
 27. The share of workers covered by a collective agreement is generally larger than the union membership rates. The reason is that agreements negotiated between unions and employers are sometimes extended to other workplaces not involved in the bargaining.
 28. Hayter 2011. Recent changes in legislation are summarized in ILO and International Institute for Labour Studies (2012).
 29. For summaries of the evidence on the union wage effect, see Aidt and Tzannatos (2002) and Freeman (2009).
 30. DiNardo, Fortin, and Lemieux 1996.
 31. This is based on regressions using panel data for 22 OECD countries from 1985 to 2007. For details, see OECD (2011).
 32. Aidt and Tzannatos 2002.
 33. Freeman 2009.
 34. Aidt and Tzannatos 2002.
 35. Betcherman 2012 for the World Development Report 2013.
 36. Forteza and Rama 2006.
 37. Chen and others 2012 for the World Development Report 2013.
 38. Chen and others 2012 for the World Development Report 2013.
 39. Small-business development and microcredit generally do not fall under this category because they aim to foster entrepreneurship.
 40. Almeida and others 2012.
 41. Kuddo 2009.
 42. Information provision can help bring people to available jobs. Information will not solve the

- signaling insufficiency of the market, however, if employers cannot judge the full capabilities and abilities of applicants.
43. Bell and Blanchflower 2010.
 44. Betcherman, Olivas, and Dar (2004) find that most evaluated wage subsidies do not improve employment or earnings of participants.
 45. Betcherman, Daysal, and Pagés 2010.
 46. Calmfors 1994; Martin and Grubb 2001.
 47. For evidence on the positive impact of these combined programs, see Cockx, van der Linden, and Karaa (1998) and Katz (1996). Robalino and Sanchez-Puerta (2008) also provide a review.
 48. Almeida and others 2012.
 49. World Bank 2011c.
 50. Galasso, Ravallion, and Salvia 2004.
 51. Kluge, Lehmann, and Schmidt 1999; Kluge, Lehmann, and Schmidt 2008.
 52. Rodriguez-Planas and Benus 2010.
 53. Almeida, Behrman, and Robalino 2012. For OECD countries, see Almeida and Carneiro (2009); Heckman, Stixrud, and Urzua (2006); and Holzer and Lerman (2009).
 54. Attanasio, Kugler, and Meghir 2008.
 55. Premand and others 2011.
 56. Acevedo Alameda, Garcia, and Martinez 2011; World Bank 2008.
 57. Blattman, Fiala, and Martinez 2011.
 58. del Ninno, Subbarao, and Milazzo 2009.
 59. The evidence on the ineffectiveness of public works has been widely documented; see, for example, Betcherman, Olivas, and Dar (2004) and Martin and Grubb (2001) for reviews, and Card, Kluge, and Weber (2010) and Kluge (2010) for metastudies. Carling and Richardson (2004) and Sianesi (2008) conclude that the closer a policy is to regular work, the better its longer-term employability effects on participants.
 60. Kluge, Lehmann, and Schmidt 2008 for Poland; Rodriguez-Planas 2010 for Romania.
 61. Hashemi and Rosenberg 2006.
 62. Bonin and Rinne 2006. The Beautiful Serbia program combined vocational training and public works in the construction sector for disadvantaged unemployed in Serbia and Montenegro in 2004 and 2005. The positive effect of this program was much stronger for subjective well-being than for labor market outcomes—the latter were insignificant.
 63. Almeida and others 2012; de Koning, Kotzeva, and Tsvetkov 2007.
 64. Almeida and others 2012 for the World Development Report 2013.
 65. Kluge and others, forthcoming.
 66. Card, Kluge, and Weber 2010; Hotz, Imbens, and Klerman 2006; Lechner, Miquel, and Wunsch 2005.
 67. Grosh, del Ninno, and Ouerghi 2008.
 68. ILO 2010b.
 69. Boeri and van Ours 2008; Holmlund 1998; Margolis, Navarro, and Robalino 2011; Olinto and others 2007; Vodopivec, Worgotter, and Raju 2005.
 70. van Ours and Vodopivec 2006.
 71. Tatsiramos 2009.
 72. Ribe, Robalino, and Walker 2011.
 73. WHO and World Bank 2011.
 74. OECD 2010.
 75. OECD 2010.
 76. Dorfman and Palacios 2012; Holzmann, Robalino, and Takayama 2009; ILO 2010b; Robalino and others 2012.
 77. Ribe, Robalino, and Walker 2011.
 78. Cho and others 2012; Rutkowski and others 2005.
 79. Bird and Smart 2012; Levy 2008.
 80. Betcherman, Daysal, and Pagés 2010; Kugler and Kugler 2003; Rutkowski and others 2005.
 81. These observations are based on the FAFO survey conducted for the World Development Report 2013.
 82. Bärnighausen and others (2007) provide corroborating evidence for China, finding that informal sector workers were willing to pay nearly 5 percent of their income for access to basic health insurance.
 83. Some examples of these sorts of approaches are being implemented in South Asian countries. See World Bank 2011d.
 84. Lieberman and Wagstaff 2009.
 85. Babajanian 2012; Almeida and others 2012 for the World Development Report 2013.
 86. Cahuc and Zylberberg 2006 for France; Davis, Haltiwanger, and Schuh 1996 for the United States. There are similar rates for Mexico although with much more churning, reported by Kaplan, Martínez González, and Robertson (2007).
 87. See Bosch, Goni, and Maloney (2007) for Brazil, and Bosch and Maloney (2006) and Kaplan, Martínez González, and Robertson (2007) for Mexico.
 88. Haltiwanger 2012; Haltiwanger, Jarmin, and Miranda 2011; Herkenhoff and Ohanian 2011.
 89. Stiglitz 2009; Gatti and others 2011.
 90. Pissarides 1992.
 91. “Scarring” refers to an increasing probability of unemployment and lower earnings among those who have suffered unemployment previously. It implies that the negative effects of unemployment extend beyond the period of unemployment; see Arulampalam, Gregg, and Gregory (2001). The term is also used to describe the psychological impacts of unemployment and its duration even after unemployment spells conclude; see Clark, Georgellis, and Safney (2001); Knabe and Ratzel (2009).

92. Biewen and Steffes (2010), Bramoullé and Saint-Paul (2010), and Calvó-Armengol and Jackson (2004) are modern accounts of the role of being connected to social networks to find a job. Wahba and Zenou (2005) find evidence of network effects among high- and low-skill workers in Egypt; Munshi (2003) finds that immigrants with larger networks are more likely to be hired in higher-paying nonagricultural jobs.
93. Bell and Blanchflower 2011; Cramer 2010; Fougère, Kramarz, and Pouget 2009; World Bank 2006.
94. Burda and Hunt 2011; Cazes, Verick, and Al Husami 2011; Farber 2011; Ohanian 2010.
95. Fang, Park, and Zhao 2008.
96. Hirschmann 1987.

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