

Changing employment patterns



Main findings

- No clear link emerges between overall changes in employment and inequality. Some countries have created many jobs and at the same time income inequality increased significantly. Other good employment performers saw stable or even declining income inequality. The chapter shows that, to some extent, this reflects the diverse nature of the jobs created.
- Over the past 15 years or so, the incidence of non-standard employment has tended to increase in the majority of countries for which information could be collected. In Advanced Economies, part-time and temporary employment are generally on the rise, although the patterns differ significantly from country to country. In Central and Eastern European countries, however, the trend is for a decline in the incidence of part-time and self-employment and only a marginal increase in temporary employment. The incidence of informal employment in the few African, Asian and Latin American countries for which data exist remains significant and is on the rise. This includes populous, high-growth countries like Brazil, China and India, where informal employment, already common, is becoming even more widespread.
- Non-standard jobs are generally less well remunerated than standard jobs. In European countries, temporary jobs pay, on average, 20 per cent less than permanent jobs. In Latin America, workers with informal jobs earn, on average, 43 per cent less than workers with formal jobs, while in India, casual workers (who form the bulk of informal employment) earn 45 per cent less than regular employees. These findings rest on a small set of countries and do not cover all forms of non-standard employment, so further analysis is needed in this area. If confirmed, however, the existence of a wage gap between non-standard and standard employment, combined with the rising incidence of non-standard employment, would be a factor to take into account when analysing the income inequalities described in Chapter 1.
- The income effects of rising non-standard employment depend crucially on the extent to which low-income households increase their work effort in order to compensate for the low earnings obtained from employment. In most countries, increased

work effort has probably been insufficient to offset the income effect of rising non-standard employment. There are exceptions, however. For instance, in Brazil, despite increasing wage differentials between formal and informal workers and an increase in the incidence of informal employment, income inequality has declined over the past two decades. This could be due to additional work effort among low-income households, but could also reflect state support in the form of social programmes (see Chapter 5).

- For policy-makers, it is crucial to avoid too great a gap between standard and non-standard employment. In this respect, reforms in some Latin American countries aimed at making the formal sector more attractive to employers are an interesting recent example of what can be done.

Introduction

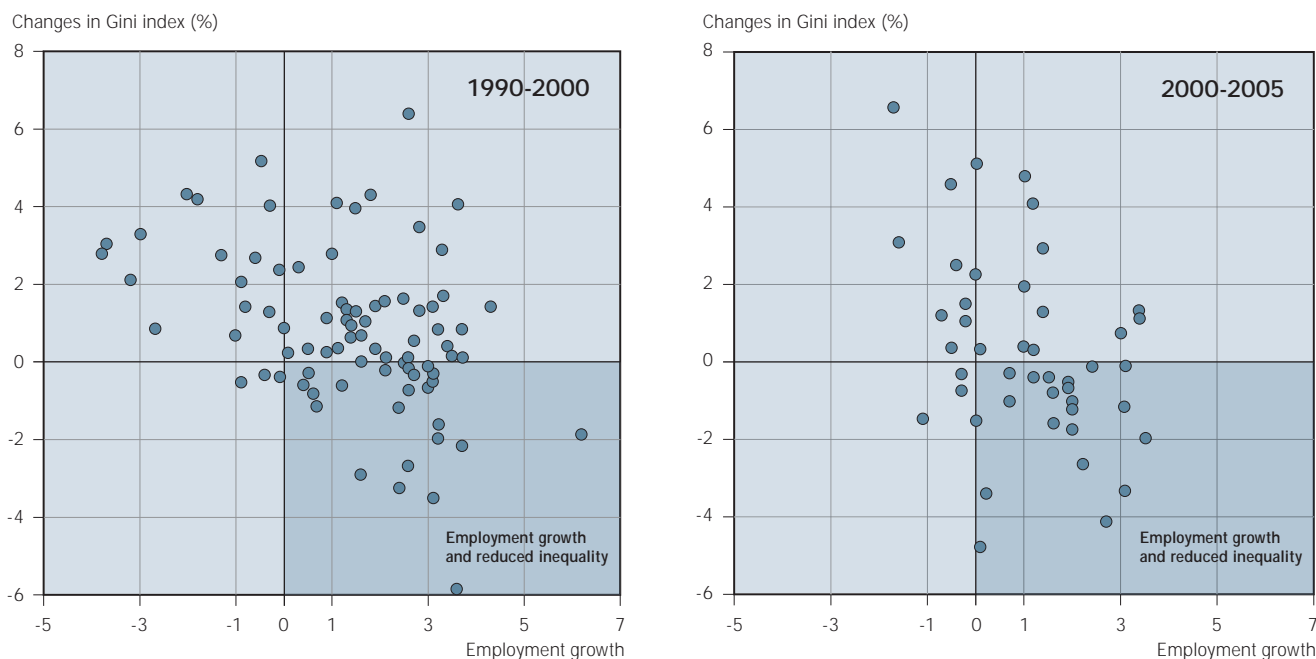
Globalization holds out the promise of enhanced economic growth and employment creation. The latter, in particular, with the improvement in living standards that it brings, is the primary means through which individuals may share the benefits of economic growth. As Chapter 1 shows, the recent period of economic expansion has been accompanied by fairly substantial employment growth in most regions of the world. However, the type of employment being created has given rise to some concern.

Changes in employment patterns may reflect the fact that the world of work is characterized by intense competition and constant change, in which both employers and employees face increasing risk and uncertainty. In order to retain markets, producers have to be more responsive to consumer demand through constant innovation and attractive prices. This process may also involve sharing economic risks between firms and workers through subcontracting and other arrangements (Reich 2001). Non-standard forms of employment – temporary, part-time or informal employment¹ – have thus become more common.

With that in mind, the purpose of this chapter is to assess the extent to which changes in employment patterns are associated with rising income inequality. It was not possible to integrate this question into the analysis carried out in Chapter 3, owing to lack of information on countries' policies on non-standard employment. More specifically, this chapter examines the potential linkages between trends in income inequality and total employment growth (Section A); and presents the trends in non-standard employment, looks at the extent to which non-standard jobs pay less than standard ones and considers the implications in terms of income inequality (Section B). The final section (Section C) examines a number of policy considerations to address any linkages between patterns of employment and income inequality.

116 1. This includes both the informal sector and informal employment in the formal sector.

Figure 4.1 Average annual changes in income inequality and employment



Note: The Figure shows how income inequality (proxied by the Gini index) and employment grew in the countries for which data are available for the relevant periods.

Source: ILS estimates.

A. No clear link between income inequality and employment growth

Over the past two decades, the world of work has been characterized by relatively robust employment growth in most regions. At the same time, however, as Chapter 1 shows, income inequality, as measured using the Gini index, has also risen in the majority of countries where data are available. Of course, as this report and others studies demonstrate, the linkages among globalization, economic growth, employment and income inequality are difficult to disentangle. Policy makers may be concerned that, by limiting income inequality, employment performance may worsen. But if employment growth is plotted against changes in income inequality since the early 1990s, there is no apparent relationship between the two (fig. 4.1). In other words, it is not the case that more (or less) employment growth is necessarily associated with more (or less) income inequality.

Perhaps more importantly, though, this simple correlation shows that few countries managed to experience both an improvement in labour market performance, as measured by employment growth, and a reduction in income inequality. In fact, for the period 1990-2000, this occurred in only 24 of 85 countries, and the figure was 20 of 44 countries for the most recent period, 2000-2005.

The complex relationship between employment gains and income inequality may reflect the increasingly diverse nature of the jobs which are created – an issue addressed in the next section.

B. Rising non-standard employment as a factor of income inequality

The incidence of non-standard employment has increased in many countries, especially among women

“Non-standard” employment refers to employment other than permanent salaried employment and comprises part-time or temporary work and self-employment. Temporary work comprises employment on fixed-term contracts, agency work and seasonal work. This section looks at trends in such forms of employment, particularly part-time and temporary work in Advanced Economies and informal employment in developing countries.² It makes no value judgements as to whether such work is precarious or not, whether it is socially harmful or, whether on the contrary it is a useful stepping-stone to the labour market. These are matters that lie beyond the scope of this report. Instead, the aim is to examine whether the incidence of these forms of employment has increased, as is often argued. Later sections will look at the implications of observed trends as they affect income inequality, which is the theme of the report.

In Advanced Economies, standard employment – full-time, permanent work arrangements – has long been regarded as the norm and the framework within which labour law, collective bargaining and social security systems developed. The past two decades, however, have witnessed a rise in non-standard work arrangements.

- The incidence of part-time employment has increased significantly since the early 1990s in most Advanced Economies, especially among women (fig. 4.2, panel A). This trend could reflect demand-side developments, such as the need for greater flexibility in the workforce; but supply-side factors, such as the desire to strike a better balance between work and family life or study, have also been influential (Fagan and Ward, 2003). Part-time employment is often voluntary.
- The incidence of temporary employment has also tended to increase over the past two decades (fig. 4.2, panel B), particularly among women, largely because firms needed to be able to respond to rapid changes in supply and demand conditions in the face of stiffer product-market competition (Kalleberg, 2000; Dorantes, 2005). In addition, new technology has made it possible to fragment the production process and outsource certain tasks, a trend that has been associated with less stable employment. Some authors also argue that badly designed employment regulations make employers reluctant to recruit under permanent contracts (Atkinson, Morris and Williams, 1999; Davis-Blake and Uzzi 1993).
- By contrast, the share of self-employment in total employment declined in most of the advanced economies, especially among female workers. This trend largely reflects the declining incidence of employment in the agricultural sector, where self-employment is typically dominant.

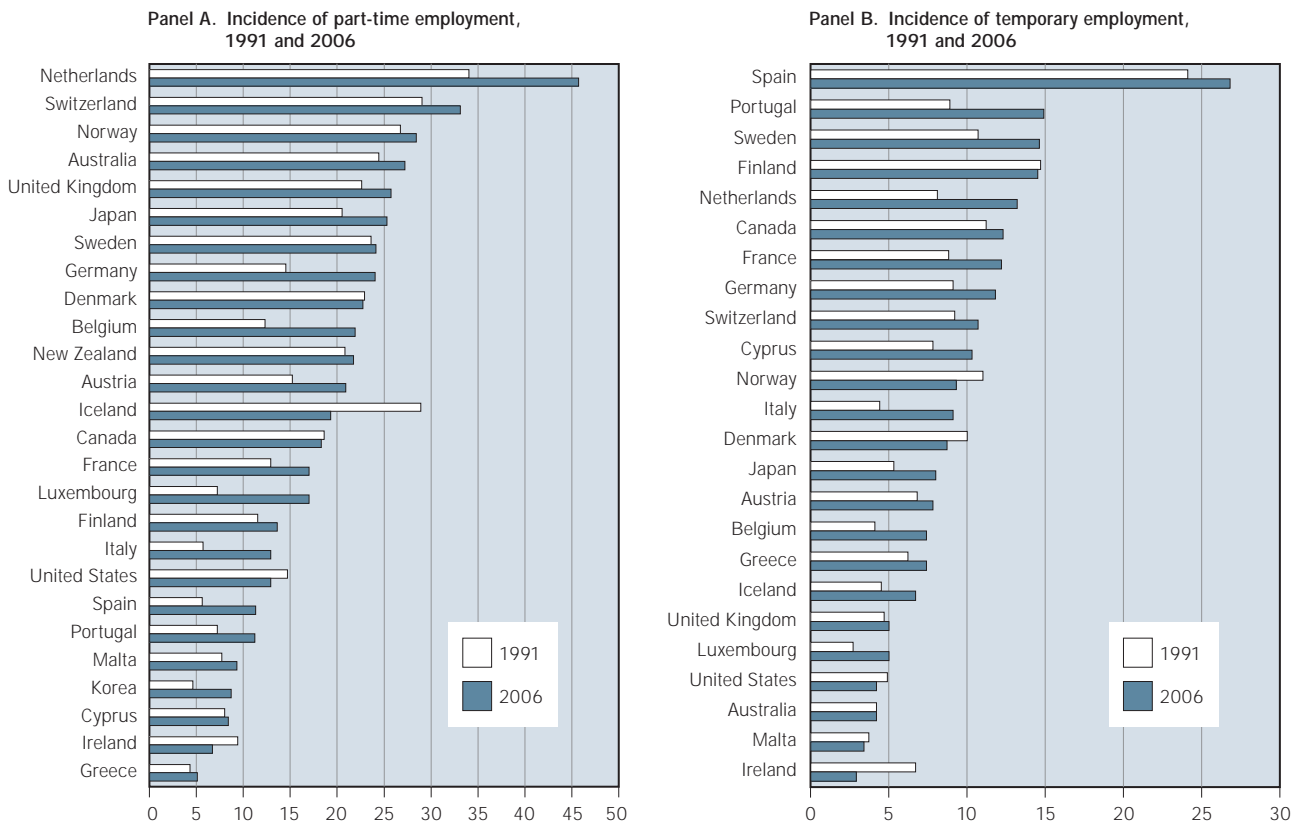
In transition economies by contrast, non-standard employment has not shown a clear trend over the past few years.³ First, the share of part-time employment in total employment has tended to decline, especially among men (fig 4.3, Panel A).⁴ The majority of part-time jobs in transition economies are voluntary, as in advanced economies, the only exceptions being Bulgaria, Lithuania and Romania, where they are mainly involuntary.

2. See Chapter 1, Appendix A for a list of country groupings.

3. The data for the transition economies are available on a continuous basis only from 1998, so the analysis is restricted to the short period 1998-2006.

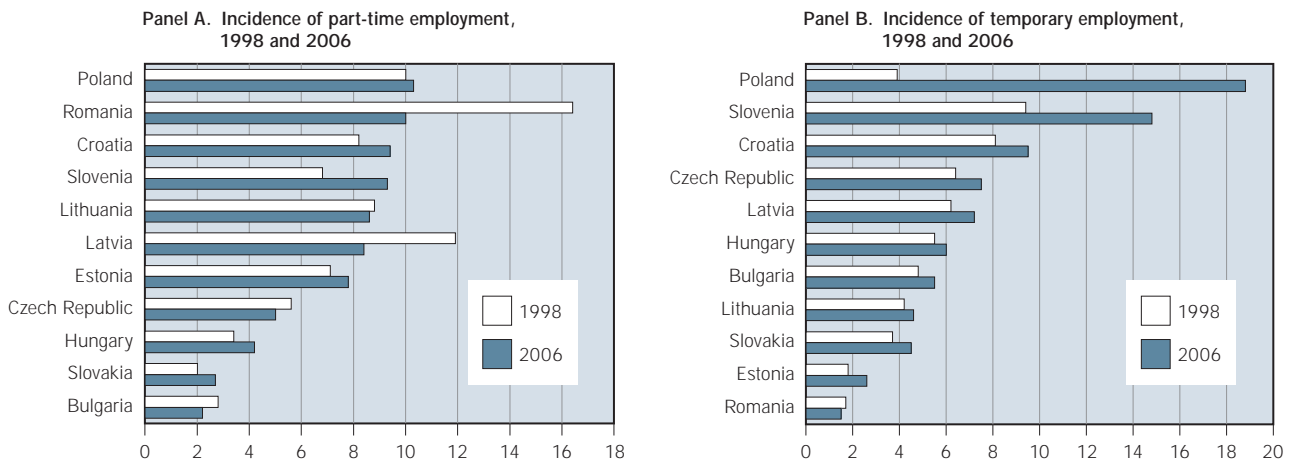
4. The country differences in the incidence of part-time employment may be due to the various degrees of underemployment in each country (Cazes and Nesporova, 2004).

Figure 4.2 Part-time and temporary work are on the rise in advanced countries



Source: ILS estimates based on Eurostat Labour Force Survey and OECD.

Figure 4.3 Trends in non-standard employment in Central and Eastern European countries are mixed

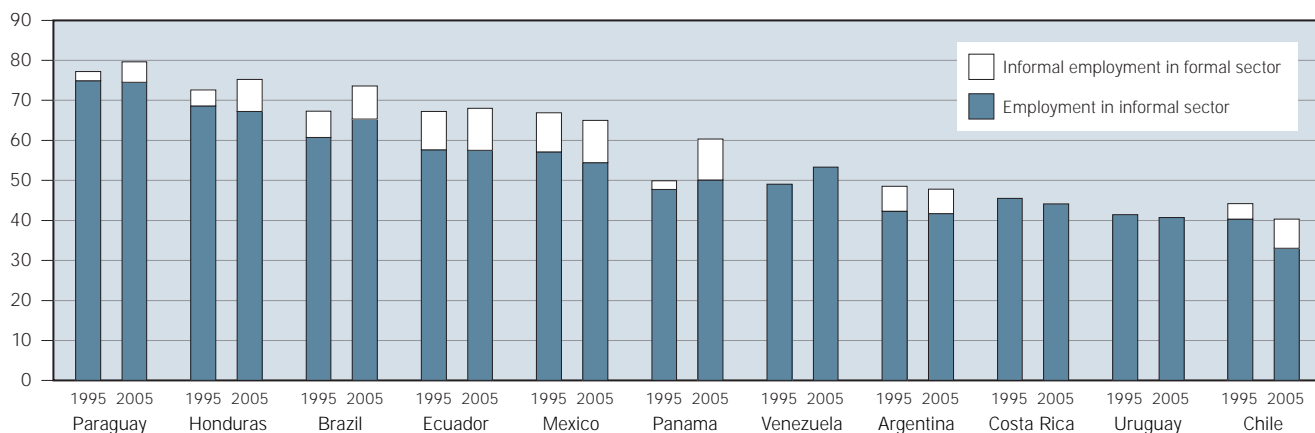


Source: ILS estimates based on Eurostat Labour Force Survey and OECD.

Second, the share of temporary employment in total employment has increased only marginally (fig. 4.3, Panel B). Third, there has been a decline in the share of self-employment in total employment among both male and female workers. According to a recent study (Cazes and Nesporova 2004), this trend reflects persistent administrative and other barriers to small business development.

In emerging economies and developing countries, non-standard work mainly takes the form of informal employment, that is, workers in very small firms (fewer than five

Figure 4.4. Informal employment in Latin American countries



Note: Informal employment in the formal sector includes those workers who do not have a proper contract. Informal-sector employment includes workers in small firms (less than five workers), self-employed (other than administrative, professional and technical workers), unpaid family workers and domestic workers.

Source: IILS estimates based on data processed by the ILO's Information System and Labour Analysis in Panama.

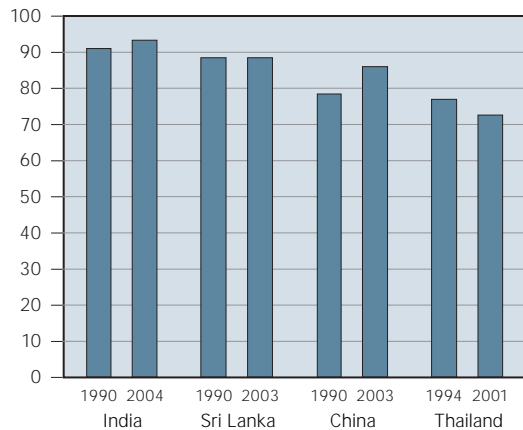
workers), self-employment, unpaid family work and salaried employment without a proper work contract in the formal sector. Unfortunately, data on informal employment are scarce and difficult to compare across countries. Such data that exist, covering a relatively long time span, are shown in figures 4.5 to 4.7. In the majority of the countries in question, the incidence of informal employment has increased.

- In most of the Latin American countries shown in figure 4.4, informal employment represented over half of total employment in 2006. The incidence of informal employment has risen over the past decade or so. This trend has been recorded even in the countries that experienced high economic and employment growth, which suggests that employment informality is a structural phenomenon. Interestingly, higher employment informality in Latin America reflects two opposing trends. On the one hand, there is less employment in the informal sector⁵, owing to a decline in the number of very small firms as a result of pension and labour legislation reform, which has both increased the advantages for firms gaining formal status and raised the penalties of staying informal (Saavedra and Chong, 1999)⁶. On the other hand, the extent of informal employment in the formal sector has grown: a growing proportion of the new jobs in the formal sector are of a casual nature and come without a work contract. According to some studies, this trend reflects various reforms that have facilitated the use of temporary contracts and subcontracting arrangements (Pianto and Pianto, 2002).
- In all the Asian countries for which data could be gathered (China, India, Myanmar, Sri Lanka and Thailand), the incidence of informal employment has increased, or at least, remained high (fig. 4.5). Only in Thailand did it decline somewhat, and that from high levels.

5. "Informal sector" means employment in small firms (with fewer than five workers), self-employed (other than administrative, professional and technical workers), unpaid family workers and domestic workers.

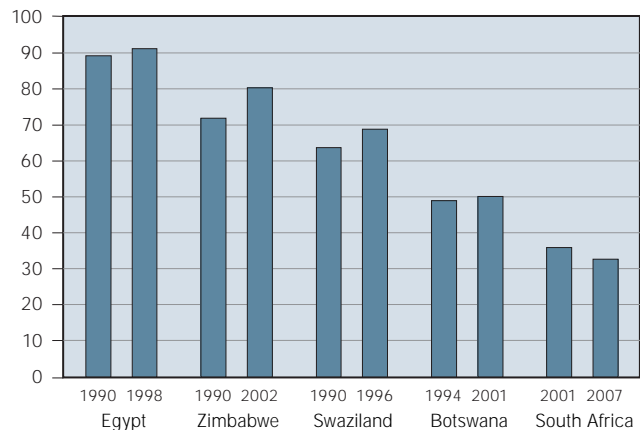
6. "The policies that affected the relative costs and benefits of entering or staying in the informal sector took many forms, such as: binding minimum wage regulations, specific mandated benefits, forced savings schemes, extremely high hiring costs, job stability rules, and an array of other required administrative procedures and tax rules and regulations" (Saavedra and Chong, 1999: 97).

Figure 4.5. Informal employment in selected Asian countries



Source: ILS estimates based on Ghose, Majid and Ernst, 2008, Appendix Table A4.1.

Figure 4.6. Informal employment in selected African countries



Source: ILS estimates based on Ghose, Majid and Ernst, 2008, Appendix Table A4.1 and data compiled by Jacque Charmes from household survey data sets.

- A large proportion of the workforce in Africa⁷ is also engaged in informal work. And the trend is towards further informality (fig. 4.6). Most jobs are characterized by greater insecurity, low remuneration and lack of social security (Devey, Skinner and Valodia, 2003; ILO, 2002; Van der Hoeven, 2000). The only notable exception to the trend is South Africa.

Non-standard jobs tend to pay less than standard jobs

The rise in non-standard employment observed in the majority of the countries for which data could be collected has been a source of earnings inequality, in that non-standard jobs pay less than standard ones.

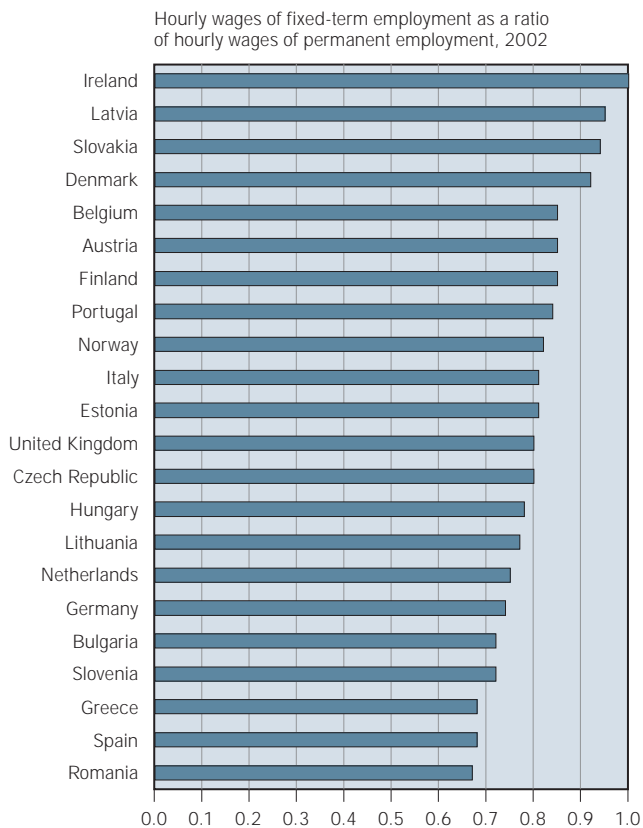
In European countries, fixed-term employment pays much less than permanent employment (fig. 4.7) the only exception being Ireland, where the two are remunerated equally. Such comparisons should be treated with caution: fixed-term jobs may differ from permanent jobs in terms of the sectoral location of the job, the seniority of the wage earner or skill intensity and such differences may explain the wage gap up to a point. Even controlling for these factors, however studies have found that fixed-term jobs pay less than permanent ones (Gash and McGinnity, 2005)

There is also evidence from Latin America that informal jobs pay significantly less than formal ones (fig. 4.8) not only in the informal sector but also within the formal sector, where workers who have informal arrangements are paid less than their permanent counterparts. The wage gap between the two is found to be statistically significant, even after controlling for a number of personal and household characteristics (Gindling (1991) for Costa Rica; Funkhouser (1996) for the five Spanish-speaking Central American republics; Marcouiller, Ruiz de Castilla and Woodruff (1997) for Mexico, El Salvador and Peru; Saavedra and Chong (1999) for Peru; and Pianto and Pianto (2002) for Brazil).

Interestingly, over the past decade, the wage gap between informal and formal sector employment has widened in all the countries shown in figure 4.8 except Chile, Mexico and Venezuela. The hourly wage differential between workers who have an informal arrange-

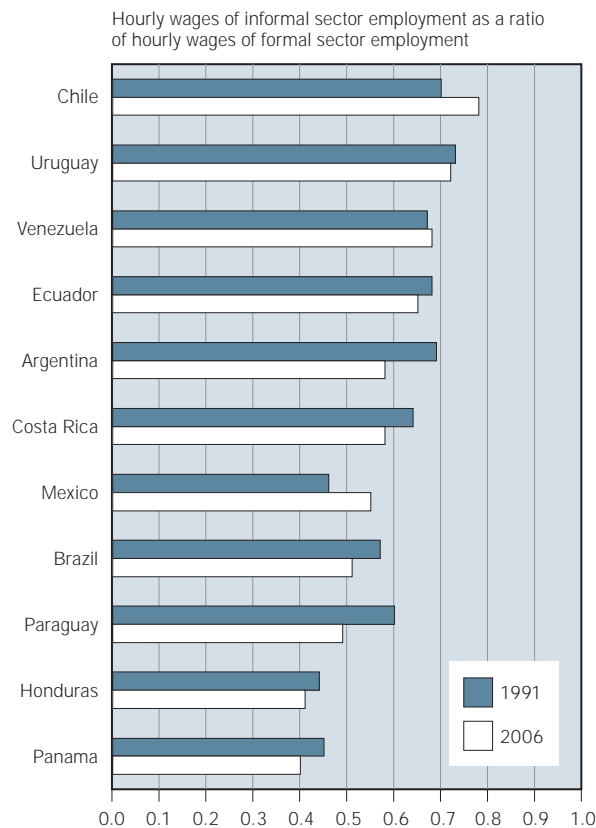
7. Data on informal employment in African countries are very scarce. The only source the household labour force surveys, where they exist at all are carried out at irregular intervals.

Figure 4.7 Fixed-term contracts pay less than permanent contracts



Source: ILS estimates based on Structure of Earnings Survey, 2002.

Figure 4.8. Informal sector jobs pay less than formal sector jobs



Source: ILS estimates based on data processed by the ILO's Information System and Labour Analysis in Panama.

ment in the formal sector and their permanent counterparts has also widened over the same period.⁸

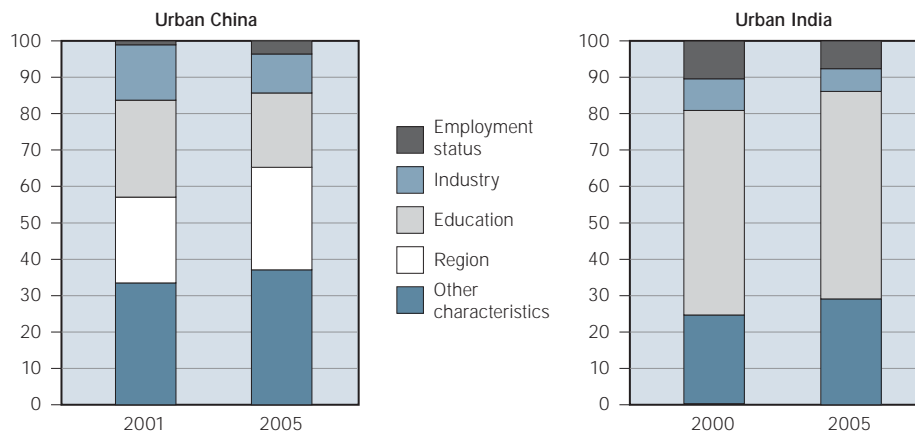
Outside Latin America, it has not been possible to gather comparable data on wages by employment status. However, some information exists. For instance, in India, the wages of casual workers who make up a substantial share of the large informal sector in that country constituted about 44 per cent of the wages of a regular salaried worker in 2004-2005 as against 62 per cent in 1983, which shows that wage differentials between informal and formal employment have grown much wider.

Changes in employment patterns have had an impact on income inequality

As suggested by evidence from earlier studies the rise in non-standard employment, with the concomitant increase in wage gaps has been a factor behind the growing income inequalities described in Chapter 1. For instance, Gregg and Wadsworth (1996) found increased income inequality in Britain among households with multiple earners and households with single or multiple adults with no work. They also found that part-time employment as the prime income source had risen over the period. This explained around one quarter of the relative deterioration in the position of workless families. Tachibanaki and Yagi (1992) showed that the degree of income inequality in Japan was closely related to whether there were working wives or double earners within a household. Leibbrandt

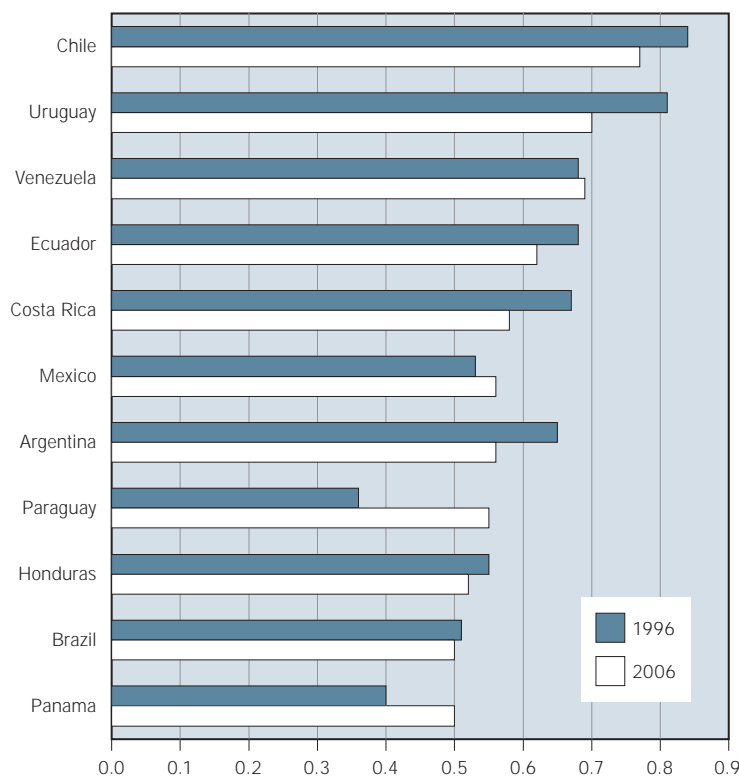
122 8. The data are not shown in figure 4.8 but are available upon request.

Figure 4.9 Decomposition of income inequality by household characteristics, urban China and India



Source: ILS estimates based on computations prepared by Du Yang, Institute of Population and Labour Economics, Chinese Academy of Social Sciences, Beijing and data obtained from National Sample Survey Organization, Ministry of Statistics, Government of India.

Figure 4.10 Income gap between formal sector and informal sector households in Latin America



Source: ILS estimates based on data processed by the ILO's Information System and Labour Analysis in Panama.

and Woolard (2001), in their study on South Africa, demonstrated that wage income was the primary cause of income inequality and that at least half of this wage inequality was attributable to households with no labour income at all. A detailed decomposition of the factors of income inequality in China and India has been carried out for the purposes of this report.⁹ As can be seen from figure 4.9, the main finding is that, on average,

9. For a detailed analysis, see the background paper to this chapter (Rani, 2008).

a household's income depends mainly on the level of education of its members, the sector in which they are employed and other household characteristics, such as the age and sex of household members, and, in China, the regional location. The employment status of household members is a far less important factor although its role has recently increased in significance in both China and India.

However, such labour market trends are not automatically translated into greater income inequality. Much depends on whether low-wage households increase their work effort in order to compensate for their low earnings.

This may be illustrated by looking at the total income of the average household where the main earner works in the informal sector. "Total income" means not only the wages of the main earner but also earnings by other household members, social benefits – less any taxes paid by the household – and other sources of income. For instance, in Latin America, the total income of a household where the main earner has a job in the informal sector is lower than one where the job is in the formal sector. However, this income gap is smaller than the wage gap between informal-sector employment and formal-sector employment (fig. 4.10), the reason being that households with low earnings probably have more members in the labour market or engaged in multiple jobs to increase their incomes. In other words, low informal sector wages encourage a higher additional work effort in order to improve income levels and thus compensate for the low wages paid in the informal sector. This strategy helps such households increase their incomes, and at the same time reduces income inequality across households. A case in point is Brazil, where, despite increasing wage differentials between formal and informal workers and an increase in the incidence of informal employment, income inequality has declined by 2.3 per cent over the past two decades. This could be due to the additional work effort among low-income households. The narrowing of the income gap (as opposed to the wage gap) may also be due to support from the state in the form of social programmes like cash transfers, public works and wage subsidies, which have been implemented in several Latin American countries.

C. Policy considerations

Against the backdrop of relatively strong employment growth in most regions and countries, this chapter has shown that in the majority of countries with available data, there has been a shift – in some cases structural – towards non-standard forms of employment. This has meant more part-time and temporary employment in Advanced Economies and more informal employment in developing countries. Putting aside normative statements regarding the issue of non-standard employment, the evidence presented here suggests that the increased trend towards these forms of employment has contributed to rising income inequality. This is due, in part, to lower levels of remuneration among non-standard workers when compared to regular employees. In many cases, this holds, even after the effect of increased work effort associated with lower wages is taken into consideration.

The challenge for policy makers is therefore to arrest the increase in labour market duality, while maintaining labour market dynamism. This means that consideration should be given to both the quantity and quality of jobs when formulating reforms of employment regulations, wage formation systems and social protection. There are examples of how this can be achieved in Advanced Economies (OECD, 2006). The experience of conditional cash transfers in some Latin American countries, where employment informality and income inequality declined in a context of rapid job creation, offers a basis from which to consider a number of policy options.

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