March 2017 — Labor Market Policies

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Expectations and reality collide in active labor market policies

Headlines around the world warn of an impending crisis: how will countries create enough jobs for the next generation of workers? More than 100 million Africans will enter the labor force over the next decade, and youth unemployment rates are 30 percent or higher in some countries of the Middle East and North Africa. Over the past decade the World Bank and its partner countries have invested billions of dollars in active labor market policies. According to David McKenzie, a Lead Economist at the World Bank, new studies reveal what has worked, what hasn’t, and how governments can improve the effectiveness of their labor policies.


Labor market frictions not the reason self-employed entrepreneurs rarely hire paid workers

The majority of microenterprises in developing countries have no paid workers. Do labor market frictions prevent more of these firm-owners from becoming employers? In this experiment, a temporary wage subsidy provided randomly to microenterprises in Sri Lanka tests whether additional labor might benefit such firms. One would expect a short-term subsidy to have a lasting impact on firm employment in the presence of labor market frictions. Although firms responded to the subsidy by hiring additional workers, excess hiring dissipated completely within a year or so of the removal of the subsidies. The return to an additional worker is of similar magnitude to the subsidy during the subsidy period, so keeping unsubsidized workers is not profitable for firms. Complementary experiments to loosen credit constraints and provide
entrepreneurship training also did not change the outcome of the temporary subsidies in terms of hiring. It seems hiring frictions do not constrain firm growth in this setting. Based on this analysis, microenterprises growth in Sri Lanka is not limited by large market frictions that would prevent self-employed entrepreneurs from becoming employers.


**The cost of a vocational training program for the unemployed exceeded the benefits**

Vocational training programs became popular with governments and international donor agencies in the mid-2000s based on a concern that low skill levels may impede development in some countries. This randomized evaluation of a large-scale active labor market policy for a general unemployed population in Turkey asks: Do such policies help individuals who receive such training subsequently find jobs? The average impact of training on employment is barely positive — close to zero and statistically insignificant — and much lower than either program officials or applicants expected. The first year after training showed statistically significant effects on the quality of employment and that the positive impacts are stronger when training is offered by private providers. However, after three years these effects also dissipated.


**Big data from an online job portal in India yields useful information about job skills and labor markets**

Big data can yield a wealth of diverse, highly granular, multidimensional information to address longstanding economic questions and complement existing information sources. For example, analysis of information generated by Babajob, an online job portal in India, highlights five areas where online job-portal data can contribute to the development of labor market policies and analytical knowledge: (i) labor market monitoring and analysis; (ii) demand for workforce skills; (iii) job-search behavior and skills matching; (iv) predictive analysis of skills demand; and (v) experimental studies. This case study of online job data in a developing-country context in South Asia shows how big data analytics has opened new avenues for objectively monitoring workforce skills demand with a wide array of applications for business practices and labor policies.


**Policy interventions to reduce child labor have unintended consequences**

Household decisions about child labor are influenced by income, uncertainty, and relative returns to work and education. The complexity of the phenomenon implies that a large set of policy instruments can be used to address or affect child labor. This review of 31 impact evaluations provides a comprehensive look at pathways through which social protection (credit and microfinance, cash transfers, vouchers, food programs), and labor programs affect child labor. Despite the complexity of integrating findings across different child labor definitions, implementation contexts, and policy instruments, some patterns emerge. For example, programs that address child labor by reducing household vulnerability, such as cash transfer programs, produce the desired effect. Similarly, programs that help the household cope with exposure to risk, for example, health insurance, reduce household reliance on child labor. On the other hand, policies aimed at increasing adult household members’ participation in the labor market or entrepreneurial activities, can generate demand for adolescent
and child work. Of course, such programs are an important component of anti-poverty strategies, but they could be modified and integrated with additional interventions to ensure that they do not produce adverse effects on child labor.


The 1998 child-labor ban in Brazil mostly affected boys with lower earning potential

The minimum employment age increased from 14 to 16 in Brazil in December 1998. This analysis looks at all individuals belonging to a cohort affected by the law, that is, those who turned age 14 after the law changed. Short-term results show that the ban reduced paid work activities by 4.1 percentage points or 27 percent. The proportion of boys doing paid work and studying fell, and the proportion of boys only studying increased. In the long-term, when the same cohort reached age 29, those at the bottom of the earnings distribution earned 6.2 percent less, especially among workers in the informal sector. Overall, the results suggest that the returns to experience for the “control” cohort were similar to the returns to education for the “treated” cohort, except for those with lower earnings potential from the outset. The lesson for policy makers is that laws that reduce individual’s choice-set should be accompanied by compensating or complementary policies — for example, a conditional cash-transfer program or an apprenticeship program — for those likely to experience economic hardship.


In the short term, India’s workfare program contributed to increased agricultural productivity

India’s Mahatma Gandhi National Rural Employment Guarantee Scheme is one of the largest programs of its kind globally. It offers unskilled employment in local productivity-enhancing infrastructure projects for up to 100 days per year to households expressing interest in such work by acquiring a job card. Wages are statutorily set and equal between men and women. The short-term effect on wages, labor supply, agricultural labor use, and productivity assessed using household data from 1999-2008 (spanning the years before and after the program) suggests a 10-point wage increase and higher labor supply to nonagricultural casual work and agricultural self-employment. The drop in hired labor demand was more than outweighed by more intensive use of family labor, machinery, fertilizer, and diversification to crops with higher risk-return profiles, especially by small farmers. Although aggregate productivity effects were modest, employment generated by the program significantly increased productivity, possibly by alleviating liquidity constraints and improving access to insurance suggesting that efforts to analyze longer-term effects will be desirable.


Wage subsidies may be particularly effective during an economic crisis: Evidence from Mexico

Policymakers in 22 countries concerned about rising unemployment during the recent economic crisis used wage subsidies to promote employment retention. In Mexico the government granted firms in certain industries wage subsidies to retain workers during the recent economic crisis. This analysis focuses on groups of eligible and ineligible durable goods manufacturing industries that display statistically identical pre-program trends in employment. The program showed a positive but not statistically significant effect of wage subsidies on employment during the program’s eight-month
duration, ranging from 5.7 to 13.2 percent. But the fact that employment increased 24 percent after the program suggests employment recovered faster in "eligible industries" than in ineligible industries. The findings suggest that the use of wage subsidies may be particularly effective during an economic crisis since payment for a relatively short time can have lasting effects on employment.


NEW AND UPCOMING REPORTS

The search for better employment opportunities and wages is the key mechanism by which the majority of the world's population, especially the poor, can hope to improve their lives. Migration is therefore an essential path toward worldwide poverty eradication and economic growth. The report will examine the determinants and labor market impacts of global migration patterns, and consider the impact on destination and source countries, as well as the migrants themselves. The report is being prepared by a team led by Caglar Ozden, that includes Mathis Wagner (Professor, Boston College) with contributions from John Giles and David McKenzie.

Women, Business and the Law 2016: Getting to Equal
Getting to Equal measures legal and regulatory barriers to women’s entrepreneurship and employment in 173 economies. It provides quantitative measures of laws and regulations that affect women’s economic opportunities.

EVENTS


MEDIA AND BLOGS

The hidden costs of index investing in foreign markets
Let’s Talk Development blog, 21 March 2017

Cross-border portfolio investments are increasingly important in global markets. Since 2001, the share of equity holdings by foreign investors grew from 19 percent of the world's stock market capitalization to more than 35 percent by the end of 2015 (IMF, 2016). Much of this recent growth has been in foreign index funds, that is, in funds that replicate the return of an index by buying and holding all (or almost all) index stocks in the official index proportions (Cremers et al., 2016). Notwithstanding their popularity among investors, little is known about how managers of these funds trade to accommodate flows, and how their performance compares to domestic funds with similar management style.

Read the blog by Alvaro Pedraza Morales, Fredy Pulga, and Jose Vasquez.

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Social development and the global community: Why the legitimacy of the change process matters
People, Space, and Deliberation blog, 20 March 2017

This is the first post in a series of six in which Michael Woolcock, Lead Social Development Specialist at the World Bank and lecturer in public policy at the Harvard Kennedy School, discusses critical ideas within the field of Social Development.

Both globalization and international development bring a wide range of people into contact with one another, linking distant communities to transnational networks and opening up spaces to new ideas. Alongside the state, multilateral development banks (MDBs), intergovernmental organizations (IGOs), civil society organizations (CSOs), private contractors, and development professionals converge on project sites, often interacting directly with local communities.

Read the interview with Michael Woolcock.

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Women, cities, and opportunity: Making the case for secure land rights
Let's Talk Development blog, 20 March 2017

Land and property lie at the center of many of today’s pressing development challenges. Consider that at most 10% of land in rural Africa is reliably registered. At this week’s annual Land and Poverty Conference here at the World Bank, we will hear how this vast gap in documentation of land gap blunts access to opportunities and key services for millions of the world’s poorest people, contributes to gender inequality, and undermines environmental sustainability.

Read the blog by Klaus Deininger.

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The Iron Law of ALMPs: Offer a Program to 100 People, maybe 2 get jobs
Development Impact blog, 20 March 2017

I have just finished writing up and expanding my recent policy talk on active labor market policies (ALMPs) into a research paper (ungated version) which provides a critical overview of impact evaluations on this topic. While my talk focused more on summarizing a lot of my own work on this topic, for this review paper I looked a lot more into the growing number of randomized experiments evaluating these policies in developing countries. Much of this literature is very new: out of the 24 RCTs I summarize results from in several tables, 16 were published in 2015 or later, and only one before 2011.

I focus on three main types of ALMPs: vocational training programs, wage subsidies, and job search assistance services like screening and matching. I'll summarize a few findings and implications for evaluations that might be of most interest to our blog readers — the paper then, of course, provides a lot more detail and discusses more some of the implications for policy and for other types of ALMPs.

Read the blog by David McKenzie.

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Climate change drives up river salinity in Bangladesh
thethirdpole.net blog, 10 March 2017
Already facing increasing river salinity due to climate change, parts of coastal Bangladesh could become zones of poverty with limited freshwater available in rivers.

Studies conducted by the World Bank, Institute of Water Modelling and World Fish–Bangladesh between 2012 and 2016 have quantified the effects of increasing salinity in river waters in coastal Bangladesh, including the areas in and around the Sundarbans — the world’s largest mangrove forest that straddles the coast of Bangladesh and India.

Read the blog by Susmita Dasgupta.

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The potential gain from regional electricity trade in South Asia

*Let's Talk Development* blog, 16 March 2017

Countries in the South Asia Region (SAR) face a number of operational and economic challenges as they seek to keep up with rapidly growing electricity demands. Our analysis finds that increased regional electricity trade facilitated by expanded cross-border transmission interconnections among SAR countries can contribute significantly to alleviating these challenges. Cross-border electricity trade could save as much as US$94 billion (in present value terms) in the region during the 2015-2040 period. It would reduce the regional power sector CO2 emissions during the period by 8% even without pro-active measures to reduce CO2 or harmful local pollutants. Moreover, significantly increasing cross-border interconnection and trade will necessitate taking steps that inevitably will reduce substantial existing inefficiencies in national power systems in the region, as well.

Read the blog by Mike Toman and Govinda Timilsina.

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What's new in education research? Impact evaluations and measurement – March round-up

*Development Impact* blog, 15 March 2017

Here is a curated round-up of recent research on education in low- and middle-income countries, with a few findings from high-income countries that I found relevant. All are from the last few months, since my last round-up.

If I’m missing recent articles that you’ve found useful, please add them in the comments!

Read the blog by David Evans.

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Fact checking universal basic income: can we transfer our way out of poverty?

*Development Impact* blog, 27 February 2017

New York Times published an article last week, titled “The Future of Not Working.” In it, Annie Lowrie discusses the universal basic income experiments in Kenya by GiveDirectly: no surprise there: you can look forward to more pieces in other popular outlets very soon, as soon as they return from the same villages visited by the Times. One paragraph of the article drew my attention in particular: “One estimate, generated by Laurence Chandy and Brina Seidel of the Brookings Institution, recently calculated that the global poverty gap — meaning how much it would take to get everyone above the poverty line — was just $66 billion. That is roughly what Americans spend on lottery tickets every year, and it is about half of what the world spends on foreign aid.”
Well, I don’t know about you, but that paragraph makes me think that if we just were able to divert 50% of the current foreign aid budget towards cash transfers, we would eliminate extreme poverty. But, is that really true? The answer is: “not even close.”

Read the blog by Berk Özler.

Gross capital inflows to banks, corporates, and sovereigns
VoxEU blog, 24 February 2017

Capital flows play a key role in the transmission of real and financial shocks across countries, but empirical work on flows by sector is scarce. This column uses a newly constructed dataset of capital inflows for 85 countries, broken down by borrowing sector, to show that private debt flows are negatively correlated with global risk appetite, while borrowing by sovereigns is positively correlated with risk appetite. This and other results discussed show the importance of splitting capital inflows into their borrowing sectors when designing policy to manage macrofinancial risk.

Read the blog by Stefan Avdjiev, Bryan Hardy, Sebnem Kalemli-Ozcan, and Luis Servén.

List of New Policy Research Working Papers

- 7988. Are Tobacco Taxes Really Regressive? Evidence from Chile by Alan Fuchs, Francisco Meneses
- 7989. Design of a Multi-Stage Stratified Sample for Poverty and Welfare Monitoring with Multiple Objectives: A Bangladesh Case Study by Faizuddin Ahmed, Dipankar Roy, Monica Yanez-Pagans, and Nobuo Yoshida
- 7990. Weakness in Investment Growth: Causes, Implications and Policy Responses by M. Ayhan Kose, Franziska Ohnsorge, Lei Sandy Ye, and Ergys Islamaj
- 7991. Regional Dimensions of Recent Weakness in Investment: Drivers, Investment Needs and Policy Responses by Ekaterine Vashakmadze, Gerard Kambou, Derek Chen, Boaz Nandwa, Yoki Okawa, and Dana Vorisek
- 7994. For India’s Rural Poor, Growing Towns Matter More than Growing Cities by John Gibson, Gaurav Datt, Rinku Murgai, and Martin Ravallion
- 7995. Deliberative Democracy in India by Ramya Parthasarathy and Vijayendra Rao
- 7996. Who Should Be at the Top of Bottom-Up Development? A Case Study of the National Rural Livelihoods Mission in Rajasthan, India by Shareen Joshi and Vijayendra Rao
- 7997. Municipal Asset Management in China’s Small Cities and Towns: Findings and Strategies Ahead by Alessandra Campanaro and Joanna Masic
- 7998. Financial Information in Colombia by Xavier Giné, Nidia García, and José Gómez-González
- 7999. Effects of Public Policy on Child Labor Current Knowledge, Gaps, and Implications or Program Design by Ana C. Dammert, Jacobus de Hoop, Eric Mwukiyehe, and Furio C. Rosati
- 8000. Measuring Skills in Developing Countries by Rachid Laajaj and Karen Macours
- 8001. Are Poor Individuals Mainly Found in Poor Households? Evidence Using Nutrition Data for Africa by Caitlin Brown, Martin Ravallion, and Dominique van de Walle
- 8002. Do Foreign Investors Underperform? An Empirical Decomposition into Style and Flows by Alvaro Pedraza, Fredy Pulga, and Jose Vasquez
- 8003. Is There Enough Redistribution? by Maya Eden
- 8004. The Motherhood Penalty and Female Employment in Urban India by Maitreyi Bordia Das, and Ieva Zumbyte
- 8005. Trade Policy and Redistribution When Preferences Are Non-Homothetic by Quy-Toan Do, and Andrei A. Levchenko
- 8006. Assessing the Role of International Organizations in the Development of the Social Enterprise Sector by Angela Hoyos and Diego F. Angel-Urdinola
- 8007. Economic Upgrading through Global Value Chain Participation: Which Policies Increase the Value Added Gains? by Victor Kummritz, Daria Taglioni, and Deborah Winkler
- 8009. All These Worlds Are Yours, Except India: The Effectiveness of Export Subsidies in Nepal by Fabrice Defever, José-Daniel Reyes, Alejandro Riaño, and Gonzalo Varela
- 8010. Brexit: Trade Governance and Legal Implications for Third Countries by Martín Molinuevo
- 8011. How Effective Are Active Labor Market Policies in Developing Countries? A Critical Review of Recent Evidence by David McKenzie
- 8012. Leaving, Staying, or Coming Back? Migration Decisions during the Northern Mali Conflict by Johannes G. Hoogeveen, Mariacristina Rossi, and Dario Sansone