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Employment, Informality and Poverty

*-An Empirical Overview of Six Countries with a Focus on
Gender and Race—*

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I. Introduction

How does employment affect poverty outcomes for women, men, and their families? This report provides some answers to this important question through the analysis of nationally representative survey data in six countries: Brazil, El Salvador, India, Kenya, South Africa, and South Korea. These countries were chosen for a number of reasons: they are geographically diverse, they represent economies at different levels of development, there is notable variation in the structure of their labour markets, and, in some circumstances, there is scope for specific informative comparisons (e.g. the racialized patterns of employment in South Africa and Brazil). In each case, we examine the distribution of employment opportunities between women and men, with a particular emphasis on informal, unprotected, and non-standard forms of employment. The report looks at who works in what types of jobs, differences in the quality of employment, and the overall impact on poverty outcomes. Since employment status is often defined in terms of the individual and poverty in terms of the household, we need to look at the complex ways in which individuals' employment statuses determine the poverty outcomes for the households in which they live.

The research presented in this report is based on analysis conducted by a team of researchers. Dorrit Posel of the University of KwaZulu Natal School of Development Studies prepared the data analysis for South Africa. Miyoung An of Handong Global University in Pohong, South Korea prepared the Korean analysis. Arjun Jayadev of the University of Massachusetts, Boston generated the estimates for India. The statistics for El Salvador were drawn from previous research conducted by Edgar Lara López, Renaldo Chanchán, and Sarah Gammage as an input into the recent UNIFEM publication *Women, Work, and Poverty: Progress of the World's Women 2005* (Chen *et al.*, 2005). The analysis of Kenya and Brazil was carried out by the author of this report (James Heintz).

The report is structured as follows. The second section provides a conceptual framework for linking employment and poverty with a specific focus on gender dynamics. The third section describes current definitions used to characterize informal and non-standard forms of employment, since the concepts of informal and non-standard work are critical for understanding how employment affects poverty outcomes. These two conceptual pieces are followed by a detailed, sex-disaggregated presentation of the data analysis for the six countries featured in this report. The analysis includes an overview of the labour force, a description of the structure of employment, a discussion of broad trends, a comparison of earnings and hours of work, and an examination of poverty outcomes using a 'working poor' poverty rate. We present the case of South Korea in a separate section, with a special focus on non-standard employment. South Korea has experienced a rapid growth of non-regular employment which makes it a powerful illustration of labour market divisions that do not fit neatly into the typical formal/informal divide. The report then takes a different perspective on the employment-poverty connection and looks at poverty outcomes at the household level. Finally, using South Africa and Brazil as examples, we examine how issues of race impact

employment-poverty dynamics. In the case of Brazil, the analysis is taken one step further and decomposes contributions to overall earnings and income inequality in terms of gender, race, and class. A brief summary concludes the report.

II. Employment, poverty and gender

Most people receive the majority of their income through some form of employment. The factor of production which most poor households command in abundance is their labour (Islam, 2006; Squire, 1993). Although age, disability, and illness may create a shortage of productive labour in specific cases, most low-income households are not labour-constrained. They are more likely to be constrained in terms of access to other productive resources such as land, capital, financial assets, public infrastructure, and skills. Therefore, anything that raises the returns to labour – by increasing the intensity of employment, enhancing productivity, or improving the terms of exchange – will raise living standards and likely reduce poverty. Similarly, the risk of poverty grows when individuals are denied access to decent, gainful employment.

This report focuses on the relationship between employment and income (or consumption) poverty. Households are considered income or consumption poor if the estimated values of their income or expenditures fall below a specified threshold – the poverty line – which varies with the composition of the household and which establishes a minimum standard of living that is deemed adequate to sustain the members of the household. This concept of poverty aims to capture the extent of material deprivation. However, an insufficient standard of living reflects only one dimension of poverty. The deprivation associated with poverty takes many forms: poor health, shortened lives, emotional stress, and social exclusion, to name a few. Why then focus on low income or substandard consumption? There are three primary reasons. First, the employment-poverty relationship is most clearly expressed in terms of income poverty. Second, standard measures of income or consumption poverty facilitate the analysis of quantitative data featured in this report. Third, income poverty is strongly correlated with other dimensions of poverty, making it a useful indicator.

Improving employment opportunities and raising the returns to labour are not the only means of mitigating income poverty, although it is the pathway we explore at length here. The state can redistribute income through fiscal policy, either directly through a tax and transfer system, indirectly through the use of public revenues to provide basic services, or, most commonly, through a combination of both approaches. A third alternative would be to alter the distribution of productive assets, tangible and intangible. If poor households are poor because they lack resources other than their own labour, then one approach to combating poverty is to provide the poor with access to the assets they currently lack – by disproportionately building the wealth of poor families or through asset-based redistributions, such as land reform. These three pathways towards poverty reduction – the employment channel, social provisioning, and altering the distribution of assets – are not mutually exclusive and can be pursued in combination. Nevertheless, the focal point of this report is the nature and structure of employment.

Two sets of institutions shape the employment-poverty connection: the labour market and the household. These institutions are highly gendered and closely intertwined. Therefore, an adequate understanding of the relationship between employment opportunities and poverty outcomes requires examining both women's and men's employment. Women and men occupy different positions in economies with important implications for determining how employment and poverty status are linked. The gendered nature of economic institutions, the unequal distribution of assets and opportunities between men and women, and the division of labour between paid and unpaid work must be incorporated into the analytical framework.

It is commonplace to analyze the relationship between employment and poverty exclusively in terms of market-mediated transactions. In part, this is due to how the concept of employment is defined. This report adopts the convention of defining employment as working in activities which produce goods and services that are valued and included in the system of national accounts (SNA) – i.e. those economic activities which are officially counted as part of an economy's GDP. The majority of the value accounted for in the GDP represents goods and services exchanged in markets – including barter and monetary exchange.² These market exchanges take many forms. For instance, in wage labour markets, individuals exchange their labour directly for a salary or wage. The terms of this exchange has a direct impact on the living standards and poverty status of households. In contrast, the self-employed engage in other forms of market transactions to realize the value of their labour. However, in both cases, the existence of a market largely defines the employment boundary.

This focus on the market relationships that govern remunerative employment frequently gives short shrift to non-market activities that have an enormous effect on poverty status, development outcomes, and the production of human potential. Much of this non-market work takes place in households, families, and communities. In addition, inter-household dynamics directly influence the distribution of labour and resources in ways that impact access to employment opportunities in the short- and long-run.

Gender relations determine the ways in which market work and non-market work are organized. Women often have primary responsibility for non-market (unpaid) housework and caring labour. This constrains their choices in terms of labour force participation and their access to paid employment, both formal and informal (Benería, 2003). The allocation of time to non-market as opposed to market work limits the household income that women control directly. Furthermore, with more time allocated to non-market work, women frequently have less paid work experience or interrupt their employment, factors which often translate into lower earnings.

As we will see in much more detail, gender segmentation is endemic in labour markets around the world, with women concentrated in low-paid, unstable, and poor-

² The system of national accounts (SNA) also officially includes the value of goods produced in the household for own-consumption, even if the goods are not subject to market exchange. The extent to which actual GDP figures include the value of these goods varies widely. Importantly, the value of services produced and consumed in the household (e.g. housework and childcare) is excluded from the SNA.

quality employment. Wage labour markets might not be the only, and often not the most important, form of market exchange relating to these forms of employment. For instance, quasi labour markets exist in which workers sell a product or service, but within a set of dependent relationships that limit their authority over the employment arrangement. Examples include subcontracted production, in which workers produce or assemble goods within a longer supply chain. Distinct market dynamics, apart from those of labour markets, govern various forms of self-employment.

Such labour force segmentation reduces women's earning potential. With lower expected earnings, investment in girls' and women's education frequently lags behind that of men. In addition, incentives for investing in girls are reduced by the fact that female children, in most cultures, will marry and leave the household, so the benefits of any 'investment' that may accrue to a patriarch, or other dominant household member, is lost. Similarly, women's lower earning potential reinforces the gender division of labour within the household, since the opportunity cost, in terms of foregone income, of specializing in unpaid care work is lower for women than for men. Women who specialize in providing unpaid care work face enormous economic risks (Folbre, 1994). Such specialization not only lowers their earnings potential but also reinforces dependencies on a male "breadwinner".

Increasing women's access to paid employment has the potential to change gender roles, depending on the resilience of gender norms in society and the type of employment to which women have access (Benería, 2003; Kabeer, 2000). It is important to recognize that the relationship between employment and economic autonomy is complex. The fact that a woman receives income from employment does not always imply that she controls her earnings or influences the consumption decisions of the household (Elson 1999). Nevertheless, access to gainful employment is an important variable influencing gender dynamics more broadly.

Women's labour force participation is determined by prevailing economic conditions as well as gender norms. Women respond to adverse economic shocks – including rising unemployment – by increasing their rate of labour force participation. For instance, studies of labour market dynamics in particular countries have shown that women's labour force participation may increase with economic crises and policies that trigger labour displacement, job instability, and higher rates of unemployment (Cerrutti, 2000; Arriagada, 1994). Women also increase their labour force participation in response to sustained structural unemployment. For instance, research into the determinants of women's labour supply in post-apartheid South Africa has shown that women's labour force participation responded to increases in household joblessness, thereby placing further upward pressure on the country's average unemployment rate (Casale, 2003). Therefore, the relationship between poverty and employment runs in both directions: poverty can increase women's employment, often in marginal and informal activities. However, it is also important to recognize that the employment income these labour market entrants receive will be combined with other sources of household income and will ultimately influence the measurement of the depth and incidence of poverty.

The ability to translate access to paid employment into new capabilities, greater freedom, and improved investments in children depends on the nature of relationships within the household and the process by which decisions are made concerning the allocation of labour time and economic resources (Folbre, 1994; Sen, 1992). Indeed, increased gender inequalities, even in the short-run, can have long-term consequences for economic growth and human development (Seguino, 2005; Ranis, Stewart, and Ramirez, 2000). Therefore, the economic impact of women's employment extends beyond personal liberties and household welfare to the overall health of the economy.

In clarifying the linkages between employment and poverty, household relationships are important for reasons other than the gendered division of labour. Income poverty is typically defined at the level of the household. A household is considered poor if pooled income falls below a poverty line.³ Therefore, the poverty status of women is determined, in part, by their own employment status and the employment status of others in the household. Similarly, men's poverty status may depend on the employment status of women in the household. The fact that women spend time in paid work can lower the household's risk of income poverty, since the additional employment income determines whether the household is considered poor or not. As we will see later, it is not uncommon for women's employment income to make a critical difference in the poverty status of the household.

III. Informal and non-standard employment

Access to employment, in itself, does not represent a guaranteed path out of income poverty. A large share of employed individuals worldwide does not earn enough to lift themselves and their dependents above the poverty threshold (Kaspos, 2004). The quality of employment matters, not simply the quantity of opportunities. The quality gap between formal, regular employment and informal (or non-standard) employment represents one of the principal cleavages in the overall structure of employment. Research has shown that workers in informal employment earn less, have more volatile incomes, lack access to basic public services and protections, and face higher risks of poverty compared to workers in formal employment (Chen *et al.*, 2005). Therefore, the issue of informal and non-standard employment deserves special attention.

The concept of informal employment is meant to capture employment relationships that are not governed by formal economic regulations and/or basic legal and social protections. Often, the term "informal employment" is applied to the labour markets of developing countries. In higher-income economies, it is more common to speak of "nonstandard" or "atypical" employment. These two concepts are not the same. Informal employment typically refers to employment that is not subject to legal or economic regulations. That is, the emphasis is on the regulatory status of the enterprise or the job. "Nonstandard employment" refers to variations in the employment relationship

³ This raises the question as to what extent is income actually pooled within households. The asymmetric distribution of income (or control of income) *within* households will influence the welfare of household members. An in-depth exploration of intra-household distributive dynamics is beyond the scope of this report.

relative to a dominant or traditional form. In this case, the emphasis is on the economic arrangement and the nature of the employment contract (be it explicit or implied).

In some circumstances, non-standard employment is defined analogously to informal employment. However, nonstandard employment more frequently refers to employment relationships which (a) are short-term and contingent in nature (e.g. short-term hires and day labourers) or (b) are characterized by partial employment or volatile work-time regimes (e.g. part-time and on-call employment). Depending on the specific labour laws, nonstandard employment can also be associated with a reduced level of social and regulatory protection (that is, nonstandard work is also informal).

Labour statisticians have devoted considerable effort in recent years to develop international recommendations for defining informal employment. Given the importance of the concept of informal employment in the analysis featured later in this report, it is worth reviewing the relevant concepts and definitions in some detail.

There is an important conceptual distinction between *employment in the informal sector* and *informal employment*. The informal sector is comprised of all informal enterprises. Therefore, ‘employment in the informal sector’ in any particular country refers to all employment in enterprises which are classified as informal according to a common set of criteria. Employers operating informal enterprises, wage workers in these enterprises, informal own-account workers, and contributing family workers are included in this concept. In addition, informal partnerships and cooperatives would also be considered part of the informal sector.

To define the informal sector, informal enterprises must be distinguished from formal enterprises. In 1993, the 15th International Conference of Labour Statisticians (ICLS) adopted an approach for defining the informal sector that could be applied across countries. The resolution adopted by the 15th ICLS identified the following set of criteria for defining informal enterprises (Husmanns and du Jeu, 2002):

Legal organization of the enterprise. Informal enterprises are private unincorporated enterprises for which no consistent set of accounts are available that would allow the financial activities of the enterprises to be clearly separated from those of the owners. In most cases, informal enterprises are owned and operated by household members,

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