Introduction

Understanding the Links between Labour and Economic Development

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Abstract The World Development Report of 2013 places labour in the spotlight of development research and policymaking today. Yet, there are few systematic analyses of the multifaceted nature of the link between labour and economic development. This Special Issue identifies some analytical and data-driven constraints to advances in our understanding of the role of labour in economic development, highlights some new paradigms, and offers new interpretations of phenomena in the interrelated areas of labour informality, self-employment, internal (rural–urban) and international migration, and labour force discouragement. It re-emphasizes the postulate that the mobility of labour from low-productivity towards higher-productivity jobs both geographically and across sectors and enterprises is a crucial ingredient in ensuring sustainable growth and poverty alleviation. Hence, government (and international) policy effort should focus on dismantling institutional constraints to this successful transition.

Le Rapport sur le développement dans le monde 2013 place la question de l'emploi au centre de la recherche sur le développement et des décisions politiques d'aujourd'hui. Pourtant, rares sont les initiatives qui analysent systématiquement les multiples facettes du lien entre emploi et développement économique. Ce numéro spécial identifie certaines contraintes analytiques et celles qui sont imposées par les données, contraintes qui limitent notre compréhension du rôle de l'emploi dans le développement économique. Ce numéro met aussi en avant de nouveaux paradigmes et offre de nouvelles interprétations de phénomènes tels que l'emploi informel, les autoentrepreneurs, l'émigration interne (rurale-urbaine), le lien entre l'émigration internationale et le fossé entre les sexes dans la participation des hommes et des femmes sur le marché du travail, et le découragement de la main d'œuvre. Ce numéro réaffirme le postulat qu'une main d'œuvre mobile dans tous les sens du terme (une mobilité à la fois géographique, sectorielle et entre entreprises), qui quitte des emplois à basse productivité pour des emplois à haute productivité, est un ingrédient indispensable pour assurer une croissance durable et une réduction de la pauvreté. Ainsi, les efforts gouvernementaux et politiques (internationaux) devraient se concentrer sur le démantèlement des obstacles à la réussite de cette transition.

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Introduction

The World Development Report of 2013 places labour in the spotlight of development research and policymaking today. Yet, there are few systematic analyses of the multifaceted nature of the link between labour and economic development. A possible explanation for this gap in analytical focus and understanding could perhaps be found within the historical dynamics of the academic and policymaking discourse on economic development. For example, following the fast capital accumulation-driven transformation of the Soviet Union from a poor agrarian to an industrialized economy, the 1950s were dominated by the Chenery–Harrod–Domar logic of economic development via accumulation-driven growth. Labour was seen as an automatic – and homogeneous – complement to capital in this accumulation process. Economic development and corresponding job creation in the 'modern' sector were expected to absorb surplus labour from the traditional sector until wages rose above the subsistence level, and the 'Lewis Turning Point' marks the transition from the state of underdevelopment to that of modern economic development (Lewis, 1954; see also Chen in this Special Issue). In other words, labour was considered a peripheral component of the development process.

By the mid-1960s and throughout the 1970s, the persistence of either open unemployment or under-employment and the incidence of working poor even growing in less developed economies were perceived as indicative of 'an employment crisis due to acute land shortage in overcrowded farming communities and an acute job shortage in overcrowded urban communities' (Singer, 1970; Chen in this Special Issue). As a result, the decade saw fundamental developments in academics' efforts to understand labour market duality from both an economic (Harris and Todaro, 1970) and an anthropological-cum-sociological perspective (Hart, 1973). A renewed academic focus on the human input into the economic development process stimulated an international policy shift in the direction of welfare improvements by investment in health and education. Yet, human capital development and welfare appeared to be seen as an end in themselves as opposed to a crucial investment in productivity enhancing job creation. By the end of the 1990s, when the structural adjustment rhetoric had fizzled out, both national and international policy attention turned towards more holistic approaches to poverty alleviation and redistribution, but it was only recently (in the 2000s) that the virtues of productive employment for both economic growth and poverty alleviation – and the link between human capital accumulation and labour and enterprise productivity – came to the fore.

This move, however, has not seen a massive resurgence of academic and policy studies on the subject, mainly due to scarcity of appropriate high-quality employment data from developing countries. Figure 1 in Margolis' contribution to this Special Issue highlights the scarcity of labour market data accumulation on a regular basis across a range of developing countries. Indeed, although international repositories such as the International Labour Organization (ILO) report aggregate figures, many of these figures are generated with the use of imputation methods (Margolis, this Special Issue). Availability of data on employment in Sub-Saharan Africa (SSA) is particularly poor. For instance, the annual report on employment produced by the ILO (2010) shows how poor the accumulation of data on employment in SSA is. For the 1991–2008 period, only 11 out of 45 SSA countries were able to provide statistics on unemployment for at least 3 years, while 16 countries were unable to compile even new employment data for the entire period. Not surprisingly, Labour Force Surveys (LFS) from some of the most interesting developing countries are virtually absent, even though these types of surveys form the main source of data for this field of research in the rest of the world.

Very often, studies on demand for labour in developing countries cover a few hundred formal businesses, which are themselves not representative of the population of firms operating in the economies considered (examples include the Regional Program of Enterprise Development – RPED – surveys of the World Bank). It is easy to appreciate how far off this type of research is from appropriately analysing the demand side of the labour market in developing countries, where the *informal sector* (production and employment that takes place in unincorporated small or unregistered enterprises) represents 50–80 per cent of urban employment, and is particularly high in SSA, and *informal employment* (employment without legal and social protection) is more than half of non-agricultural employment in most developing regions, and even reaches

84 per cent of total non-agricultural employment in India (Chen, this Special Issue). In addition, (informal) agricultural labour is paramount in rural areas and accounts for the vast majority of the labour force in poorer countries (Berlinschi, Swinnen and Van Herck, this Special Issue). Finally, some categories of workers, such as domestic workers, home-based workers, street vendors and waste pickers, are not even identified in labour statistics. Chen (this Special Issue) argues that in India, domestic workers, home-based workers and street vendors comprise one-third of urban employment, while Margolis (this Special Issue) shows that standard statistics ignore the contribution of family workers, who comprise over 25 per cent of all self-employed in developing countries.

The scarcity of appropriate representative surveys from developing countries makes it difficult for researchers to analyse some of the most interesting and policy-relevant issues that make these countries' labour markets starkly different from those in developed countries, as follows. (i) There are institutional issues such as weak labour protection and social security, as well as problematic taxation and its links to corruption, which create a wedge between formal, informal employment and subsequently labour productivity and worker welfare. While research on these issues in the context of Latin America is rising fast, there is still insufficient understanding of their particular nuances in the contexts of Africa and Asia; (ii) Then there are informal networks, which are the primary source of labour market information and capital for starting up small business. (iii)Lastly, there are seasonal fluctuations and other peculiarities of the agricultural labour market that make the usual 7-day or yearly reference periods used in Living Standards Measurement Surveys fairly irrelevant.

The purpose of this Special Issue is to contribute to the much needed accumulation of knowledge on the links between labour and economic development, making use of recent data for various countries across different continents. Alongside stylized and freely available (new) databases such as the World Bank Enterprise Surveys (Goyette), the World Bank Living Standard Measurement Surveys (Abdolluev, Gang and Yun), annual LFS (Akarcay, Polat and Ulus) and ILO LABORSTA (Margolis), the data used in this Special Issue include primary data sources, such as Labour Force and Enterprise Level Surveys (Chen), European Households Panel (Berlinschi, Swinnen and Van Herck), repeated cross-sections of Informal Enterprise Level Surveys (Vaillant, Grimm, Lay and Roubaud) and cross-country Informal Enterprise Level Surveys (Böhme and Thiele). The country coverage is very broad, including cross-country reviews (Chen; Margolis), as well as case studies (India in Chen) and empirical studies from poor European countries (Berlinschi, Swinnen and Van Herck), poor- and middle-income countries in Asia – Tadjikistan (Abdulloev, Gang and Yun) and Turkey (Akarcay, Polat and Ulus) – and countries in Africa – Madagascar (Vaillant, Grimm, Lay and Roubaud), the WAEMU countries in West Africa (Böhme and Thiele) and Uganda (Goyette). Using this wide range of contexts and a combination of both widely available and unique data sources, the Special Issue sheds new light on old debates and introduces new perspectives and findings.

The increasing interest in labour-related issues today coincides with transformations in the global economic arena that stimulate re-thinking of the very concept of economic development. To begin with, organization of production in global production networks and value chains blurs international borders and re-defines the very concept of labour. Furthermore, the rise of countries such as China – and the BRICs (Brazil, Russia, India and China) and MINTs (Mexico, Indonesia, Nigeria and Turkey) – in the midst of prolonged struggle of industrialized economies with the consequences of financial and debt crises brings nuances to rough categorization of economies into 'developed' and 'developing' groupings. Even Africa, formerly described by *The Economist* as a 'hopeless' continent (*The Economist*, 11 May 2010), is now seen as a continent that inspires hope (*The Economist*, 3 December 2011). Indeed, 'Africa rising' has recently become a slogan in both academic and policy circles. One of the highlights is that 6 out of 10 fastest-growing countries in the world are in Africa, much of which is attributed to entrepreneurial activities (*The Economist*, 3 December 2011). Yet, one of the major contributors to a poor 'trickle-down' effect of growth to poverty alleviation both in Africa and elsewhere is the high level of unemployment, under-employment and hidden unemployment in the form of poorly paid and poorly protected (typically informal) activities. This brings to light the debate as to whether the vast pool of self-employed and informal workers in developing countries is indicative of hidden unemployment in a dualistic market (Mazumdar, 1983; Fields, 1990), or whether it represents dynamic entrepreneurship in contexts where the institutional constraints to setting up a formal business happen to be high (Maloney, 2004; Dimova *et al*, 2010).

Much of this Special Issue focuses on different dimensions of this research question. For instance, two review papers at the start shed fresh light on the concept of labour informality (Chen) and self-employment (Margolis) and taken together present new perspectives in the broader literature on informality and self-employment that challenge conventional thinking. In particular, Chen highlights the complexity of labour informality as a concept and reality transcending the rather simplistic dichotomy of a dual economy versus dynamic entrepreneurship and positioning labour in the modern environment of global production networks and exchange. In the process, she highlights particularly interesting examples of interlinkages between the formal and informal economy. By contrast, much of Margolis' review focuses on the issue of whether self-employment represents a choice or a constraint and what implications the answer to this question has for economic development. An important highlight of Margolis's conclusion is that although developing countries appear to have the majority of their employment outside of the wage sector, and within the dynamic entrepreneurship paradigm self-employment is seen as a key determinant of economic growth, in reality sustained economic development appears to come with a steady reduction in self-employment and an increase in wage employment.

These points are developed further in the papers by Vaillant *et al*, Böhme and Thiele, and Goyette, each of which provides interesting twists to the general debates on informality and self-employment and their links to the process of economic development. For instance, while corroborating the point raised by Chen that the formal and informal sector in developing countries are interlinked, Böhme and Thiele demonstrate that the strengths of these links and their implications for productivity are conditional on the degree of informality. Furthermore, Vaillant *et al* and Goyette provide interesting dimensions to the points raised by Margolis on small business dynamics and the constraints to firm growth and employment generation by (small) businesses in developing countries. While Vaillant *et al* highlight the fact that informal sector employment growth in Madagascar is extensive rather than intensive (it happens through the creation of new businesses rather than the expansion of existing ones) and high marginal returns to capital fail to result in re-investment of profits and firm growth, Goyette gives concrete institutional explanations for the skewed firm size distribution in Uganda.

While most of the contemporary literature on the links between labour and economic development explores the informal sector and tries to answer questions on entrepreneurship, there is ample historical evidence suggesting that economic development is closely linked to a Lewis-type geographical labour mobility both within countries and across national borders (Massey, 1988). At the same time, while the link between migration and economic development has traditionally been seen as a process of movement of labour from agriculture to the urban 'modern' sector, there is now proliferation of opposing views of agriculture as an 'engine of growth' and productive employment generation (World Bank, 2008).

Berlinschi *et al* turn this debate around and find interesting evidence that does not fit either stylized paradigm. Their starting point is the counter-intuitive finding of a negative association between rising farm income and agricultural employment. In search of a plausible explanation, the authors find that credit-constrained farmers invest their additional incomes in children's education, but education enhances the potential of children to migrate out of agriculture. In the different context of international migration, Abdulloev, Gang and Yun explore further the links between migration and educational attainment and their economic consequences. In particular, they find that greater international migration by males and enhanced educational attainment by females in Tajikistan reduces the gender gap in labour force participation (LFP). Finally, while exploring further the issue of LFP in a middle-income Asian country – Turkey – Akarcay, Polat and Ulus give an interesting new dimension to the topic. While much of the labour-oriented literature focuses on unemployment or underemployment (whether open or hidden), Akarcay, Polat and Ulus explore in detail the phenomenon of discouragement. They attribute the high rates of dropping out of the labour force in the midst of high economic growth in Turkey to a combination of poor market conditions and low qualifications. Taken together, all papers highlight the need for detailed research and policy focus on the complex links between appropriate skill accumulation and institutional constraints to productive job creation, which are essential for ensuring sustainable economic growth and its trickle-down effects.

Short Summaries of the Papers Included in the Special Issue

The Special Issue starts with the paper by *Martha Chen*, which provides an 'archaeology' of employment relationships in the informal economy. The focus is on the fast-evolving new forms of work in developing countries in an era of globalization. These include concentrated production in large factories or workshops in special economic zones and dispersed production across a long chain of suppliers, contractors and industrial outworkers in global supply chains. Most informal workers in developing countries, including many informal wage workers and those linked to global supply chains, do not fit neatly into the employer–employee relationship and therefore tend to be excluded from legal and social protection, as well as from collective bargaining agreements. For example, in the informal manufacturing sector in India, which represents 75 per cent of units and workers in total manufacturing, the vast majority of firms do not hire workers, the majority of workers do not have employers and most of the production takes place in households, while most of the exchange takes place in the public space. Indeed, the State does not recognize informal workers as economic actors and does not include their activities in its economic or urban plans. The result is that while not receiving protection or promotion from the State, the informal economy is often treated punitively by it as in the case of eviction of either home-based workers or street vendors.

Although in all of these respects labour informality shares the stylized characteristics of hidden unemployment in a dualistic market, the links between the informal and the formal sector are strong. For instance, in the manufacturing sector in India, informal firms and industrial outworkers/sub-contracted workers produce goods for formal firms through domestic and global value chains. In the retail trade sector, many street vendors buy supplies or merchandise from formal firms and some sell goods on commission for formal firms. Chen's conclusion is that many of the mainstream assumptions about the informal economy and its links to the formal economy, to the State and to economic development need to be formally reconsidered. Clearly, many segments of the informal economy have links to the formal economy and are within the reach of government regulations. The informal economy contributes to – and is not declining with – economic development. So long as informal workers are not recognized as economic actors and not incorporated into economic and urban planning, they remain outside the protective arm but within the punitive arm of governments.

While the main focus of Chen's contribution to the Special Issue is the changing nature of labour informality in a globalizing world, *David Margolis* moves a step further and focuses on the related research questions of (i) whether self-employment is a choice or a constraint, (ii) to what extent self-employment in the developing world resembles the developed world's concept of 'entrepreneurship' and (iii) whether the high incidence of self-employment in developing countries (estimated as 46 per cent of male employment in the Middle East and North Africa and as high as 82 per cent of male employment in SSA) is positively associated with economic development. He argues that the answer to the first question is not simple and the shares of subsistence versus voluntary self-employment, as well as the overall level of wage employment in a country, depend crucially on institutional characteristics, including social protection systems, the business environment (in particular business registration and licensing), access to finance, corruption and the judicial systems, labour market regulations, and payroll taxes/wage subsidies, all of which – as well as their links to the different characteristics of self-employment – are discussed in turn.

To answer the second question, Margolis refers to the paper by Grimm, Knorringa and Lay (2012), who use the series of *1–2–3 Surveys* in West Africa (a mixed approach using labour force-and enterprise-level surveys) and discuss the entrepreneurial characteristics of self-employed workers. According to this article, only one-third of the self-employed workers in West Africa share the characteristics of 'true entrepreneurs', while the majority find it difficult to unleash their full entrepreneurial potential.

One of the most interesting contributions of Margolis's paper involves the answer to the third of these questions, namely, the link between self-employment and economic development. His normative answer echoes Chen's argument that the informal economy is closely linked to economic development. Indeed, while dynamic entrepreneurship is crucial for growth, masses of unproductive subsistence workers clearly inhibit it. The two papers agree that government action aimed at unleashing the productive potential of self-employed and/or informal workers is key to sustained economic development.

Vaillant, Grimm, Lay and Roubaud turn the above debate around by looking at how the informal sector changes over time and whether or not it benefits from economic growth. They also ask the additional question of whether the technology used in the informal sector is consistent with the 'poverty trap' model of Banerjee and Newman (1993). This is based on the observation that Informal Production Units in developing countries have stagnated, which could be seen as a result from very low returns on capital at very low capital levels, and hence as evidence of a poverty trap.

The paper uses unique repeated representative cross-sections of business surveys from 1995, 1998, 2001 and 2004, collected in the capital of Madagascar, Antananarivo, allowing the researchers the unique opportunity to gain insights into the evolution and dynamics of the informal sector over a decade. The authors find that informal sector employment growth is extensive rather than intensive, as it happens mainly through the creation of new businesses rather than the expansion of employment in existing ones. For instance, in the period of crisis (2002) and the following recovery, the decrease in formal employment seems to have been mainly compensated by an increase in informal independent labour, rather than informal hired or family labour, suggesting that existing businesses were not able to absorb the surplus labour released by the formal sector, and most of these workers started an informal business.

Although extensive, as opposed to intensive, employment growth is consistent with the existence of poverty traps, estimates of marginal returns to capital tend to reject this hypothesis. Indeed, the informal sector is found to exhibit decreasing returns to capital as the amount of capital used by the entrepreneurs increases. This suggests that an efficient allocation of capital should direct investment towards the smallest enterprises to reap the gains of high returns at low levels of capital. However, such efficiency-enhancing reallocation of capital does not take place in practice. The question that remains to be answered is therefore why micro entrepreneurs are not reinvesting their business profits if returns are so high at low levels of capital and hence why they do not grow more.

A tentative answer to this question – though in a different context – is offered in the study by *Jonathan Goyette*.Goyette specifically examines the phenomenon of 'missing middle' in the (employment-based) size distribution of firms, a well-documented fact that developing countries exhibit too few medium-sized firms as compared with developed economies (Tybout, 2000; Hsieh and Olken, forthcoming). Some earlier literature has suggested that firms tend to remain small or informal due to either regulation and taxation costs (de Soto, 1989; Fortin *et al*, 1997; Gauthier and Gersovitz, 1997; Sleuwaegen and Goedhuys, 2002) or revailing social norms in the economy, in particular a disincentive effect exerted by a redistributive pressure that would impede the development of successful entrepreneurship (for example, Platteau, 2000; Grimm *et al*, 2013; Nordman and Vaillant, 2014). Goyette delves deeper into this discussion with the use of World Bank Enterprise Level data from Uganda.

In particular, Goyette argues that enterprises on the verge of becoming medium-sized firms refrain from growing further to avoid an increase in audit for taxes and other costs (such as bribes and tax obligations). The paper uses several empirical techniques, including firm-level econometrics, to demonstrate that the behaviour of samples of Ugandan firms in 1997 and 2005 support this hypothesis. Using predicted values for audit probability, taxes and bribes, Goyette calculates the expected taxation cost for each firm. He then shows that these cost functions are increasing and convex and that the shape of the size distribution of firms could be approximately explained by the inverse of the distribution of expected costs from taxation. These findings shed light on the potential links between institutional distortions, related to the fiscal environment, and labour market frictions. The policy implication of these findings is that the shape of the size distribution of firms should be studied carefully in order to detect such distortions and devise policies that smooth the functioning of labour markets and alleviate the burden of predatory taxation on job supply. This is consistent with the recommendation put forward in Hsieh and Olken (forthcoming).

While much of the discussion by Margolis, Vaillant *et al* and Goyette centres around issues related to the quality of self-employment and informality as a sector of entrepreneurial dynamism and employment creation and the links of the latter to economic development, *Böhme and Thiele* engage with the discussion of links between the formal and informal sector commenced by Chen. The starting point of their discussion is Hirschmann's (1977) linkage theory whereby the interdependence of economic actors plays an important role in the dynamics of economic development. Using the second phase of the *1–2–3 Surveys* on informal firms in six West African economic capitals, they demonstrate that formal–informal linkages do exist, and that backward linkages to the formal sector are much more prevalent than forward linkages.[1] Furthermore, these linkages vary with the degree of informality, occurring less frequently if firms are unregistered or have low capital stocks. In addition, when formal backward linkages are present, various measures of firm performance improve significantly. By contrast, the degree of informality of the enterprises seems to affect firm performance only indirectly through their linkages to the formal sector.

Most of the Special Issue so far focuses on self-employment and informality and their links to economic development. This is quite deliberate, given the size of the pools of self-employed and informal workers in developing countries and the unique features these phenomena give to developing countries compared with their more developed counterparts. At the same time, as indicated at the outset, migration – both nationally and internationally – not only has strong theoretical links to economic development, but has proved historically to be a crucial part of the process of economic transformation. The succeeding two papers in this issue therefore address issues related to movement out of agriculture and international migration.

The starting point of *Berlinschi, Swinnen and Van Herck* is the paradoxical evidence that increased protection of agriculture – and supposedly higher incomes for farmers – fails to enhance agricultural employment. Increases in agricultural incomes, for instance through substantial agricultural subsidies in European countries, have not had a positive effect on agricultural employment. Earlier literature tried to find an explanation for this puzzling observation by arguing that subsidies are perhaps ineffective due to imperfections in input and output markets, which cause off-setting indirect effects on employment generation because of labour, capital or land reallocation.

By looking at medium- and longer-term adjustments, Berlinschi, Swinnen and Van Herck propose an alternative explanation. Using a panel of farm households in four poor (at the time of the survey) European countries, they develop both theoretically and empirically the argument that increases in farm income may affect farm credit-constrained households' investments in their children's education. However, children with higher education levels have access to better-paid jobs in other sectors, and are therefore less likely to become farmers themselves.

This study opens grounds for discussion of policy decisions in alternative contexts. For example, over the past decade, subsidies to farmers in China increased significantly (OECD, 2013). In combination with rising agricultural prices in internal and global markets, this could lead to rising incomes for farmers. The combination of increasing subsidies and high agricultural prices, together with high costs of education and significant credit constraints in rural areas in China, may have a significant impact on rural–urban migration and labour allocation, by enhancing rural children's education and their reservation wages and employment prospects outside agriculture. This brings an additional dimension to the ongoing debates on the 'Lewis Turning Point in China', the existing Hokou system and agriculture as an engine of growth in China and elsewhere.

Following the study by Berlinschi, Swinnen and Van Herck, Tajikistan provides an interesting case for studying the roles of massive emigration and education on domestic labour supply decisions. Tajikistan is a small and landlocked country that underwent a major economic and political transformation after independence from the Soviet Union in 1991. Over the last two decades, it evolved into the world's most migrant remittance-dependent country, with much of its labour force working abroad (mainly in Russia). With the use of the World Bank Living Standards Measurement Survey on Tajikistan in 2007, *Abdulloev, Gang and Yun* study the determinants of the gender gaps in LFP, focusing mainly on education and migration.

Abdulloev, Gang and Yun find that international migration is mainly driven by men in this country, which reduces the LFP participation of men domestically. By contrast, rising women's education increases female participation. Hence, both women's greater access to education, particularly to higher education, and increased international migration contribute to reducing the LFP gender gap. The authors also find that Tajikistan's men are more responsive to migration of their compatriots (the so-called 'demonstration effect') and are more likely than women to leave the labour force. While male migration reduces the gender gap in LFP, its side effect is reduced male labour supply and overall employment.

Dropping out of the labour force is also addressed in the study by *Akarcay, Polat and Ulus*. It is now a stylized fact that in many countries a sizeable number of individuals who are considered to be out of the labour force and are not actively looking for employment do in fact declare that they would like to work. This sub-population of inactive individuals is referred to as passive searchers or as individuals marginally attached to the labour force, known as 'discouraged workers'. This paper sheds light on the reasons that might cause some workers to give up searching for work in Turkey, a developing country where, despite high growth rates (placing the country in the MINTs group), the number of jobless persons who are ready to work but are not searching is rather high and appears to be structural rather than cyclical.

The results of this paper support earlier discussions that the focus on unemployment rates as standard (ILO-supported) proxy of joblessness is inadequate for understanding the stagnation of productive employment in developing countries. In particular, they find that local market conditions that encourage job creation are closely linked to discouragement, while the level of unemployment itself does not appear to reflect properly the health of the economy and its job creation potential.

Conclusion

Although employment generation and dynamic entrepreneurship today are among the buzzwords of success in economic development, and understanding the links between employment and development is in the spotlight of current academic debates and policymaking, our understanding of these links is still incomplete. This Special Issue puts together eight articles that identify some analytical and data-driven constraints to advances in our understanding of the role of labour in economic development, highlight some new paradigms, and offer new interpretations of phenomena in the areas of labour informality, self-employment, internal (rural–urban) and international migration, and labour discouragement.

Despite their differences in focus, research methodologies, data sets and contexts, the first five papers are very similar in their overall spirit and conclusions. In particular, while there is an agreement that dynamic entrepreneurship and the related employment growth are key for sustainable economic development, and while globalization changes the pattern of employment and appears to strengthen the links between the formal and informal sectors, few firms and employees appear to be winners from the global dynamism. Each of these papers on self-employment and informality identifies institutional and governance constraints, successful addressing of which is needed to ensure the transition of economies from large masses of constrained or subsistence workers to productive workers and entrepreneurs. In particular, government action aimed at unleashing the productive potential of self-employed and/or informal workers is crucial for sustained economic development.

The three remaining papers investigate the issue of mobility (rural–urban and international), as well as of the gender gap in LFP and workforce discouragement. They add an additional dimension to the above conclusions by emphasizing the crucial roles that intra-household income allocation, gender-specific behaviours and local labour market conditions play in shaping the dynamics of workers in developing countries' labour markets.

Overall, the studies presented in this Special Issue call for innovative policies that not only focus on identified vulnerable groups of workers and individuals, but also envision some new and unexpected macro- and micro-economic linkages and policy consequences. In any case, policy-makers should take into account the fact that individuals in developing countries exist in an environment of scarce resources, inefficient labour allocation, and sub-optimal public infrastructure and institutions, and hence a policy that is bound to produce positive outcomes elsewhere may end up triggering unexpected behavioural changes and perverse outcomes. In particular, assessing policies without accounting for their possible externalities in the economy may largely under-estimate their potential harms and benefits. We hope that this Special Issue will stimulate further research on the design and evaluation of innovative labour market policies in developing countries.

Institutions such as the ILO and the World Bank have recently invested a great deal in the collection of freely available data – for instance, the Living Standards Measurement Surveys, ILO LABORSTA and the World Bank Enterprise Surveys – that can easily assess at least some of the important labour market issues in developing countries. Hence, there is a conscious effort to remove the data-driven constraint to our understanding of labour markets in developing countries, highlighted at the outset. Yet, to provide deeper understanding, especially of less explored and salient characteristics, national statistical offices should ensure regular and high-quality collection of LFS. These should be complemented with a wide range of user-driven quantitative and qualitative surveys, which capture yet poorly understood phenomena.

Note

1. Forward linkages refer to the use of an enterprise's output as an input in other productive activities, while backward linkages comprise the enterprise's purchases of intermediate inputs.

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