



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.

[Story](#) | [Presentation](#) | [Video](#) | [World Bank Policy Research Working Paper 8011](#) | [Blog](#).

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.

[Labor Drops: Experimental Evidence on the Return to Additional Labor in Microenterprises](#), Suresh de Mel, [David McKenzie](#), and Christopher Woodruff, World Bank Policy Research Paper 7924, December 2016 | [Summary](#) | [Blog](#).

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.

Hirshleifer, Sarojini, [David McKenzie](#), Rita Almeida, and Cristobal Ridao-Cano. 2016. “[The Impact of Vocational Training for the Unemployed: Experimental Evidence from Turkey](#).” *Economic Journal* 126 (597): 2115–2146, 2016 ([replication files](#)).

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.

[Toward Labor Market Policy 2.0: The Potential for Using Online Job-Portal Big Data to Inform Labor Market Policies in India](#), Shinsaku Nomura, Saori Imaizumi, Ana Carolina Areias, and [Futoshi Yamauchi](#), World Bank Policy Research Working Paper 7966, February 2017.

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.

[Effects of Public Policy on Child Labor Current Knowledge, Gaps, and Implications on Program Design](#), Ana C. Dammert, Jacobus de Hoop, [Eric Mvukiyehe](#), and Furio C. Rosati, World Bank Policy Research Working Paper 7999, March 2017.

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.

[Short- and Long-Term Effects of a Child-Labor Ban](#), [Caio Piza](#) and André Portela de Souza, World Bank Policy Research Working Paper 7796, August 2016.

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.

[Short-Term Effects of India’s Employment Guarantee Program on Labor Markets and Agricultural Productivity](#), [Klaus Deininger](#), Hari K Nagarajan, and Sudhir K Singh, World Bank Policy Research Working Paper 7665, May 2016.

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.

[Can Wage Subsidies Boost Employment in the Wake of an Economic Crisis? Evidence from Mexico](#), [Miriam Bruhn](#), World Bank Policy Research Working Paper 7607, March 2016.

NEW AND UPCOMING REPORTS

Forthcoming Policy Research Report: Global Migration and Labor Markets

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 [Çağlar Özden](#), 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.

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EVENTS

- **April 10, 2017:** Policy Research Talk: Why Global Poverty Measurement Matters

[All upcoming 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.

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](#).

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](#).

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](#).

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](#).

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](#).

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.

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

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- 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
- 7992. [Antidiscrimination Law and Shared Prosperity: An Analysis of the Legal Framework of Six Economies and Their Impact on the Equality of Opportunities of Ethnic, Religious, and Sexual Minorities](#) by Elaine Panter, Tanya Primiani, Tazeen Hasan, and Eduardo Calderon Pontaza
- 7993. [Growing Markets through Business Training for Female Entrepreneurs: A Market-Level Randomized Experiment in Kenya](#) by David McKenzie and Susana Puerto
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- 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
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- 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

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