



Cornell University
ILR School



Formality versus Informality in Job Creation

Gary S. Fields

Cornell University and IZA

Conference on

**‘Institutional Reforms for Transformation, Inclusion,
and Sustainability’**



Cornell University
ILR School



Growth and development

- Economic development: improvements in people's material standards of living.
- What is the ultimate development objective? = "Bottom-line management". Example: Win the soccer world cup.
- Intermediate objectives: Economic growth, productivity growth.
- Seek higher household incomes and better work opportunities through two means: more and better wage employment and higher self-employment earnings – that is, structural transformation and inclusion.



Cornell University
ILR School



Countries face conflicting jobs goals

- More jobs
- Jobs with higher earnings
- Jobs with social protections, among them:
 - Labor market protections
 - Pensions, health insurance, and other social programs – in British English, “social security”



Cornell University
ILR School



“Formality versus Informality in Job Creation”

- “Informality is a term that has the dubious distinction of combining maximum policy importance and political salience with minimal conceptual clarity and coherence in the analytical literature.” (Ravi Kanbur)
- What is a meaningful, operational definition? The employer and/or the worker are registered with the government, as a result of which the worker is entitled to labor market protections and social protections.



Cornell University
ILR School



Informal sector and informal employment

Informal employment is not necessarily in the informal sector.

What we end up with (with application to India):

- Informal employment (wage employment + self-employment) in the informal sector (India – 85% of empl)
- Informal employment in the formal sector (India – 7% of empl)
- Formal employment in the formal sector (8% of empl)



Cornell University
ILR School



Groups of jobs policies to consider

- Policies in the labor market
- Policies impinging upon the labor market



Cornell University
ILR School



Getting the broad economic policies right

- Growth
- Trade
- Aid
- Investment climate
- Harnessing the energies of the private sector



Cornell University
ILR School



Increasing the opportunities for paid employment

The options for helping increase wage-employment so that the self-employed can get out of where they now are include a number of general measures having a bearing on the labor market: stimulating economic growth; carefully seeking a more open international trade environment; increasing foreign aid; and harnessing the energies of private companies. They also include a number of measures within the labor market aimed specifically at generating more wage-employment: avoiding prematurely high labor costs; removing undue barriers to employment; increasing workers' skills and productive abilities to the extent that skill deficiencies are causing job vacancies to go unfilled; and establishing workfare and other programs aimed at creating jobs for the poor.



Cornell University
ILR School



Raising the returns to self-employment

The options for helping raise the returns for the self-employed in the activities and sectors where they now are include: designing products to help raise the productivity of the self-employed; adopting a positive policy stance toward the self-employed and avoiding hassling them; providing the poor in agriculture with more to work with; facilitating supplemental off-farm wage-employment and self-employment; making capital available to the poor at affordable rates; building skills and business know-how; and stimulating microfranchising.



Cornell University
ILR School



One big labor market policy tradeoff which must be faced

- Resources are limited.
- So too are policy attention and administrative capacity.

So how much effort should be devoted to each of the following?

- Creating more jobs with social protections
and/or
- Formalizing the informal
and/or
- Helping those who remain unprotected



Cornell University
ILR School



A policy case study – Regulations in Durban, South Africa

- Masibisi's permit
- The absence of vendors on the oceanfront
- Importance of recognizing the need for poor people to earn livelihoods
- Remember: Never forget the ultimate objectives.