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Employment Vulnerability and Earnings in Urban West Africa

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Summary. — This article develops indicators of vulnerability in employment in seven economic capitals of West Africa and studies their links with individual incomes. Quantitative, distributional and qualitative analyses show that vulnerability compensating mechanism is mainly seen in the informal sector, in the upper tail of the earnings distribution and particularly in the circumstance of visible under-employment. Employment vulnerability is not compensated for the poorest workers in the private sector. Long “job queues” and weak institutional protection of workers may have reduced bargaining power in the formal sector.
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1. INTRODUCTION

Urban labor market workers in sub-Saharan Africa work in often highly insecure conditions. The World Bank's (2001) report states that job insecurity is a major concern among poor workers, and job instability is a leading cause and expression of poverty. One of the main focuses of studies on labor markets in sub-Saharan Africa is the institutional segmentation between formal and informal sectors (Maloney, 2004). Informal work is defined from the point of view of the firm, worker or line of business depending on the policy aims. The 1993 System of National Accounts (SNA93)—comprising a set of international standards designed to establish a framework for the production of statistics on national accounts—defines a distinction at firm level based on statistical or tax registration criteria and keeping written accounts.

Yet this distinction serves no purpose when it comes to capturing individuals' working conditions, especially employment vulnerability. By vulnerability, we mean how hard it is for individuals to manage the risks or cope with the losses and costs associated with the occurrence of risky events or situations.¹ For example, the vulnerability of workers can be seen, among other things, in terms of contract insecurity (unstable remuneration and no written contract), or adverse working conditions. Vulnerable workers can be found in all sorts of formal and informal private firms, but also in administrations and public and semi-public corporations. A good many vulnerable workers work in the formal private sector, as per the SNA93 definition of the term. This paper focuses solely on the private sector (formal and informal businesses), based on the assumption that vulnerability is driven by different mechanisms in the public and private sectors.

We build employment vulnerability indicators and study their links with earned income. The theory of compensating differentials formalized in the 1980s² states that workers may receive pecuniary compensation commensurate with the

strenuous or hazardous nature of their tasks or adverse working conditions. In the developed countries, for example, it has been observed that physically hazardous and highly strenuous jobs are often better paid than less strenuous or hazardous jobs.³ Our interpretation of the link between vulnerability and income draws then on developments in the theory of compensating differentials. While the overall purpose of this paper is not to test the predictions of this theory in all its components, a working assumption we still investigate is whether, other things being equal, workers classified as vulnerable may be better paid than more stable workers occupying less strenuous jobs. Should this be the case, an incentive should be found for certain individuals to hold a vulnerable job, especially if the medium- or long-run advantage associated with stable jobs is not valued by households forced into short-term income management. These households should prefer higher, immediate earnings—even from a vulnerable job—to stable earnings over a longer period. A high earnings incentive for vulnerable jobs would increase the risk to fall into poverty. In this paper, we do not deal with adverse working conditions *stricto sensu*, such as job health hazards, but use a broader concept of vulnerability in employment. This concept does not necessarily entail compensating mechanisms as predicted by the theory of compensating differentials. Our results cannot

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therefore be used to validate the applicability of the theoretical predictions across developed and developing countries. The motivation for this study is rather to determine whether possible compensating differentials can explain the acceptance of generally bad working conditions as observed in these cities or not.

The questions of vulnerability determinants and the link between vulnerability and remuneration raise a certain number of methodological problems that this paper endeavors to solve. First of all, there is the existence of labor market entry selection and endogenous sector allocation across the public, formal private or informal private sectors. Observable individual characteristics (such as human capital in general), but also unobservable individual characteristics, influence both the decision to participate to a labor market segment and the level of individual earnings in Africa.⁴ Not taking this into account may lead to biased estimates of the determinants of individual earnings. Secondly, there is a likelihood of vulnerability being endogenous in the earnings equations. Vulnerability would be endogenous if the individuals' unobservable characteristics are correlated with both their level of vulnerability and their level of earnings. Selection and endogeneity, if not taken into account, can produce biases in the estimation of the relationship between vulnerability and earnings. For instance, an overestimation of the positive impact of vulnerability on individual earnings may appear if unobservable characteristics, such as worker perseverance, are positively correlated with the probability of taking up a vulnerable job while simultaneously being positively correlated with earnings.⁵

Our analysis also takes a distributional approach. Another working assumption is that vulnerability can have a different effect on income depending on the worker's relative position on the remuneration scale. Hence, for equal observable characteristics, workers at the lower tail of the earnings distribution (poor) could be penalized in monetary terms by their vulnerability whereas workers at the top of the distribution (wealthy) might not be penalized and may well receive pecuniary compensation in vulnerable jobs. These different pay mechanisms depending on remuneration scale position could be due to bargaining power differences and labor market imbalances. In the first case, greater bargaining power for the wealthy would enable workers at the upper tail of the earnings distribution to secure higher compensation for the vulnerability of their jobs. Conversely, workers at the bottom of the earnings distribution might be more forceful in negotiations for premium pay if they are seeking to secure a living wage. Compensation for vulnerability would therefore decrease the further the worker moved from a minimum subsistence income. In the case of labor market imbalances, the employer's capacity to provide financial compensation for adverse working conditions might also differ depending on the type of imbalances found in certain market segments, in particular along the length of the skills and hence earnings distribution. For example, it would make sense to find that employers in segments where labor supply far outstrips demand are reluctant to pay workers more for adverse working conditions. These hypotheses, which assume that the effect of vulnerability on earnings differs depending on the position in the earnings distribution, are tested using quantile regressions.

Lastly, our analysis takes a "qualitative" approach, conducting a principal component factor analysis on the different aspects of the vulnerability phenomenon. The main components obtained, which represent the different qualitative facets of vulnerability (contractual insecurity, working conditions, underemployment and stopgap jobs mismatched with the indi-

vidual's characteristics), are then used as vulnerability variables.

This paper gives empirical results on seven West African capital cities that are part of a fairly economically integrated West African Economic and Monetary Union (WAEMU), sharing a common currency (CFA Franc) with fixed parity to the Euro. The data were collected in 2001–02 in a context of relative political stability, low inflation (4.1%; 1999–2003 average: 2.1%) and reasonably high GDP growth in the WAEMU region (3.9%; 1999–2003 average: 2.4%) (UEMOA, 2004), which contrasted with the 2001 global economic slowdown. The exception is Côte d'Ivoire where political turmoil⁶ led to an economic downturn (virtually no growth in 2001, and an average of –0.8% in 1999–2003). Except in this country, the relative economic prosperity in 2001 is hypothesized to effect positively on wages and on compensating differentials.

The remainder of the paper is structured as follows. In Section 2, we briefly study the theoretical arguments underlying the existence of compensating differentials and highlight some theoretical implications for our case study. In Section 3, we present the data drawn from the *1-2-3 Surveys* of the West African economic capitals and the construction of certain key variables for our analyses. Section 4 details our econometric models. The results of these analyses are discussed in Section 5 and our conclusions are put forward in Section 6.

2. THEORETICAL VIEWS ON COMPENSATING DIFFERENTIALS

There is a long history of economic research into the forces that narrow or widen wage differentials between individuals. The first models focused on competitive markets where they found wage premiums compensating non-pecuniary job attributes, such as working conditions, and differences in job stability across industries (Brown, 1980; Murphy & Topel, 1987; Rosen, 1986, Chapter 12). Most of the authors acknowledge that when job characteristics (other than wages) enter into players' labor market decisions (firms and workers), then the market balance is due to the equalization of workers' utilities rather than their wages.

Rosen (1986, Chapter 12) posits that the reasoning behind this is to be found in a simple supply and demand structure. Labor supply decisions are based on a trade-off between earned income (wages) and the cost of doing the job (stress, repetition, production deadlines, etc.) such that, at optimum, wage differences correspond to the marginal rate of substitution between consumption and working conditions. Labor demand decisions by firms are based on a trade-off between the necessity of paying the workers compensation commensurate with the strenuous or hazardous nature of their task and the need to improve the working conditions offered.

Hence, under the assumptions of homogeneous individuals, heterogeneous work environments, perfect information with regard to wages and working conditions, and also perfect mobility in the labor market, wages differ between workers such that they all obtain the same utility. To encourage workers to accept more adverse working conditions, firms therefore have to offer higher wages. This is the basic idea behind the theory of compensating wage differentials. Lifting the assumption of homogeneous individuals necessarily introduces a great deal of uncertainty as to the existence of compensation for working conditions when it is observed at the midpoint of the worker distribution. It could prove necessary to divide the population observed into more homogeneous groups, for example by using conditional wage quantiles.

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