

# Growth and labour market outcomes in low income economics essay

[Economics](#)



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## **PHD Research Proposal**

### **Prospective Student 2013: Thokozile T. Newman**

thokoziletnewman@yahoo. com Over the course of the past twenty years it has become apparent that GDP growth in developing countries can coexist with high unemployment, severe skill shortages, and heightened income inequality. This realisation has led low-income countries' governments, international organisations[1] and aid agencies to reconsider alleviating poverty not only through the pursuit of generic policies focusing on growth, but, increasingly, through targeted programmes aimed at raising a country's stock of skills. This change in the provision of development policies is based on the premise that a more skilled domestic workforce can enhance efficiency and flexibility in the labour market, improve mobility and productivity, and ultimately generate more employment within the private sector. A more skilled labour force is believed to have better chances of positive economic engagement than one relying solely on survival skills, even when access to stable and secure salaried jobs is rationed. This is often the case in many developing and low-income countries (LIC), where self-employment accounts for more than 50% of a country's employed (60% is common in Africa - e. g. Falco, 2011; Poschke, 2010), Traditionally, the acquisition of skills has been associated with better access to tertiary or higher education. Indeed a number of self-employed people work in a wide range of high-income services as doctors, lawyers, and consultants.

However, it has become increasingly accepted that self-employment in manual activities such as those related to artisanship and craftsmanship, and small retail outlets, even if taking place within the informal sector, has

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the potential to uplift the lives of many, who would otherwise remain unemployed, and their families (e. g. Grierson and McKenzie, 1992; Honig, 1996; Abefe-Balogun and Nwankpa, 2012; Byabashaija and Katono, 2011; Chinonso, 2010; Oseni, Ehikioya and Ali-Momoh, 2011). Within the new paradigm of approaching development, vocational education and training programmes (VET) emerge as a key complementary institutional channel to deliver the acquisition of skills while promoting entrepreneurship. A report conducted by OECD in 2010 named " The vocational challenge"[2]defines Vocational Education and Training (VET) as education and training programmes designed for a particular type of job that normally involves practical training as well as the learning of relevant theory. There are two main types of VETs: initial VET and continuing VET. Initial VET includes programmes mainly designed for and used by young people (under 30) at the beginning of their careers and commonly before entering the labour market. Continuing VET (CVET) is all other sorts of VET, including enterprise training of employees and training provided specifically for those who have lost their jobs. While many vocational skills can be learnt on the job, firms are often unwilling to invest in training. For these reasons and others, it often makes sense to provide vocational education and training to young people to ensure their smooth transition into the labour market. Existing research is thin on the link between VET and subsequent entrepreneurship, but evidence of a positive link arises from studies focusing on the returns to various types of education (e. g. Fredland and Little, 1980; Grubb, 1992 and 2002) , economic analyses of return migration (e. g. Ilahi, 1999; Mesnard, 2004; Mahuteau and Tani, 2011), and evaluation studies of specific training

programmes or experiments, in both developed and developing countries (e.g. Falco, 2010; Haywood and Falco, 2012; Maitra, and Mani, 2012). This evidence however remains insufficient to inform policy-making about what type of VET education leads to successful entrepreneurship and whether VET ought to embrace an active agency role in matching the demand for skills from the local labour market to the supply of up-to-date technical and vocational training, particularly in LICs. Yet, precisely because LICs have in labour a relatively abundant resource, a better understanding on VET programmes' current structure and how they could raise entrepreneurship could be most beneficial in informing, and possibly formulating, targeted policies. For a LIC, VET may in fact provide an opportunity to better valorise the domestic human capital, and offer its population, especially if young, an alternative to unemployment, underemployment, informality, and possibly crime, and emigration.

## **Research Aims**

Functioning of labour markets in LIC  
Determinants of labour intensive growth and higher quality employment  
Productivity growth and employment using lessons especially from Latin America

## **Research Justification**

The project will facilitate informed policy intervention in manpower planning  
The project will assist in revitalisation of the processes of data collection and analysis that have been affected by the economic collapse  
The project will raise awareness of the need for vocational training in the context of the increasing informalization of the labour market  
The project will assist in

the reorientation of the VET teaching staff to the new VET curricula demanded by a new focus on entrepreneurship

### **Specific research objectives**

Specific research objectives include enhancing the academic understanding of labour markets in low income countries and extending the limited existing knowledge by analysing the current state of the VET sector, and the links between VET and entrepreneurship, using some specific country cases, still to be identified. Other specific objectives include but are not limited to; Exploring the extent and reasons for entrepreneurship and self-employment in LICs. Understanding the relationship between formal sector wage levels and entrepreneurship in LICs. Understanding the impact of personal income or savings on the decision for self-employment being involuntary or otherwise

### **Detailed research questions**

Review existing evidence on the effect of VET on subsequent entrepreneurship in developing countries: India, China, Brazil with a focus on countries with a large informal sector and dual labour market; Study current VET training practices and needs for update in LICs School-to-work transition. How do VET graduates find a job? What are the outcomes (destinations) of VET graduates from private/public institutions? Do work opportunities for VET graduates in the formal/informal sector differ if at all? How many become self-employed with/without employees if any? What is the transition to/from self-employment? Institutional feedback links: Who employs VET students? How do employers communicate new skills demanded to VET? Is there an

un-met demand for specific/generic skills? Teaching staff. What are the gaps and training needs of teaching staff to modernize the provision of VET programmes? Identify areas where opening of the market can improve outcomes and areas of policy intervention

## **Proposed research framework and methods**

There is limited work conceptualising the relationship between education and subsequent labour force status. The theoretical approach is based on recent work by D'Souza (2008), Falco (2010) and Falco and Haywood (2012). Theoretical framework We consider an agent  $i$  that maximizes his/her utility over income ( $y_i$ ) and leisure ( $l_i$ ) with the utility function having the standard properties [ii]. Income originates from two sources - self-employment income,  $y_i^s$ , and wage employment income,  $y_i^w$ . Self-employment involves the production of an output with the deployment of factors such as physical capital inputs ( $k_i$ ) and labour, which in addition to self-employed labour ( $l_i^s$ ) may include engaging other labour ( $l_i^e$ ). With the price of output normalized to unity and  $r$  and  $w$  the price of capital and labour,  $h_i$  is the stock of human capital of individual  $i$ , which we treat as a fixed factor, and  $\theta_i$  is an unobserved component of productivity. As argued by Rees and Shah (1986), education increases an individual's human capital, which increases the efficiency with which business opportunities are assessed. At the same time as the acquisition of human capital increases managerial ability and the income from self-employment, it also raises the wage earning capacity of the individual as the higher costs incurred in acquiring skills have to be compensated for with higher wages as argued by Mincer (1974). The income from wage employment then is: where  $l_i^w$  is the amount of man-days of labour.

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The decision problem then is as follows: Such that: Omitting subscripts for simplicity, the Kuhn-Tucker conditions are: If the agent is full time self-employed, then the wage is less than the marginal product of labour in self-employment. Conversely, if the agent is fully in wage employment, then, the marginal productivity of labour in self-employment will be less than the given market wage. The interior solution is such that the market wage is equated to the marginal product of self-employment and the marginal rate of substitution between income and leisure. The first order conditions then are and Comparative statics of the constrained optimization problem with respect to a change in the amount of human capital yields the following system: From this we obtain:---(X)The denominator of (X) is negative. In the numerator the second component is negative as well. Hence, the sign of depends on whether the marginal product of self-employment as human capital increases is greater or less than the corresponding increment in the wage as human capital increases The intuition[iii]for the response of to a change in human capital is that beyond some threshold level of human capital , any further increase in human capital generates a large impact on managerial ability. The self-employed are therefore able to increase the efficiency of production and, consequently, allocate more labour towards self-employment. However, higher levels of human capital also increase the wage that may be earned in the labour market. This will have an opposite effect on the labour allocated to self-employment, which will decline. At some human capital level,, then, all labour will be in wage employment and none in self-employment (Figure 1). We thus have three regimes of employment. To the left of the stock of human capital is very small. With

limited skills and capabilities, an individual  $i$  is able to participate only in a market where labour is mostly casual. In the interval  $t_1$ , the level of human capital increases the income earning potential from self-employment and causes the individual to become self-employed. After  $t_1$ , however, the extent of skills is higher, and the corresponding income from being in the labour market is much higher. An agent with a higher level of human capital will allocate all his/her labour to wage employment, which will be set in a more structured and regular labour market. Self-employment is therefore a type of employment that diminishes with development as the average level of human capital of the population increases. Kuznets' finding that wage employment supersedes self-employment as economic growth proceeds is therefore contingent on the evolution of the stock of human capital, which is the mediatory factor that results in this outcome. The key policy question is whether public investment in education, and especially in VET, is necessary to reach the minimum threshold  $H^*$ .

## **Time Table**

### **Year**

### **Task**

Year 1 Attend undergraduate courses and or master course where possible (Maths for economists, Statistics, International Trade, macroeconomics, time series, microeconomics, econometrics and other courses deemed necessary.

Year 2 Attend short intensive courses on agent based models, labour economics etc. in other UK or foreign universities to be determined.

Secondary Research (Labour force surveys etc.), use of ILO/World Bank

Database and primary research ([www.wageindicator.org](http://www.wageindicator.org)), Government <https://assignbuster.com/growth-and-labour-market-outcomes-in-low-income-economics-essay/>



statistical ministries data where ethically possible from selected LICs. Take advantage of teaching assistance opportunities. Commencement of PhD research. Year 3 Attend workshops/seminars and other courses to reinforce the research if needed. Complete research and defend thesis.