

WORKING HARD, WORKING POOR



— A GLOBAL JOURNEY —

GARY S. FIELDS

Working Hard, Working Poor

This page intentionally left blank

WORKING HARD, WORKING POOR

A Global Journey

Gary S. Fields

OXFORD
UNIVERSITY PRESS

OXFORD

UNIVERSITY PRESS

Oxford University Press, Inc., publishes works that further
Oxford University's objective of excellence
in research, scholarship, and education.

Oxford New York

Auckland Cape Town Dar es Salaam Hong Kong Karachi

Kuala Lumpur Madrid Melbourne Mexico City Nairobi

New Delhi Shanghai Taipei Toronto

With offices in

Argentina Austria Brazil Chile Czech Republic France Greece

Guatemala Hungary Italy Japan Poland Portugal Singapore

South Korea Switzerland Thailand Turkey Ukraine Vietnam

Copyright © 2012 by Oxford University Press, Inc.

Published by Oxford University Press, Inc.

198 Madison Avenue, New York, New York 10016

www.oup.com

Oxford is a registered trademark of Oxford University Press

All rights reserved. No part of this publication may be reproduced,
stored in a retrieval system, or transmitted, in any form or by any means,
electronic, mechanical, photocopying, recording, or otherwise,
without the prior permission of Oxford University Press.

Library of Congress Cataloging-in-Publication Data

Fields, Gary S.

Working hard, working poor : a global journey / Gary S. Fields.

p. cm.

Includes bibliographical references and index.

ISBN 978-0-19-979464-5 (cloth : alk. paper)

1. Working poor—Developing countries. 2. Labor market—Developing countries. I. Title.

HC59.72.P6F54 2011

331.5'4091724—dc23

2011016742

9 8 7 6 5 4 3 2 1

Printed in the United States of America
on acid-free paper

For Vivian,

My constant companion on this journey and my best friend

This page intentionally left blank

CONTENTS

Acknowledgments ix

Part One: How the Poorer Half Works

1. A Life’s Journey 3
2. A Problem of Enormous Proportions 12
3. Four Workers’ Stories 24
4. How the Poor Are Working 42
5. Labor Markets in a Globalized World 68

Part Two: Helping the Poor Earn Their Way Out of Poverty

6. Setting Objectives, Facing Trade-Offs 85
7. Growth, Trade, and Aid 101
8. Harnessing the Energies of Private Companies 119
9. Labor Market Policies for Generating More Wage
Employment 135
10. Increasing Self-Employment Earnings 150

Part Three: Taking Action

11. What Can You Do? 183

Notes 187

References 205

Index 221

This page intentionally left blank

ACKNOWLEDGMENTS

Work on this book was supported by Cornell University—in particular, by Dean Harry Katz of the ILR School (previously known as the School of Industrial and Labor Relations), University Provost Biddy Martin, and the Program on Globalization and the Workplace funded by David and Abby Joseph Cohen. To have had so much time freed up, allowing me to learn and read, travel and write, was a marvelous gift for which I am most grateful.

During the 2009–10 academic year, I was fortunate to have been able to work on the book at Koç University in Istanbul, Turkey; the Centre for Development Studies in Trivandrum, India; and the Paris School of Economics in Paris, France. I am very appreciative of the hospitality shown by these three great institutions and the opportunity to get to know three special countries better.

I thank countless students and friends for probing discussions while this work was in preparation. You were my target audience, and I thought of many of you often as I decided what topics I wanted to address and how to try to make my points.

I never would have been in this field had it not been for Professor George Johnson of the University of Michigan who urged me as an undergraduate student to go on for a Ph.D. in economics and who invited me as a graduate student to accompany him to Kenya. George died as this book was being completed, leaving us way before his time. His legacy and extraordinary influence live on through his students, grand-students, and great-grand-students.

And finally, to those workers in Africa, Latin America, and Asia who shared their life stories and sometimes their homes with me, I would say that writing this book is the best way I know to make others aware of the lives you lead and the struggles you are facing. It is my fervent hope that by the time my children and grandchildren have completed their work lives, the kind of poverty you are experiencing will have been eradicated once and for all.

This page intentionally left blank

PART ONE

How the Poorer Half Works

This page intentionally left blank

CHAPTER 1

A Life's Journey

A VISIT TO HIGH-TECH CHINA

It is Christmas Day 2008. Three thousand workers are busily building Thinkpad computers at a Lenovo factory in Shenzhen, China. The factory is spotless, as are the people themselves. The color of their uniforms indicates their responsibilities: light blue for assembly line workers, darker blue for team leaders, green for factory cleaners, and so on. In white lab coats with black pinstripes designating visitors, the manufacturing manager, his assistant, and I follow the assembly line around, starting with workers collecting the various parts needed for each particular computer (a process called “kitting”) to assembly to testing through software installation through further testing to packaging and finally to shipping.

These young men and women, all between the ages of eighteen and twenty-three, work extremely fast. At kitting, a bin with parts used by all Thinkpads arrives, a worker scans the order form indicating which specific additional parts are needed, and within five seconds the parts have been added to the bin. About ten seconds later, another computer arrives and the task is repeated. The entire assembly line crew stand at their stations for two hours working nonstop, to be followed by a fifteen-minute break during which they can sit on stools, go to the toilet, or socialize. Three more cycles follow until the nine-hour work day is completed.

Following the plant tour, I am taken to the dormitory where many of these workers live. Leading me are the labor supplier who recruits workers for the factory and two recent university graduates employed in entry-level positions in Lenovo's human resource function. Groups of young men live on the fourth floor of the concrete dormitory building, young

women on the fifth floor. (It is strictly prohibited for men to enter the women's rooms or women the men's rooms.) Each dormitory room is long and narrow with two-story bunk beds placed adjacent to one another on each side. The first room I see sleeps sixteen young women in a space that is said to be fifty square meters—500 square feet—but looks smaller than that to me. Other rooms sleep ten, twelve, or fourteen workers. At the end of each room are two coldwater taps and a single toilet as well as some small windows. The room could be cross-ventilated by propping open the door opposite the windows, but this is manifestly unsafe as it would invite theft of the residents' meager possessions.

My hosts and I then have the opportunity to sit down with the workers for a discussion. Dressed in blue jeans, T-shirts, and sneakers—quite like the more casual outfits worn by young Americans who attend my university lectures—the workers tell us their stories. They regard their work as demanding but also desirable. Nearly all have migrated from other provinces of China. What attracted them to this work, they told us, was the prospect of steady employment, enabling them to earn more than they could have at home. One could have been a secretary at home, she says, but she has a desire for a better life and hopes to be promoted. Another dropped out of school and came to work in the factory because her family needs the income. Another says she left school because she was not a good student. A young man tells us he left his rural village because all the other guys at home had already left before him.

These workers are paid 5.7 Chinese yuan per hour which, at the prevailing exchange rate, is about US\$0.80 per hour or \$7.20 per nine-hour day. Each resident is charged an amount equal to 15% of his or her pay for dormitory rent. Much of the rest of their salary goes for food. Many send money home to their families.

It is helpful to put these workers' earnings in perspective. Compared to the U.S. minimum wage, which now is \$7.25 *per hour*, the Chinese workers are paid very little. But compared to Indian workers, the pay is very good: Kalavati, whom we will meet in Chapter 3, and hundreds of millions of others like her in India can earn no more than one U.S. dollar *per day*.

Like half the world's workers, the ones at Lenovo are working hard, and they are working poor.¹

GETTING TO TODAY

For me, the story of this book began with a phone call in 1970. My Ph.D. advisor was going to spend a year in Africa as a visiting professor and asked

if my wife and I wanted to go along We accepted and arrived in Nairobi, Kenya, a few months later.

This trip produced a dramatic change in me. After spending a few weeks in Africa, I realized that the issues facing people there were far more urgent than the ones I had been examining for my thesis back home. I started then to work on employment and poverty in the developing world. It has been my life's work.

I had never experienced mass poverty before, whether in terms of income, health, education, or standard of living. What I saw was some of the millions of Kenyans who eked out a living from day to day. One of them was Joseph Waweru who, with his family, farmed a plot of land in the beautiful Kikuyu highlands (see Figure 1.1). An exchange of visits to one another's homes highlighted the enormous differences in our standards of living and, incidentally, in our food tastes. (Vivian and I did not find a meal of six hard-boiled eggs and a slice of white bread to be a treat, nor did the Wawerus appreciate Vivian's delicious (to me) spaghetti with meat sauce and garlic bread.)

Later, when I looked at figures from the United Nations and the World Bank, I realized the enormity of the world's poverty problem. According to the initial figures, which have since been updated a number of times and



Figure 1.1
Joseph Waweru and family, Kenya.

are presented below, around 1980, 1.3 billion of the world's people lived on less than one U.S. dollar per person per day (adjusted for differences in purchasing power between their countries and ours) and another 1.7 billion lived on one to two U.S. dollars per person per day.^{2,3}

In both the professional and the policy work being carried out in the field of economic development at that time, much was being done about some important topics—chief among them, economic growth, international trade, and agricultural development—but little attention was being given to labor markets. As a labor economist-in-training, I found the possibility of working on employment and poverty issues in the developing world to be first an opportunity that later became a strong interest and for the last decades a passion and a calling. I have been privileged to teach and do research on these issues, mostly at Cornell University, and to have been able to engage actively and continuously in the policy world through the World Bank, the regional development banks, the International Labor Organization, and other governmental agencies and institutions.⁴

Even now, labor markets and employment receive relatively little attention in the literature on combating global poverty. In 2000, the 189 countries of the United Nations adopted eight millennium development goals: eradicating extreme poverty and hunger; achieving universal primary education; promoting gender equality and empowering women; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria, and other diseases; ensuring environmental sustainability; and developing a global partnership for development. Employment is not one of the eight, though it is a means to many of them. There also is a large literature on poverty traps—that is, any self-reinforcing mechanism causing poverty to persist—and policies to overcome them.⁵ Excellent books on ending world poverty can be found, including those by Amartya Sen, Jeffrey Sachs, Stephen Smith, Paul Collier, Abhijit Banerjee and Esther Duflo, Dean Karlan and Jacob Appel, and the staff of the World Bank.⁶ These books go into depth on many important aspects of economic development but do not focus on wage employment and self-employment, work and nonwork. *Working Hard, Working Poor* starts where these others leave off.

The lack of attention to the labor market is unfortunate for two reasons. First, most of the world's poor are poor because they work hard but their work does not bring in enough income for them to be able to escape poverty. Second, experience around the world has shown that hundreds of millions of poor household have escaped poverty through increased labor earnings. Two broad means of raising labor earnings—pursuing new crop- and/or livestock-related strategies on the farm and engaging in petty trade, small businesses, or casual or temporary employment within

the informal sector in a city—accounted for 78% of all escapes from poverty in Kenya, 70% in India, 69% in Peru, and 54% in Uganda.⁷ Access to regular wage employment has proven to be the most secure route out of poverty in India, Chile, sub-Saharan Africa, and Vietnam.⁸

According to the latest figures, today an estimated 3.1 billion people still live in absolute poverty, using an international poverty line of US\$2.50 in purchasing power parity terms (abbreviated PPP\$).⁹ Given that the world population is 6.5 billion people, the absolutely poor comprise almost half the world's people—ten times the population of the United States or six times the population of Europe. Essentially all those living below PPP\$2.50 live in the low- and middle-income countries of Asia, Latin America, and Africa, and none of them in what are traditionally called the “developed economies” of North America, Europe, and selected parts of Asia and Oceania.

This book is about how the poor live and work and what actions the world community could take to improve poor people's earning opportunities as a central component of a multifaceted program aimed at ending the scourge of absolute economic misery.

PUTTING OURSELVES IN THEIR SHOES

Suppose you are one of these more than 3 billion poor people. You are trying to do the best you can for yourself and your family. If you are lucky, you can afford to live in a one-room shack without electricity, running water, or sanitation. If not, you and your family live on the street; you become what in India are called “pavement dwellers” (Figure 1.2). You try to earn enough to be able to put very basic food on the table two or three times a day. Leisure is of little value to you—you want work and the money that comes with it so that you can buy the things you and your family need.

You consider working for a daily wage. The best available jobs in your community pay your country's equivalent of one or at most a few U.S. dollars per day. On a good day, you can get work; on a bad day, there is no work to be had. The country in which you live is too poor to have established an unemployment insurance system. Assistance from family members is sometimes available, but the amounts they are able to give are minimal because they are as poor as you are. (See Figures 1.3 and 1.4 for inadequate housing.)

You consider farming. Your parents and those before them were farmers, you grew up on a farm and worked there as a child, and so you too are knowledgeable about farming. You have no land because the family land



Figure 1.2
Pavement dwellers, India.

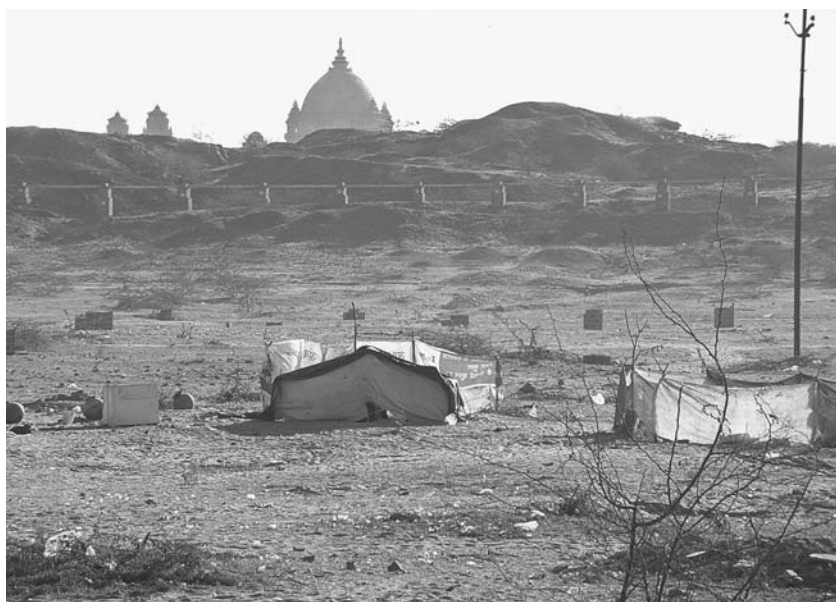


Figure 1.3
Homes of migrant construction workers, India.



Figure 1.4
Homes of migrant construction workers, India.

was inherited by your older brother. You try to find an unused plot of land that you could cultivate, enabling you to earn a subsistence livelihood. However, the great majority of others around you are landless as well, and so no land is unused.

You consider setting up your own business. This would be difficult because the authorities extort bribes and hassle street vendors and craftspeople who don't have licenses, confiscating their merchandise, arresting them, throwing them into jail, and making them pay impossibly heavy fines. Because you are so poor, you cannot build up enough working capital to stock a small shop adequately and meet day-to-day expenses.

You consider moving to a faraway city where jobs are more plentiful and the pay is better. However, many others like you wish to do the same, so that each time a job vacancy arises, tens, hundreds, or even thousands of other workers try to get the same job that you would be trying for.

You even consider moving to a distant country in which people like you earn more in a day than you could earn at home in a month. Sadly for you, the rich countries try hard to control their borders and keep people like you out. Some people you know have drowned or suffocated trying to make their way to other countries. Others saved for years to pay a fee to

a “helper,” only to have their money stolen and be left penniless. And of those who made it, many face an enormous debt to those who paid their way, working in what is essentially indentured servitude until the debt can be repaid.

So what do you do? You make the best of a bad situation, eke out an existence, and do all that you can to increase your earnings. You work hard, but you still work poor.

And what should we do? Blame you for your poverty, because if only you tried even harder, you wouldn’t be in poverty in the first place? Ignore your poverty, because you are one of “them” and not one of “us”? Exploit your poverty, pitting you against others who are as desperate for jobs as you are?

The premise of this book is that none of these is the answer. The reason is because help can come from many sources including home country governments, the private sector, and the international community.

Companies and workers each have their own interests. While private sector firms do not necessarily need the workers of any given developing country, the workers in each poor country desperately need the private sector. There are those who see anything that benefits one side as hurting the other. I believe the opposite: that win-win solutions are possible from which both sides benefit. But to create the opportunity for such solutions, each side must understand what the other wants and accept its legitimacy.

As for the international community, I firmly believe that we citizens of the richer countries of the world, in addition to helping our own people, have a moral obligation to help the less fortunate global citizens earn their way out of poverty. Since 1970, the United States and many other countries have pledged repeatedly in the United Nations and other bodies to contribute 0.7% of our Gross Domestic Product to help improve the lives of people in the poorest countries of the world. But what the developed countries have delivered—0.19% in the case of the United States, 0.45% overall—falls woefully short of what we have promised. It is time to deliver on those promises.

Those of us who are policy makers, businesspeople, and researchers know a great deal about how the world’s poor work and what has improved conditions for them, at least in broad outline. (One qualifier: without careful investigation, we cannot tell you what specifically should or should not be done to deal with a particular problem in a particular country any more than a medical doctor could prescribe a specific remedy without carefully examining an individual patient.) We know how the poor have managed to invest in improving their own self-employment earning opportunities.

We know what it takes for the private sector to want to set up operations in a developing country, thereby creating jobs and paying the taxes that can be used to build roads and schools and fund social programs. We know how poor-country governments can stimulate economic growth and make that growth more inclusive of the poor. And we know how the development banks, the rich-country governments, and other development organizations can help poor-country governments and other organizations do what they lack the means to do on their own: create more good jobs, improve earnings levels in the poorer jobs, and enhance the skills and productivity of their working people.

This book shares those lessons with you.

CHAPTER 2

A Problem of Enormous Proportions

THE MAGNITUDE OF WORLD POVERTY AND THE IMPORTANCE OF WORK

The latest figures show that more than 3 billion people in the world—nearly half of humanity and more than half of the developing world's population—are poor in income terms.¹ Of these, 1.4 billion consume less than US\$1.25 of goods and services per person per day. Another 1.7 billion consume between \$1.25 and \$2.50 per person per day. Here and throughout this book, incomes and expenditures are converted to US dollars adjusted for what money will buy in different countries and at different times and are called purchasing power parity dollars, or PPP\$. Likewise, the global income-poverty figures presented in this book are all PPP-adjusted.

Poverty is multidimensional; in addition to income, it includes health, education, and standard of living dimensions. In 2010, the United Nations began publishing a Multidimensional Poverty Index (MPI) that weights ten indicators: child mortality, nutrition, years of schooling, child school enrollment, electricity, drinking water, sanitation, flooring, cooking fuel, and assets.² As important as these other indicators are, they are not the focus of this book; income poverty is.

The poor are geographically concentrated. Using the \$1.25 line, the latest data show that half the world's poor are concentrated in just two countries: India (456 million) and China (208 million). Another fourth of the world's poor are in sub-Saharan Africa (391 million). The remaining fourth are in the rest of South Asia excluding India (140 million), the rest of East Asia excluding China (108 million), Latin America and the Caribbean (46 million), Eastern Europe and Central Asia (17 million), and the Middle East and North Africa (11 million).

The world has made significant progress in reducing the number who are poor: despite the addition of 2 billion people to the world's population since 1981, the number in poverty in the world has fallen by more than half a billion people using a poverty line of \$1.25 per person per day. All the progress in reducing the absolute numbers in poverty has been made in just one country, China. Through the 1980s and 1990s, the numbers of poor were rising in sub-Saharan Africa, Latin America, Eastern Europe, Central Asia, and South Asia. Happily, the poverty headcount fell in most regions of the world during the first half-decade of the 2000s. Since the sharp increase in world food prices between 2006 and 2008 and the Great Recession of 2008–09, during which world gross domestic product fell by 2.2%, poverty is thought to have risen significantly, but hard data are not yet available.³ Overall, the percentage of the world's people in poverty, known in the literature as the “poverty headcount ratio,” has fallen dramatically for all poverty lines used—for example, using the \$1.25 poverty line, from 51.8% of the developing world population in 1981 to 25.2% in 2005.⁴

The world community has declared such severe poverty to be unacceptable. All the nations of the world have pledged themselves to the United Nations' Millennium Development Goals, foremost among which is cutting poverty in half by the year 2015.⁵

How is halving poverty to be done? Much has been written about how poor people *live*.⁶ In this book, I approach their poverty from the point of view of how poor people *work*.⁷ To what extent do they work? How much do they earn for the work they do? What will their earnings buy? What can be done to increase the number of good jobs in the economies in which they live? What happens to those who are excluded from getting jobs in the better parts of the economy because of the lack of such jobs for all who want them and are capable of doing them? How can earning opportunities be improved for those who have no choice but to work in the relatively poor parts of their economies?

In Chapter 3, you will learn the stories of four poor people whom I have been privileged to know, whose photos appear on the cover of this book. Angela makes fireworks in Oaxaca, Mexico. Kalavati hand-rolls cigarettes in Ahmedabad, India. Masibisi makes handicrafts in a village outside Durban, South Africa. Wang is a farmer in Yunnan Province, China.

A mistaken idea, one that I had before working on poverty in the developing world, is that the poor are poor because they are unemployed. This is wrong. Rather, as will be detailed in Chapter 4, for the most part, the poor are in the labor market; they are working, they work long hours, and they want *more* work. Unemployment rates are often very low in the poorest countries. The low earnings of the poor are not their fault.⁸

Central to understanding work is the idea of a labor market. As used throughout this book, the “labor market” is the place where labor services are bought and sold. Some people work in paid employment, whereby they sell their labor services to employers and in exchange are paid a wage or a salary. Others—and the poorer the country, the larger the proportion of workers in this category—are self-employed, selling their labor services to themselves. Different kinds of labor markets are discussed in detail in Chapter 5.

There are both economic and policy reasons for focusing on work and labor markets.

The *economic* reason is the crucial importance of labor earnings. National economic accounts show that the incomes received from labor (that is, the amount earned from wage and salaried employment and self-employment) are greater than the incomes received from all other sources combined. As a result, most of the inequality of total income found within a country is due to the inequality of labor earnings.⁹ As for the poor, their main asset, often their only asset, is their labor.

Some people are well-to-do either because they are large landlords and receive substantial rental income, because they live in wealthy families and so receive substantial transfers from other family members, or because at some point they had large sums to invest and invested well and so receive substantial capital income. However, most people receive little or no income from sources other than labor market earnings, from either wage-employment or self-employment. It is not that the typical well-educated professional has so much more income from capital or land than the typical tenant farmer—neither has much income from any source other than his or her labor. What primarily differentiates their economic positions is how much they earn for the work they do.

There are two main *policy* reasons for focusing on work and labor markets. One is that poor people themselves believe that to get ahead, income from wages or salaries and from self-employment activities are most important, above family and kin, education and skill acquisition, migration, saving, and relief aid and donations.¹⁰ Another is that the world community may be more sympathetic to the plight of the world’s poor if they know that the poor are working hard, working poor, and doing all they can do earn their way out of poverty. Consider the alternatives.

FIVE WAYS OUT OF POVERTY

One way out of poverty is public transfers. Ours is a world of nation-states, and so our first inclination may be to think that “our” people’s