

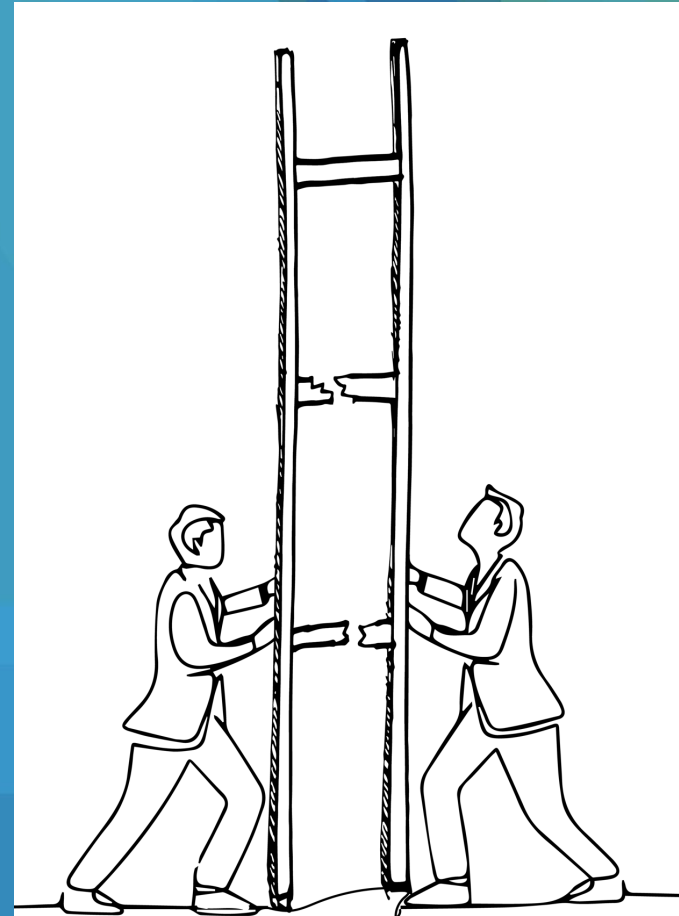
# Broken Ladders? Labour Market Inequality in Indonesia and India

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Eighteenth Sadli Lecture, 8<sup>th</sup> May 2024



UNU  
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# Background

- Income inequality has been growing within countries in the last decade.
  - Reducing inequality is a major goal of the 2030 Agenda.
  - A key determinant of overall inequality is inequality in the labour market, with many workers in poorly paid work with precarious working conditions (ILO 2018).
  - Formal and informal workers also have different remunerations and working conditions, with informal workers often poorly paid as compared to formal workers (Deléchat and Medina 2021).
  - 85.2 per cent of labour force informally employed in Indonesia, 88.2 per cent in India.
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# Heterogeneity in Informal Work

- **While earlier literature only made a distinction between formal and informal work, the recent literature recognizes that informal economic activity takes many different forms and plays different roles.**
- In low and middle-income countries, it is often a place of residual employment for impoverished, marginalized and vulnerable workers.
- It can also act as a staging ground for household enterprises in their initial stage of growth.

# Types of Heterogeneity in Informal Work

- Informal workers could be multi-dimensionally deprived individuals in subsistence activities, at the lower end: household enterprises and casual wage workers (*lower-tier* informal workers and enterprises).
- Informal workers could also be entrepreneurs with potential to enter the formal economy (non-household enterprises/employers) and workers with de facto benefits but without legal protection and social protection (*upper-tier* informal workers and enterprises).
- Another source of heterogeneity in informality is the difference between **wage-employment** and **self-employment**, each with possible different working conditions and compensation mechanisms.

# Objectives of this Lecture

- How has labour market inequality evolved in Indonesia and India?
- Where are workers placed in different tiers of the labour market?
- How have earnings disparities evolved?
- What differentiates Indonesia and India and what unites them, when it comes to labour market inequality?

# Outline of the Lecture

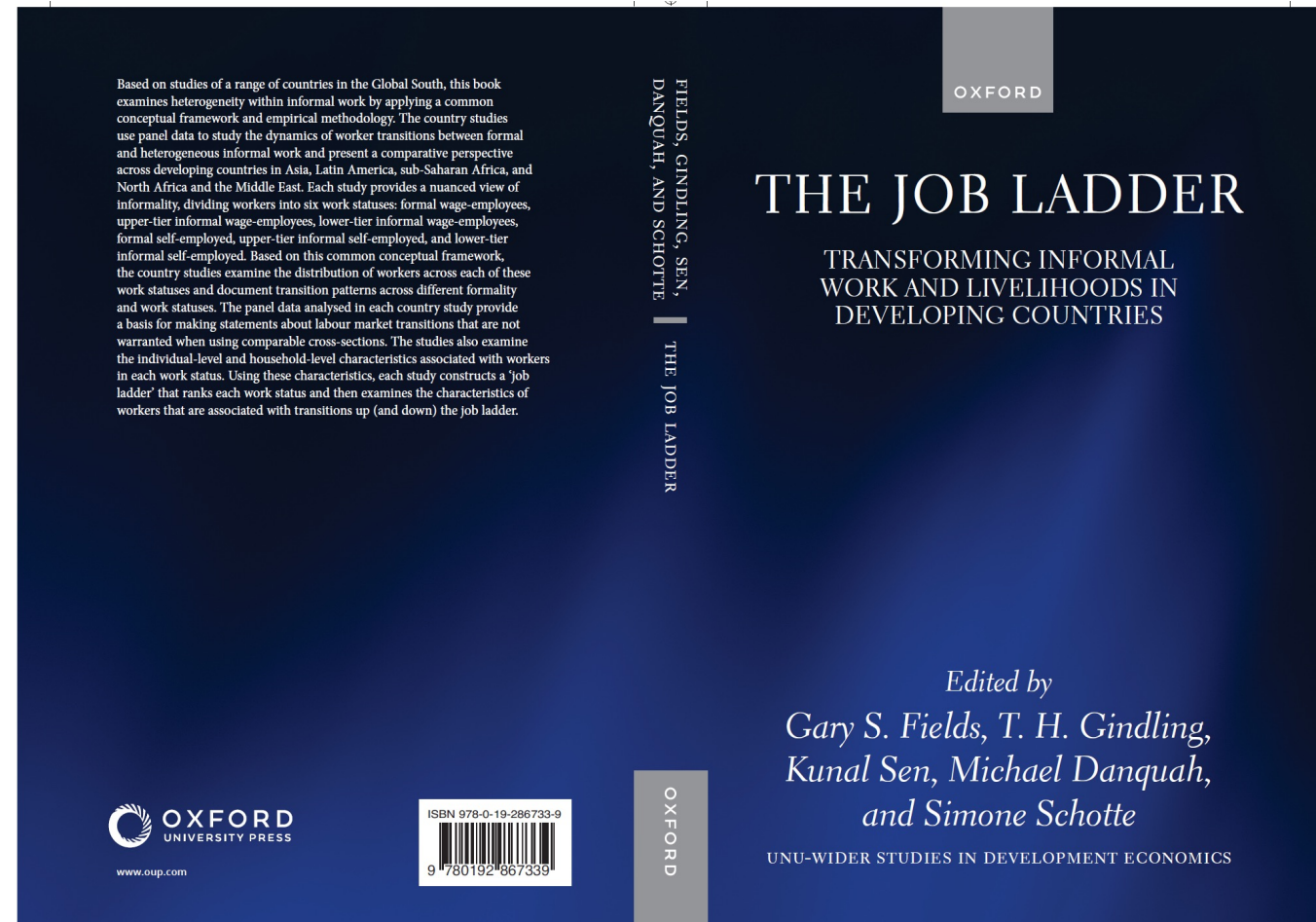
- We provide an exposition of the framework of analysis we use to study labour market inequality in Indonesia and India.
- We review economic policies and economic development processes in the two countries.
- We assess where workers are placed in the Job Ladder for Indonesia and India. We also look at earnings disparities.
- We examine what explains where workers are placed in the Job Ladder.
- We conclude with some policy implications.

# A Comparative Lens

- We will use a similar conceptual framework and operationalise this framework for Indonesia and India, in ways that are as comparable as possible.
- The framework we will use is the **Job Ladder framework**.
- We will use unit record data from the Sakernas surveys, from **2001, 2010 and 2020** for Indonesia, and Employment/Unemployment (EESS) and Periodic Labour Force Surveys (PLFS) from **1988, 2000, 2012 and 2022** for India.

# The Job Ladder: Transforming Informal Work and Livelihoods in Developing Countries

(Book with Oxford University Press, open access. Link available on UNU-WIDER website)



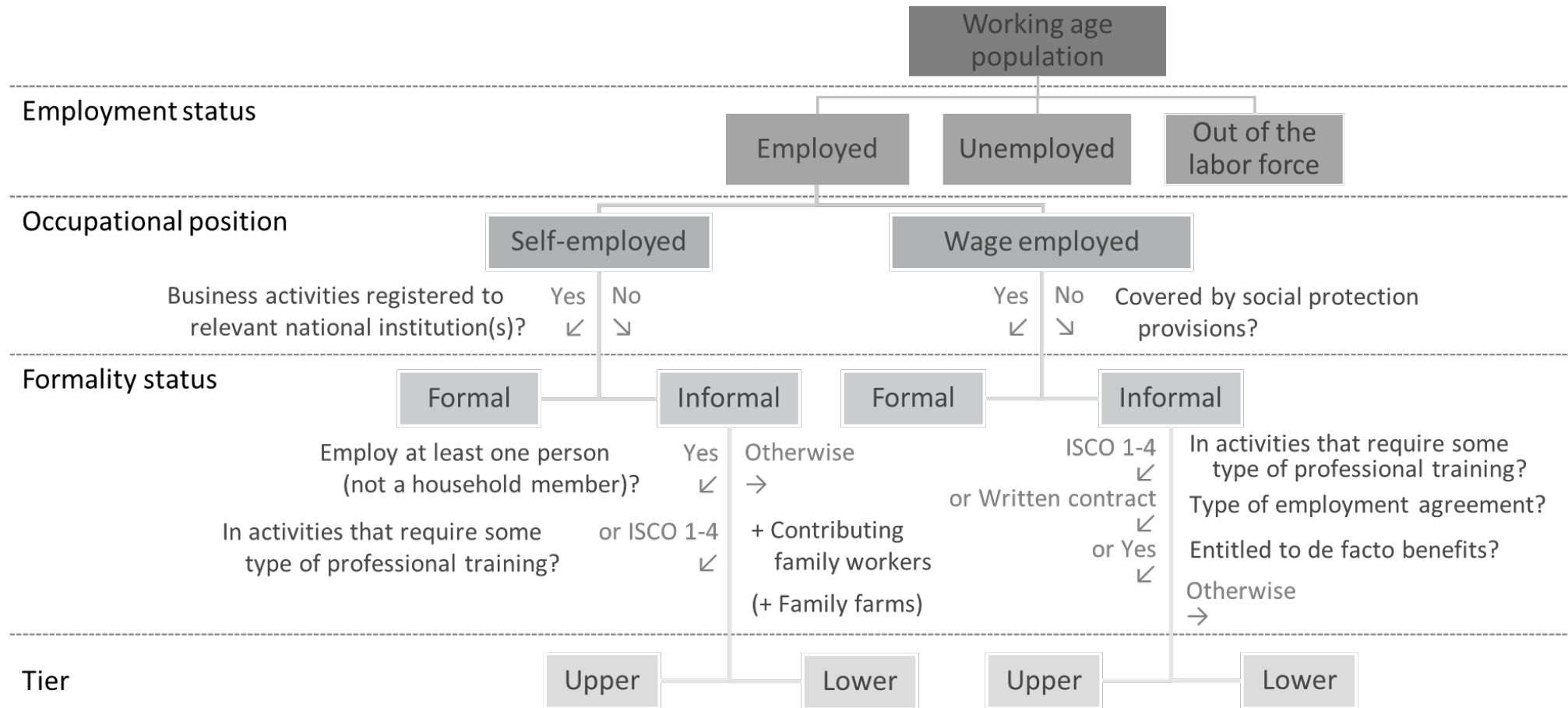


# The Job Ladder Framework

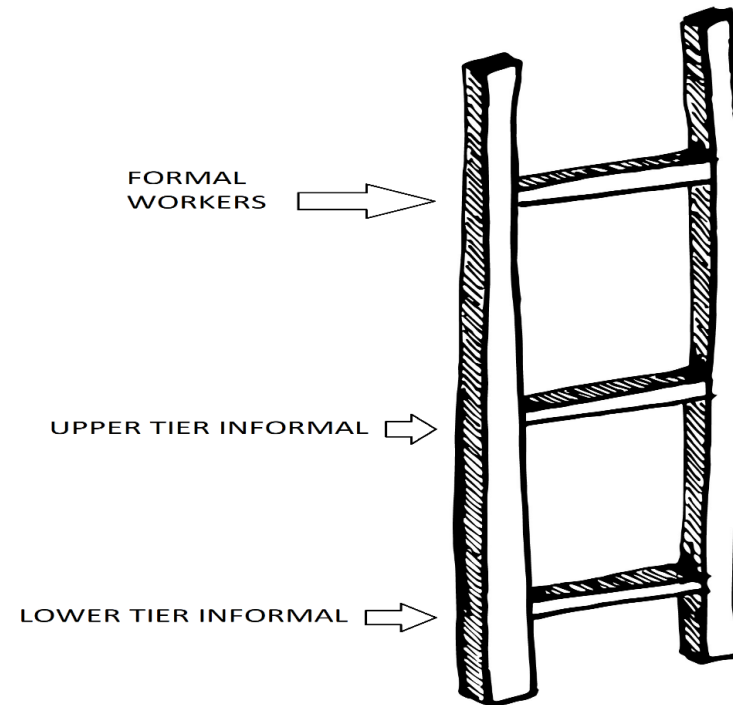
- Recognises that labour markets in developing countries are multi-tiered.
- Makes the distinction between self-employment and wage-employment.
- Recognises that formal jobs are the most favoured and lower tier informal jobs the least.



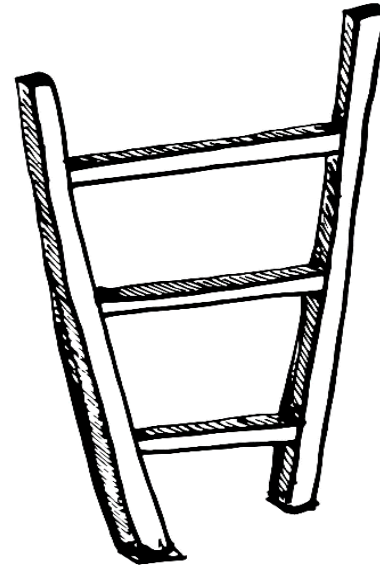
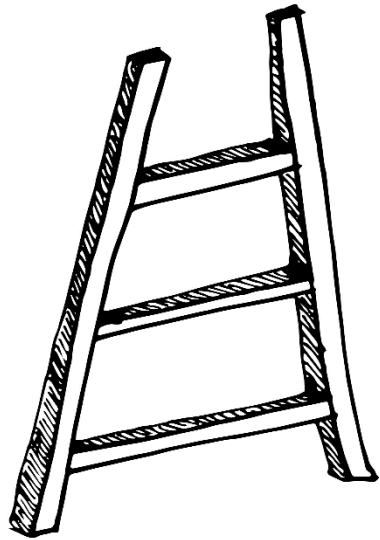
# Multi-Tiered Labour Markets in Developing Countries



# The Job Ladder

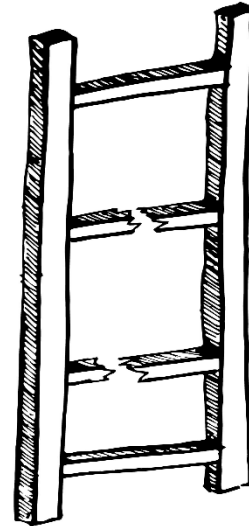


# Types of Job Ladders



# A Broken Job Ladder

LACK OF MOBILITY  
BETWEEN STEPS



# Classifying Workers in Different Work Status in Indonesia and India

- Using survey instruments for Sakernas and EUS/PLFS, we classify workers as self-employed and wage-employed.
- We can classify workers as lower-tier informal self-employed (own account/contributing worker) and lower-tier wage employed (casual worker)
- Classifying workers as formal vs upper-tier informal: for Indonesia, we use occupation codes (formal: professionals, clerical and technical workers, rest upper informal, except manual workers who are lower-tier informal) and for India, questions on social security/written contract for wage-employed, and enterprise size for self-employed (formal: 10 or more workers, with electricity).
- As a robustness test, we use same occupation codes for India as for Indonesia.

# Stylised Facts of Indonesia and India's Economic Development Policies



# Economic Policies in Indonesia and India

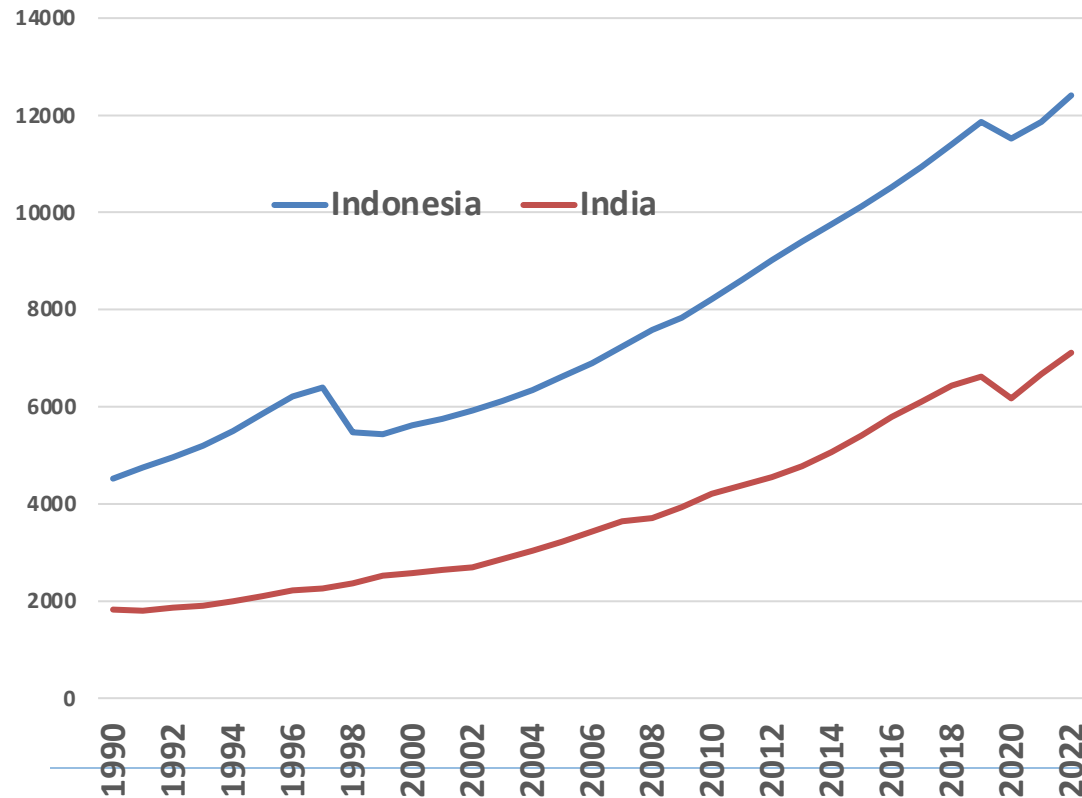
- Indonesia followed a programme of orthodox economic management since the advent of the New Order government in 1966, and became a major exporter of labour-intensive manufacturing goods since the early 1980s.
- India followed a command and control policy regime till 1991, when there were major economic reforms, but also kept certain areas intact (stringent labour laws), and tradable services, which are skill intensive, has been the source of growth since the 1990s.
- India has not done well as Indonesia in labour-intensive manufacturing.



# Per Capita Income and Income Inequality

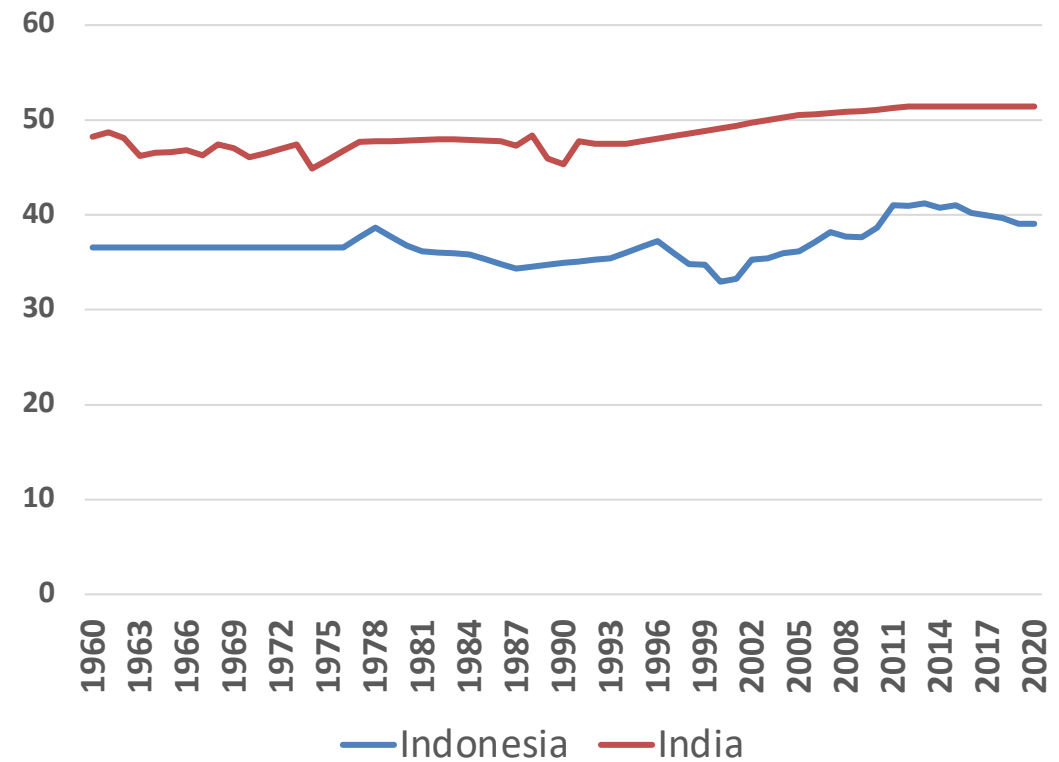
- **GDP per capita**

GDP Per Capita (PPP constant USD)



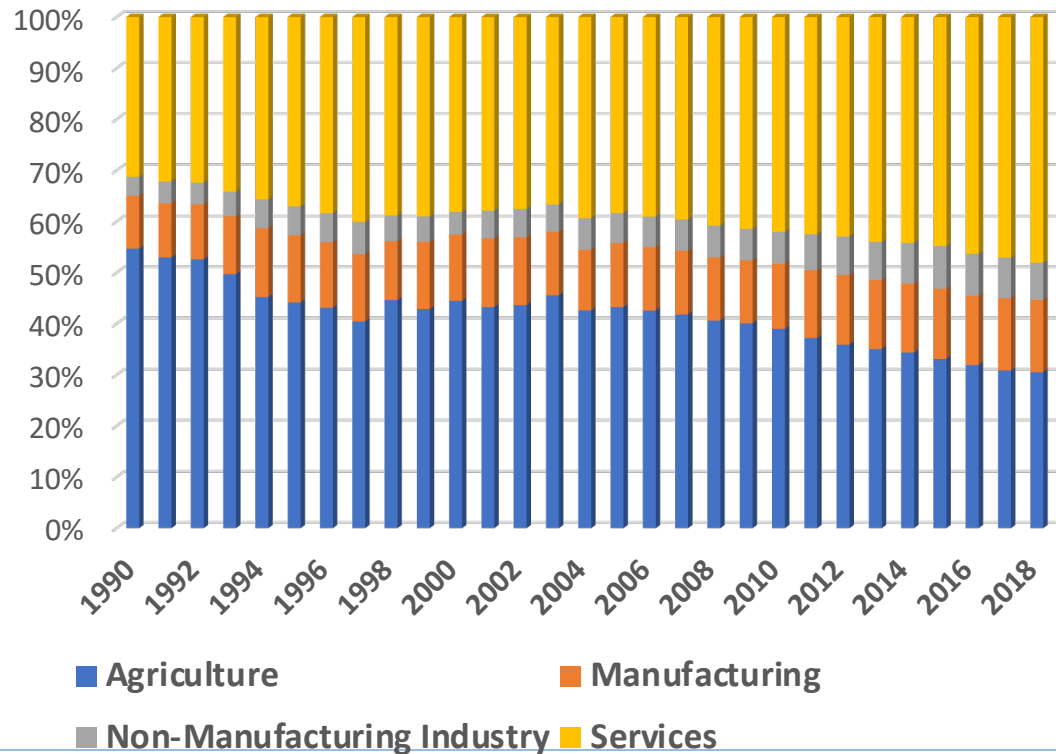
- **Inequality**

Income Inequality in Indonesia and India, 1960-2020

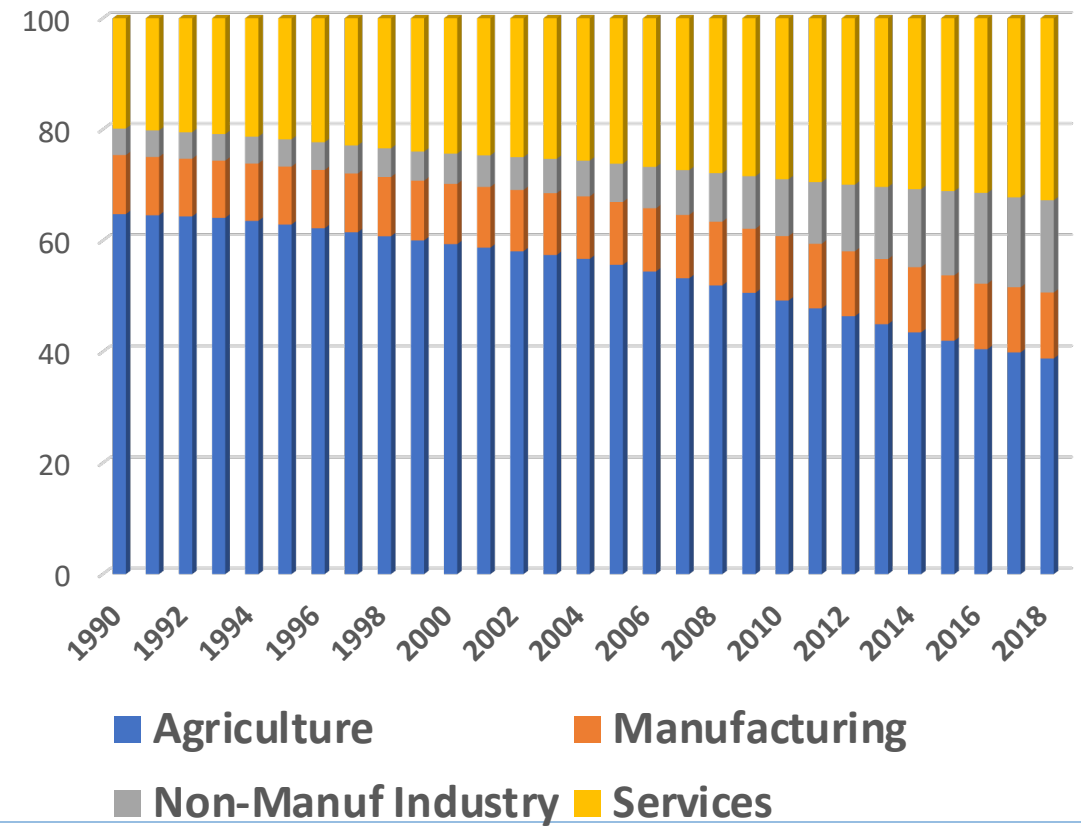


# Employment Structure

## Indonesia Employment Structure (percentage share)

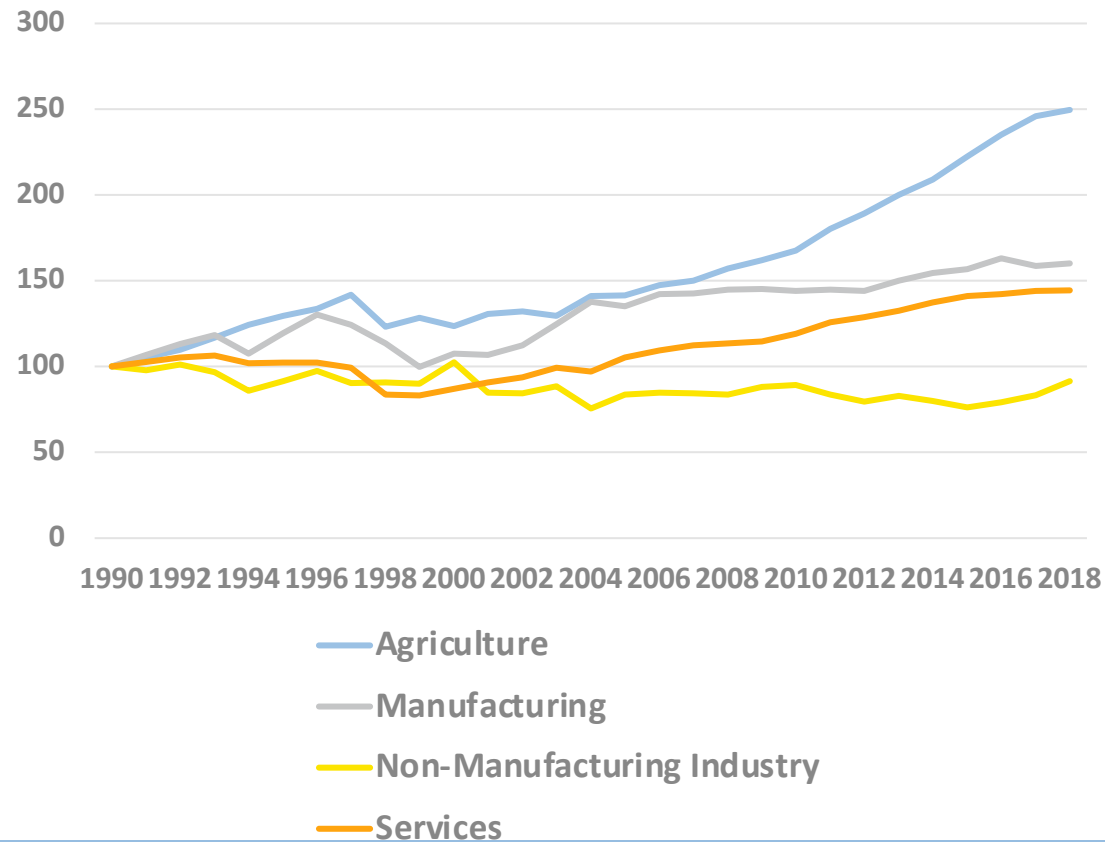


## India's Employment Structure (percentage share)

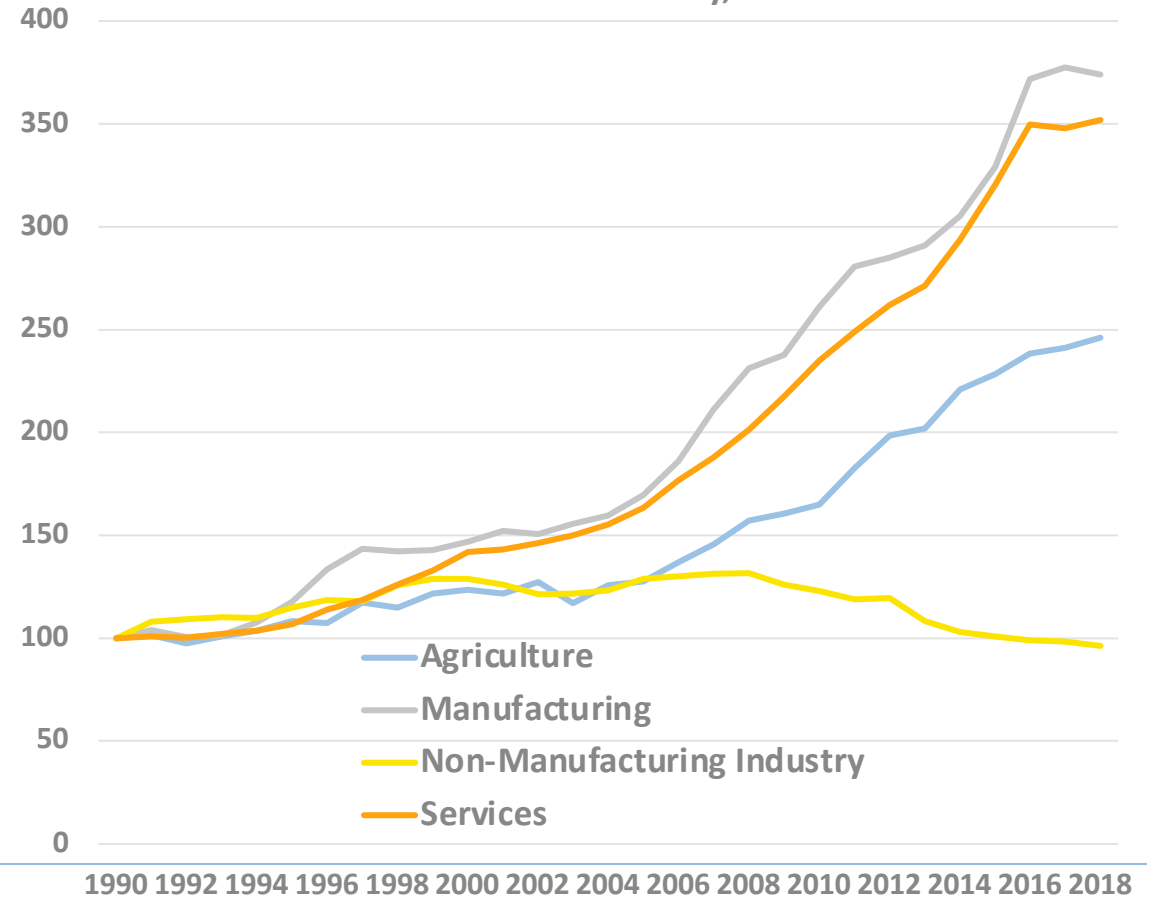


# Real Labour Productivity

Real Labour Productivity, Indonesia



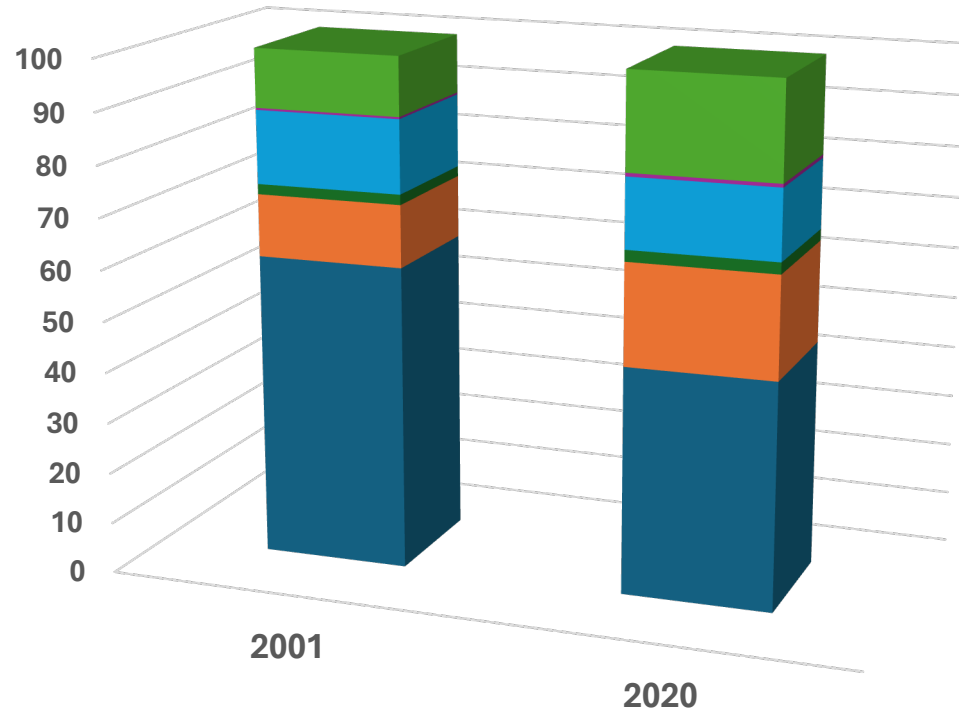
Real Labour Productivity, India



# The Job Ladder in Indonesia and India

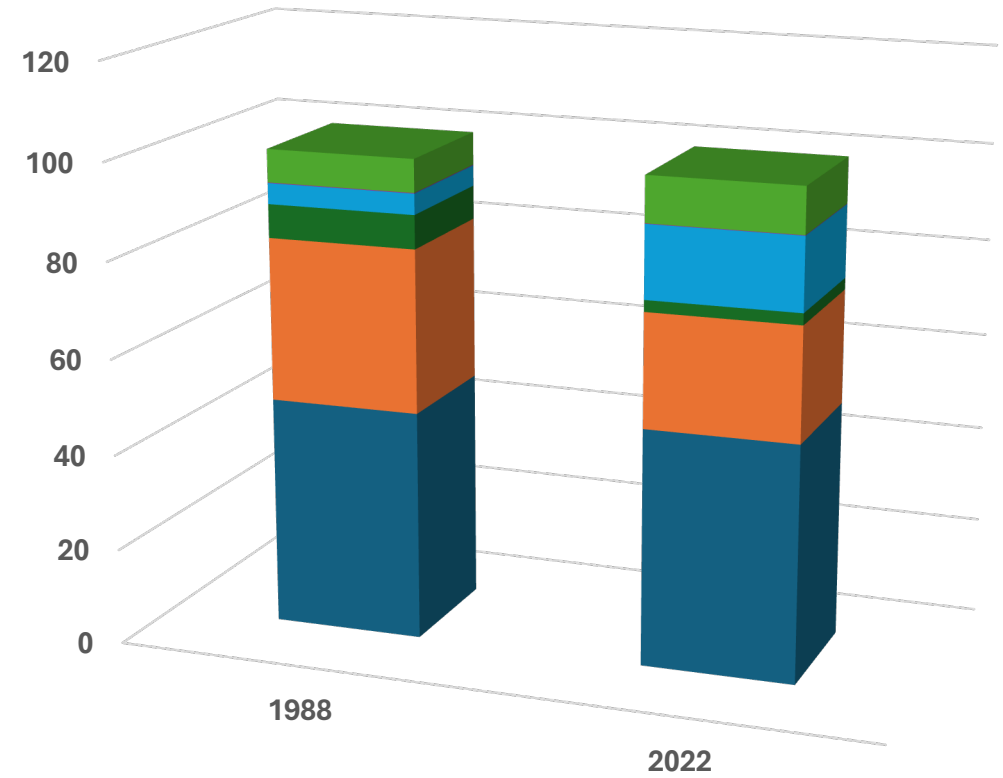
# The Job Ladder

## Indonesia



■ Lower Informal SE 
 ■ Lower Informal WE 
 ■ Upper Informal SE  
■ Upper Informal WE 
 ■ Formal SE 
 ■ Formal WE

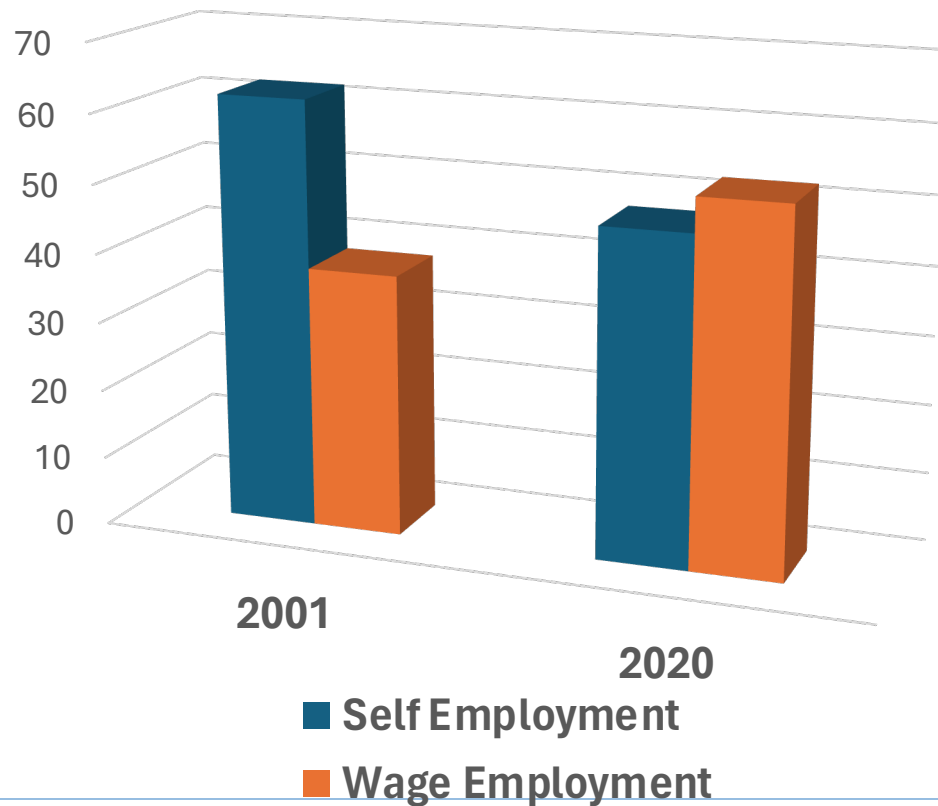
## India



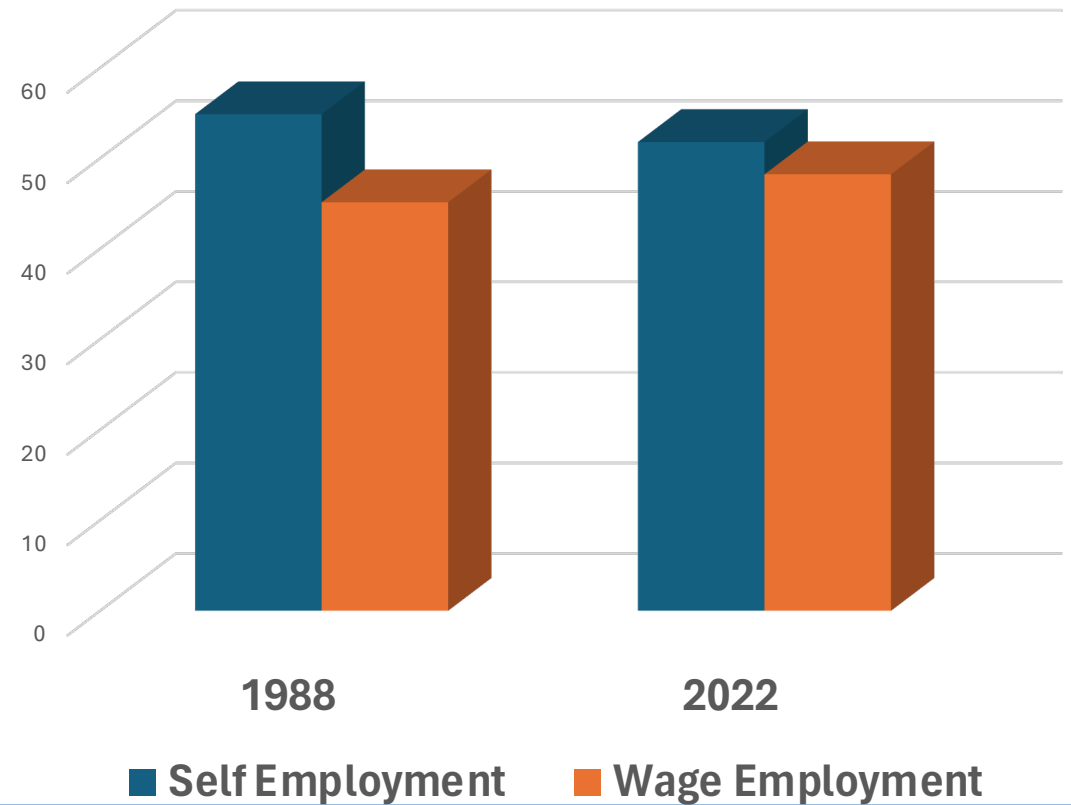
■ Lower Informal SE 
 ■ Lower Informal WE 
 ■ Upper Informal SE  
■ Upper Informal WE 
 ■ Formal SE 
 ■ Formal WE

# Self Employment vs Wage Employment

Indonesia

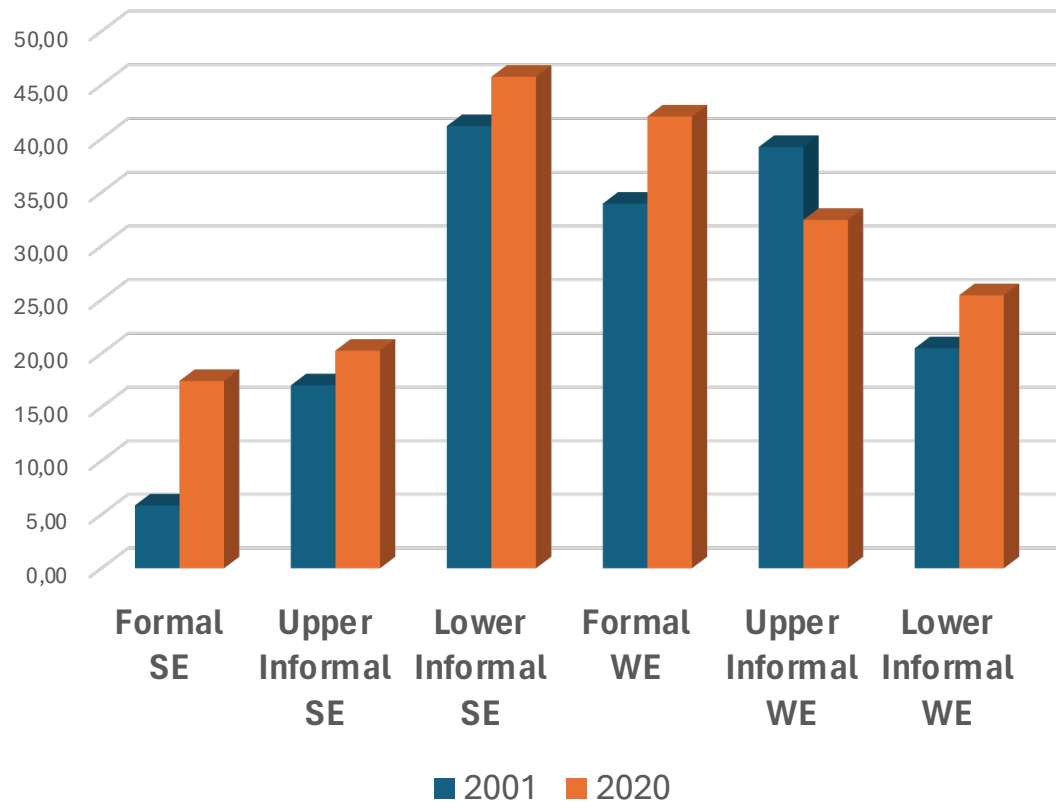


India

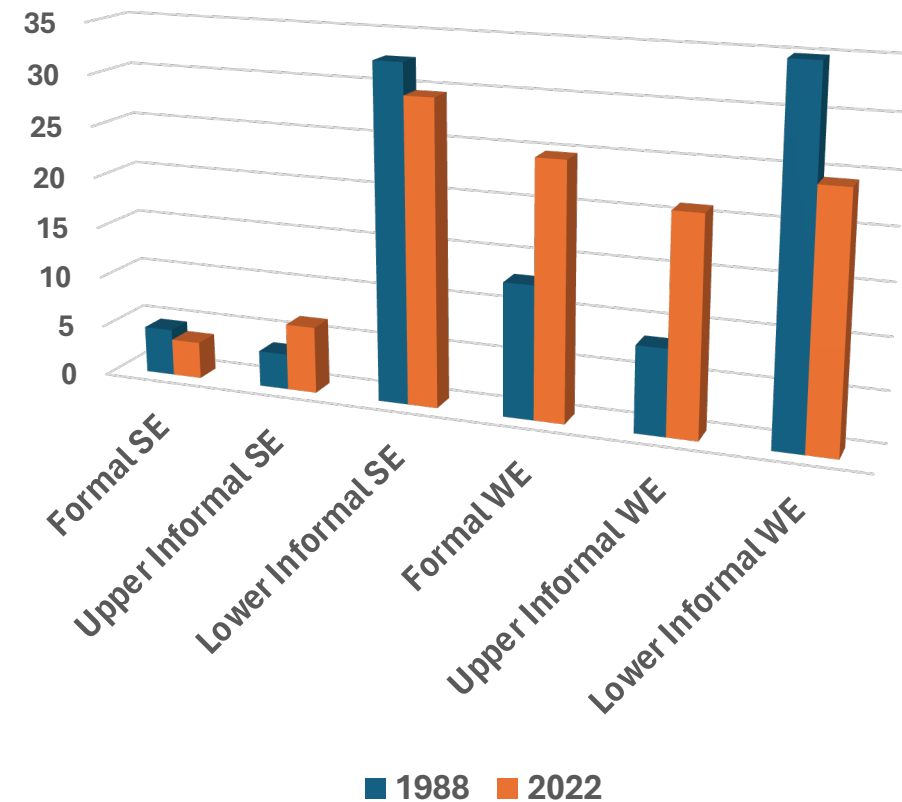


# Female Workers (percentage of Total Workers)

Indonesia

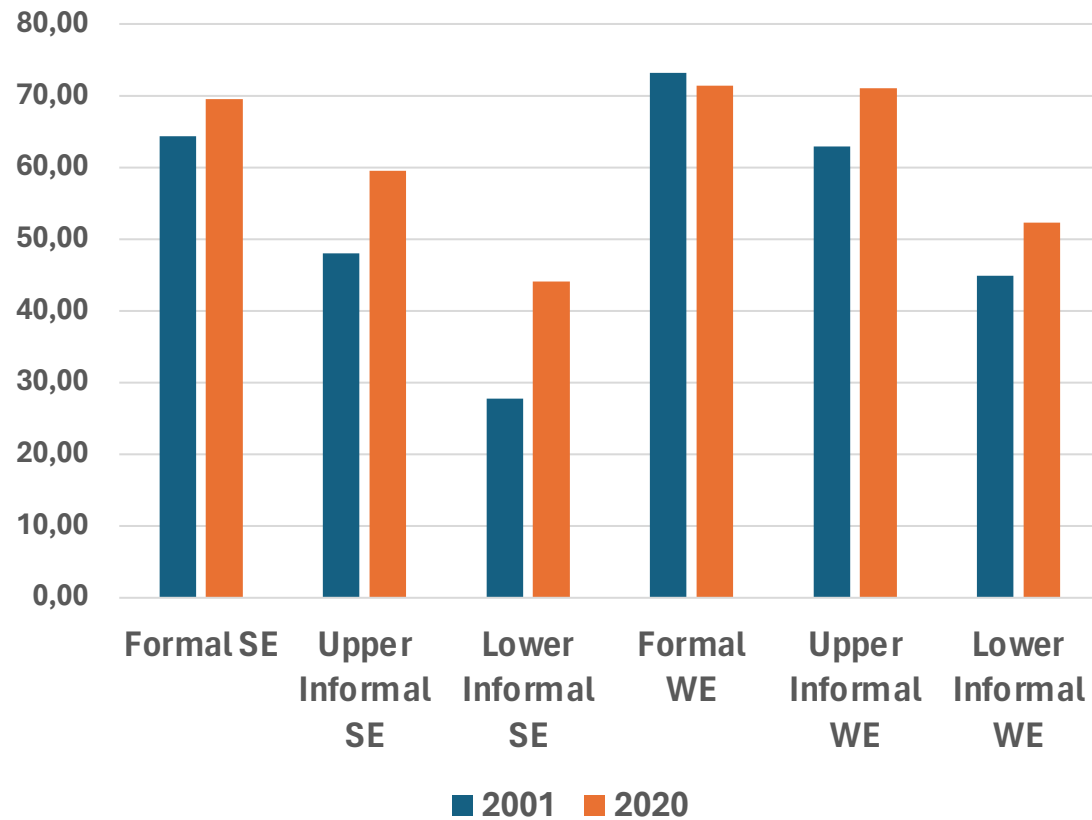


India

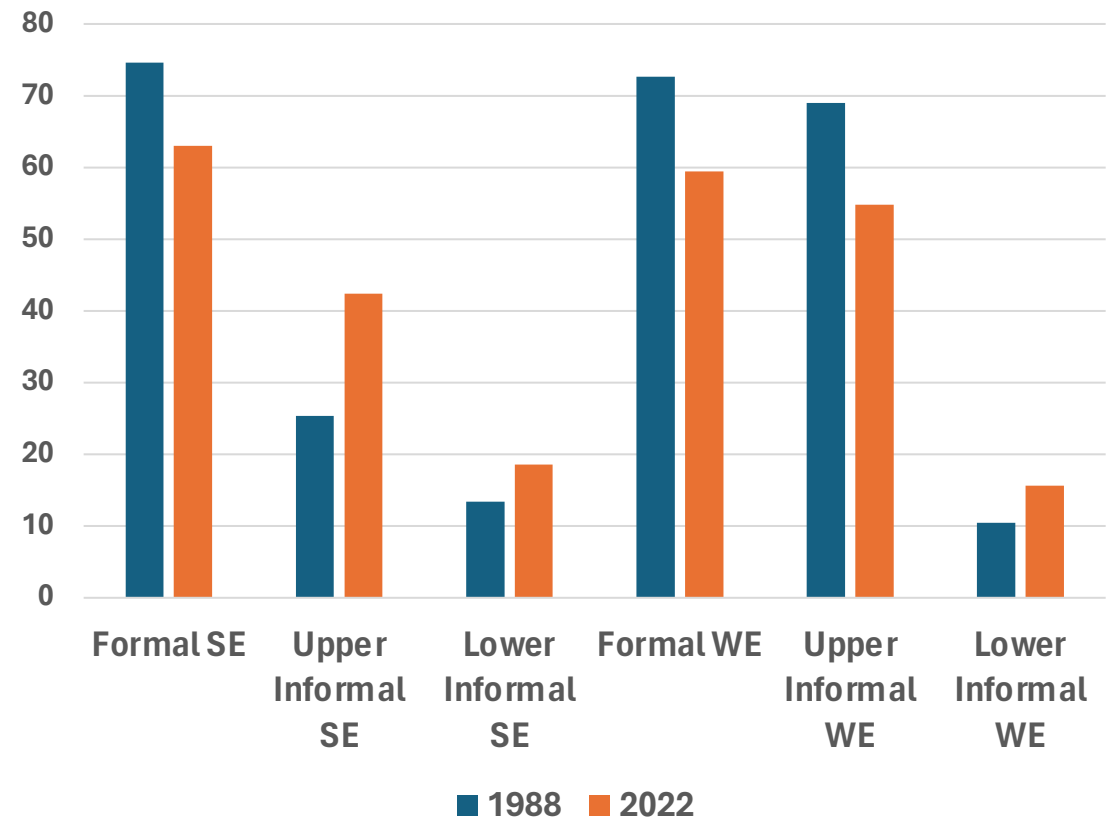


# Urban share of workers (percentage)

## Indonesia



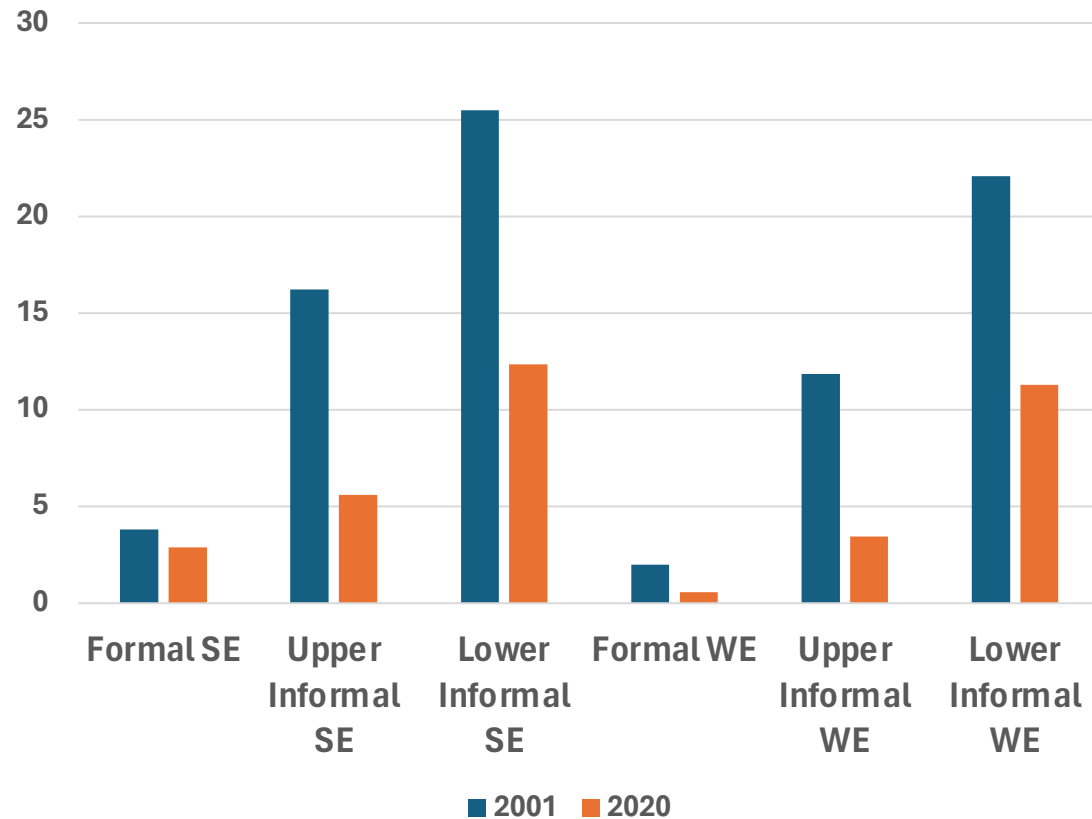
## India



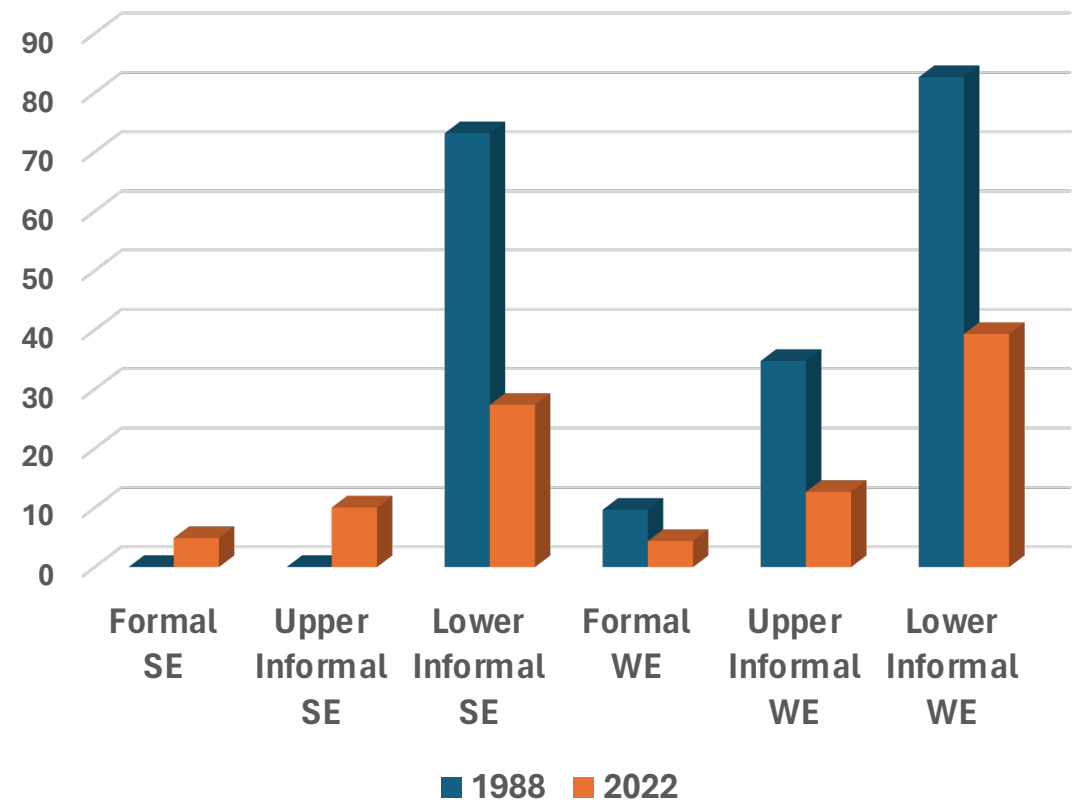


# Lower Elementary/No Schooling

## Indonesia

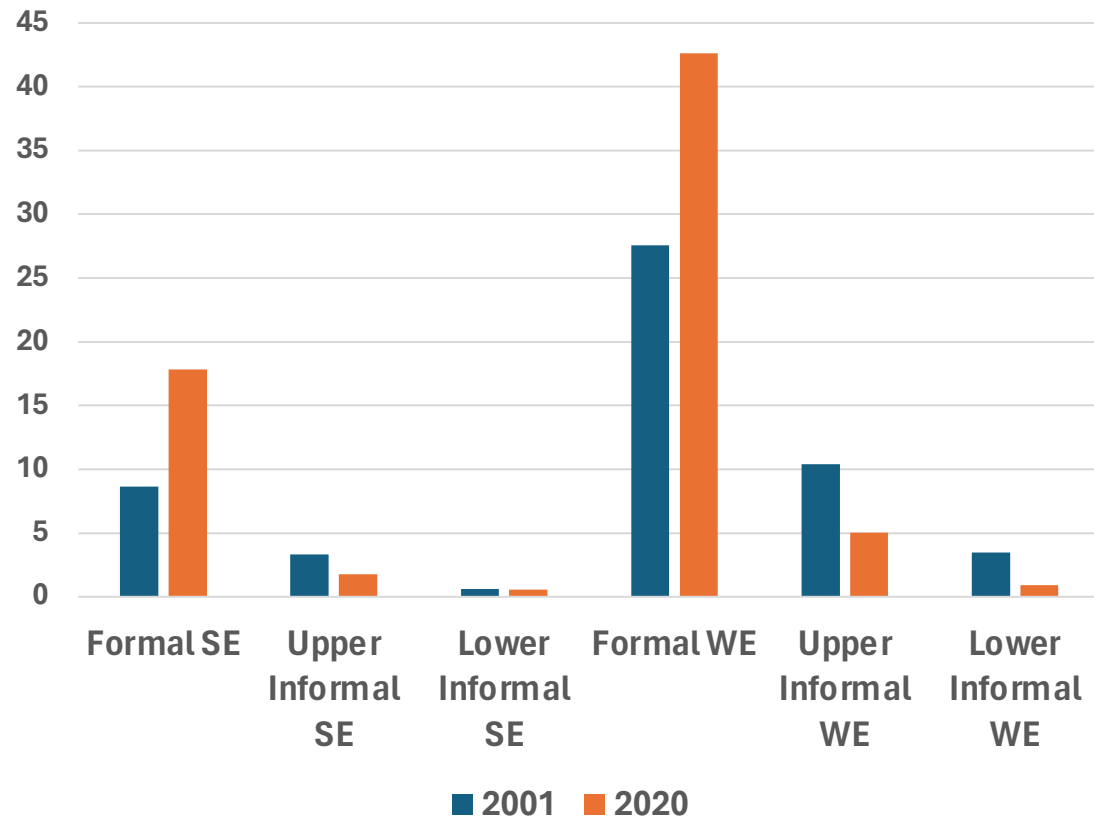


## India

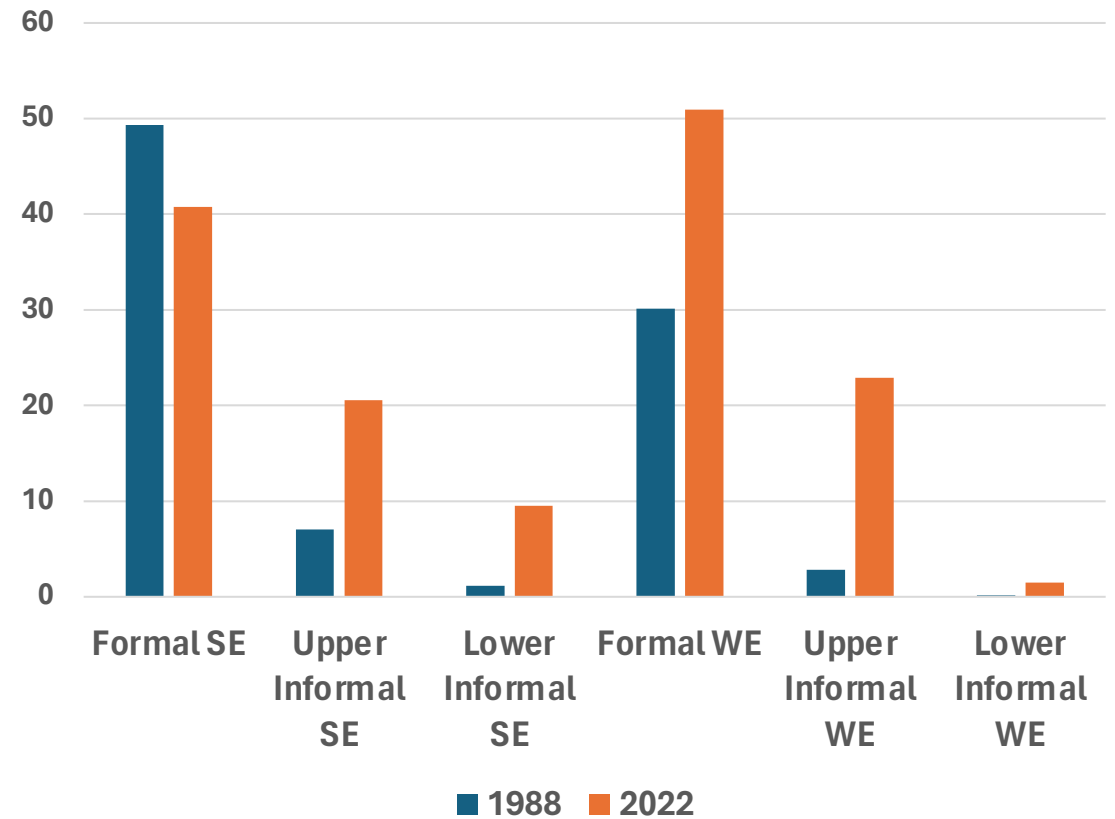


# Graduates

## Indonesia



## India



# Earnings Disparities Along the Ladder in Indonesia and India

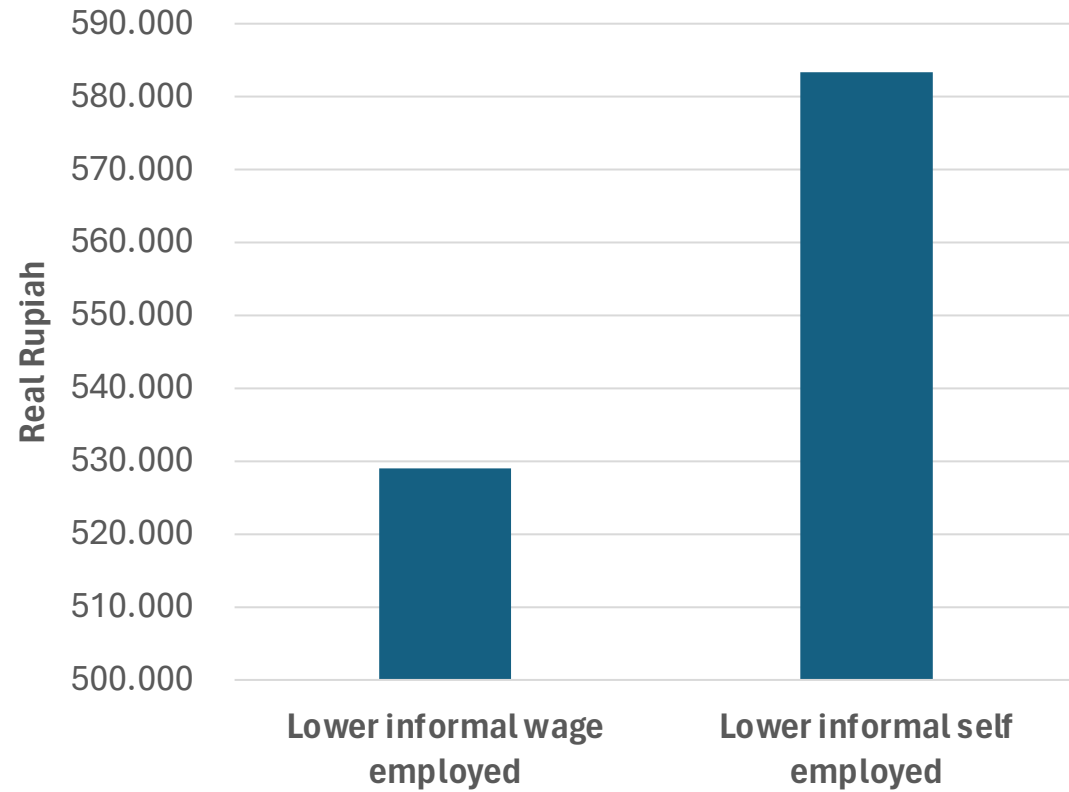


# Real Wages



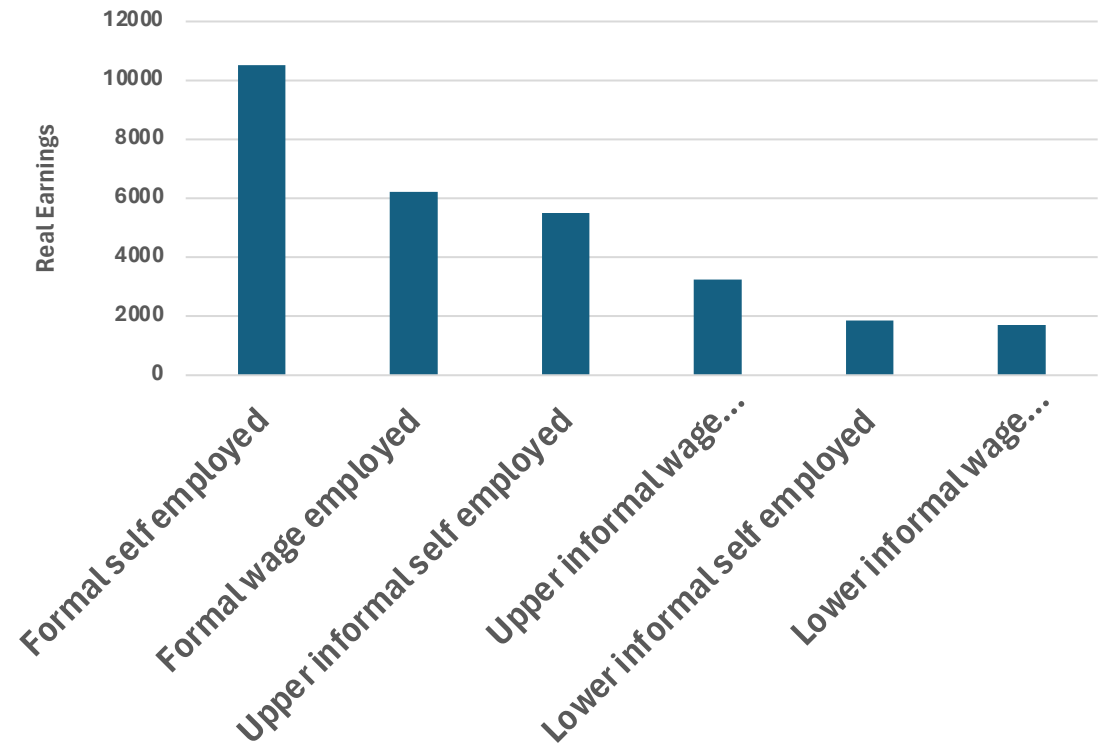
# Earnings Differentials

Earnings in 2020 for the Lower Tier Informal, Indonesia



Axis Title

Real Earnings in 2022, India



Axis Title

# The Correlates of Work Status

# What explains where workers are placed along the job ladder?

- We estimate multinomial and ordered logit models, using the pooled data.
- We find very similar correlates of work status in both Indonesia and India.
- We find that being female increases the likelihood of being in the lower tier.
- Married workers are more in self-employment and in lower tier informal jobs.
- Education is strongly related to moving up the ladder, though the returns to education is higher in Indonesia

# Conclusions



# Conclusions - 1

- **There are important similarities in labour market inequality in Indonesia and India.**
- First, both have ladders that are narrow at the top and wide at the bottom.
- Second, both countries have significant disparities in wages/earnings across workers at different tiers (though in India, evidence of catching up).
- Thirdly, females and less educated workers occupy the lowest rungs.

# Conclusions -2

- Important Differences too.
- Firstly, the proportion of workers in formal jobs in Indonesia is almost twice that for India, suggesting that Indonesia has done better than India in creating formal wage employment.
- Secondly, there has been a shift of workers from self-employment to wage-employment in Indonesia, unlike India.
- Thirdly, lower tier informal work is mostly a rural phenomenon in India, less so in Indonesia.

# Policy Implications

- There needs to be greater attention to demand side policies that increase the size of the higher steps of the job ladder in Indonesia and India, so that more workers who are in lower tier informal jobs can transition to formal and upper tier informal jobs.
- At the same time, supply side policies that emphasise further investments in secondary and graduate education will also make it more likely for workers to move up the job ladder, and not remain stuck in lower tier informal jobs.
- It is likely that a large proportion of informal workers may not be able to climb up the job ladder.
- For these workers, stronger enforcement of minimum wages as well as creating better livelihood opportunities for these workers is important to ensure that they are not left behind in the process of economic growth.

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