

# THE SOCIOLOGY AND ECONOMICS OF LABOR IN DEVELOPING COUNTRIES

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## Summary

This article discusses social and economic conditions of labor in developing countries, using examples from Ghana's labor markets. It investigates the informal sector of urban labor markets, the differentiation and segmentation, and the functioning of labor markets. It stresses the importance of complementing economic analysis with sociological variables. Labor in developing countries is not sufficiently protected. The lack of labor protection and low wages are considered by the governments of developing countries as giving a comparative economic advantage over more developed countries. Thus they are not willing to give up the status quo in order to improve labor conditions in developing countries. In developing countries the issue of labor is how to increase the productiveness of workers, how to achieve social and economic development, and how to become competitive in world markets.

## 1. Introduction

Labor studies in developed and developing countries deal with different issues, use different theoretical frameworks, and come up with different recommendations for employers, employees, and governments. Developed countries are concerned with employment security, labor conditions, and remaining competitive. In developing countries the issue is how to increase the productiveness of workers, how to achieve social and economic development, and how to become competitive in world markets. The globalization debate brings the two worlds together because they will eventually have to compete on the same world market. At the same time it changes the issues from national labor conditions to the importance of international labor standards. Just as green protectionism threatens developing countries not respecting international environmental

standards, red protectionism may try to ban products from developing countries that do not respect international labor standards. This can be illustrated by referring to the child labor debate.

Instead of dealing with all these broad issues, the focus of this contribution will be on the sociology and economics of labor in developing countries. The two disciplines are necessary to understand the specific problems of labor. Economics will help to understand the low productivity of labor in developing countries and sociology the special character of the productive units in these countries. This complementarity will be illustrated by discussing first the importance of the urban informal sector for labor and subsequently the functioning of labor markets in developing countries. Most examples are based on research in North and West Africa.

Most developing countries are facing an employment problem in terms of underemployment; that is, many people are working, but their work does not generate enough income to lead a decent life. Rapid population growth and limited opportunities in the formal private sector force people to start working for themselves in the so-called informal sector. There is not enough employment in the formal sector and people can hardly afford to remain unemployed, hence they accept marginally productive jobs in the informal or agricultural sector. Depending on a number of specific factors for each country, unemployment or employment with very limited productivity may be very high.

Neoclassical economy would predict that wages would go down in such a case and hence investments would become more attractive and would create more employment. If this is not happening, rigidities in the labor market are said to prevent the necessary adjustment. This can also happen if wages are automatically corrected for inflation or if the minimum wage legislation has put wages at too high a level. Finally, other factors may constrain investments, such as a lack of confidence in the country or structural factors in the economy. Hence the last topic discussed will be rigidities in the labor market in developing countries.

Researchers involved in labor studies often challenge the picture of the flawless functioning neoclassical economy, pointing to the many jobs lost during the 1980s everywhere in the world. Their traditional subjects are the role of trade unions and the importance of labor legislation to protect formal sector employees. Since the end of the 1970s some researchers, inspired by the World Employment Program of the International Labor Organization (ILO), have approached the same topic from the employment angle. They are more interested in micro and small enterprises (in particular in the informal sector) and policies providing opportunities to these economic units, which create so much employment and contribute significantly to economic growth. Others use the same formal–informal sector terminology, but still focus their attention on the labor market.

## **2. The Urban Informal Sector**

The urban informal sector is defined as small and micro enterprises in which the personnel are not registered for social security purposes. Labor-intensive and appropriate technologies are used and skills are not acquired at school. The entrepreneurs operate at irregular markets characterized by full competition. Entrepreneurs in this sector are using

different types of informal relations, for example special relations with other entrepreneurs in a cluster or network, special credit arrangements, and different relations with labor and with customers. The apprenticeship period is a short-term labor relation by definition. Usually one needs between three and five years and only a few apprentices continue afterwards as workers. The fees they have to pay to become an apprentice regulate the number of new entrants in the informal sector. In several developing countries, for promising occupations, the fee has increased recently to limit the number of new entrants. However, the status of becoming an independent master still makes it attractive to start on one's own account. A number of these small units work with family labor only. In such cases no salary is paid. It is assumed that girls will help their mothers and be happy just to get food.

The informal sector is not always well defined. Shabaan considers enterprises that hire fewer than 5 or 10 workers as the informal sector. A stricter definition would only include those who are self-employed (own account workers), in addition to those who are unpaid workers (mostly family members). These definitions are very loose and do not specify why the cutoff point would be 5 or 10 workers, nor what would be considered unpaid labor (workers will often get pocket money and food, shelter, etc.). Finally, it is not explained what is so informal about the small enterprises.

The term “self-employed” can still be found in many statistical publications, particularly in former British colonies. The suggestion of this term is that the person is on their own, while many self-employed are using family labor or apprentices as workers, which really makes them small (usually informal) enterprises. The advantage of the self-employed concept is that it forces one to have an eye for the peculiarities of self-employment or entrepreneurship in developing countries.

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Van Dijk M. P. and Sideri S., eds. (1996). *Multilateralism Versus Regionalism, Trade Issues after the Uruguay Round*. London: Cass. [The articles in this edited volume investigate the role of regions and regional interests in the context of the 1994 multilateral agreement, the Uruguay Round. Also focuses on eight specific issues as examples, including green protectionism as a threat to Third World exports, GATT and the theory of intellectual property, and trade policy and foreign investment in the textile and clothing industry.]

### **Biographical Sketch**

**Meine Pieter van Dijk** (PhD Economics Free University Amsterdam) is an economist and professor of Water Services Management at UNESCO-IHE Institute for Water education in Delft and working one day per week as professor of Urban management in emerging economies at the Economic Faculty of the Erasmus University in Rotterdam (EUR), both in the Netherlands. He is member of the research school CERES. He worked on and in developing countries since 1973, in particular on the role of small enterprises in urban development and on urban finance issues. Van Dijk worked as a consultant for NGOs, the Asian Development Bank, the Inter-American Development Bank, the World Bank, different bilateral donors and UN agencies.

His recent books are With M. Noordhoek and E. Wegelin (eds): *Governing cities, New institutional forms in developing countries and transitional economies*. London: ITDG 234 pages and With H. Sandee (eds, 2002): *Innovation and small enterprises in the third world*. Cheltenham: Edward Elgar 324 pages. Previous work was on *Local economies in turmoil* (London: Macmillan, 2000) and on *Government and non-government interventions in rural India* (New Delhi: Manohar, 2000) and *Developing female entrepreneurs in Zimbabwe* (Maastricht: Shaker, 2000). Other books dealt with the informal sector in Ouagadougou and in Dakar, with small and medium enterprise development, with industrialization, Non-governmental organisations and the problems of the Sahel.