

Job Creation and Wages in Least Developed Countries: Evidence from Sub-Saharan Africa

Ija Trapeznikova, Department of Economics, Royal Holloway University of London
with Juan Pablo Rud.

Abstract

Least developed economies are characterized by poorly functioning labor markets: only a small fraction of the labor force is in paid employment, and both productivity and wages are very low. We build an integrated framework that incorporates the tools of standard search literature into a traditional two-sector model of development to assess the importance of different obstacles to job creation and productivity. Our model provides new insights in the characterization of poorly developed labor markets, such as high levels of wage dispersion, that are observed in the data. We then estimate the model using micro data for a number of countries in Sub-Saharan Africa. Our results highlight the empirical relevance of labor market frictions and their interactions with firm entry costs for job creation, productivity, wages, and wage dispersion.