

Employment *in Latin America:* cornerstone *of social policy*

Barbara Stallings

*Director,
Economic Development
Division, ECLAC
bstallings@eclac.cl*

Jürgen Weller

*Economic Affairs Officer,
Economic Development
Division, ECLAC
jweller@eclac.cl*

This article analyses labour market trends in Latin America and the Caribbean during the 1990s and suggests that employment should form the basis of a social policy strategy for the region. It begins with an analysis of the expectations generated with respect to the labour market by the reform process carried out in the region, after which it presents an overview of what has actually happened in terms of rates of participation, generation of employment, unemployment and wages, also suggesting some reasons why the reality was below expectations. It then goes on to examine a new hypothesis on the different performances of the labour markets in the more northerly countries of the region and those of the south. Finally, on the basis of data which bear out that hypothesis, it formulates policy recommendations on specific measures for both areas and describes policies that could be applicable to the region as a whole.

I

Introduction

In order to be effective, social policy programmes must be based on an employment generation strategy, which is the fundamental link between economic development and social development. From the economic standpoint, the labour force is one of the main factors of production, and its importance is increasing all the time, because human capital is a key element for the growth of the economy and of productivity, while from the social point of view employment is the main source of income for most Latin American households. Unless there are enough jobs that provide at least the minimum resources for maintaining workers and their families, social policies will be swamped by the need to satisfy the basic needs of the population and will therefore be unable to fulfill their proper function, as a complement to the labour market, of improving the level of education and training of present and potential workers and providing a safety net for those who are not able to work. This is the fundamental principle on which the analysis given in this article is based.

Our study focuses on the 1990s, when most of the countries had already adopted the new market-based economic model. The reforms underlying this model raised great expectations as regards the generation of employment and its consequent positive effects on equity. Section II reviews these expectations and analyses the reasons why the results obtained so far have been disappointing. Section III traces the evolution of the labour markets of the region in the light of a number of indicators, namely, participation rates, total and sectoral employment generation, job creation by size

of firm, and the results of all these factors for unemployment rates. It also gives information on wages and the wage gap between skilled and unskilled workers, which represent important links between the behaviour of the labour market and income distribution. The analysis confirms that in the 1990s there were serious problems in the field of labour because of the sluggish generation of employment and the increase in unemployment. Average wages rose, but so too did the wage gap between skilled and unskilled workers.

Section IV examines a recent hypothesis that there is a substantial difference between employment generation in the more northerly countries and those of the south. Specifically, it suggests that the demand for labour in manufacturing in Mexico and Central America is higher than in the countries of the southern part of the region, where capital-intensive industries processing natural resources have predominated. The available information bears out this hypothesis. Employment – particularly industrial employment – has indeed risen more rapidly in the northern countries, partly because of the dynamism of production but also because the elasticities of employment were higher in Mexico and Central America.

On the basis of that analysis, section V puts forward a number of policy recommendations for improving the employment situation in this decade which is just beginning and also analyses the relation between employment and other social policies and the synergies between them.

II

The reforms and employment: expectations and reality

Over the last ten or fifteen years, the economic policy applied in Latin America and the Caribbean has undergone the biggest changes since the Second World War. Through the application of a series of structural reforms, a growing number of countries have ceased

to be closed economies dominated by the State and have become market-oriented economies open to the rest of the world. These reforms include import liberalization processes, domestic and international financial liberalization, privatization processes and

labour reforms, although in this latter field most of the changes have been *de facto* rather than *de jure*.¹

There were great expectations about the results of the reforms, mostly based on studies dating back to the late 1970s and early 1980s.² These laid special stress on raising growth rates by reorienting the structure of production away from the domestic market (what was known as import substitution industrialization, or the ISI model) towards production for export. It was assumed that this turnaround would be reflected in greater efficiency at the microeconomic level, better utilization of economies of scale, and smoothing-down of the stop-go cycles caused by foreign exchange constraints.

These studies also maintained that elimination of the distortions caused by the import substitution model would generate more employment, especially for unskilled workers. Among the mechanisms supposedly linking the reforms with increased employment, the main emphasis was placed on more efficient resource distribution which, by permitting more dynamic growth, would generate more jobs, even if the elasticity of employment remained unchanged. It was also assumed that the elasticity of employment would be more favourable due to the changes in the investment pattern and the structure of production. As Latin America's comparative advantages were based on unskilled labour, it was forecast that when the supposed bias in favour of capital was eliminated, investment in general and the technologies now chosen would become more labour-intensive. The greater emphasis on exports would also generate more jobs, because it was believed that production for export was more labour-intensive than in the case of products that competed with imports. This conclusion coincided with the analysis by sectors, according to which the new trade strategy would particularly favour agricultural activities and light industry. Lastly, it was claimed that reducing the high cost of hiring workers would give rise to more jobs.

In addition to the benefits for employment, it was expected that its expansion would help to improve the manifestly inequitable form of income distribution characteristic of Latin America.³ The most obvious link in this respect would be the generation of new jobs for unskilled workers. In so far as many of these jobs would be created in rural areas, they would help to reduce poverty in its main focal points. It was also expected that the greater demand for unskilled labour would have a positive effect on the relative wages of people who already had jobs. In other words, wage differences between skilled and unskilled workers would be reduced, thus improving income distribution. It was also considered that most likely the difference between profits and wages would be narrowed; there were some indications that protection had raised the former at the expense of the latter. Finally, as the role of the State in production was reduced, this would free resources that could be assigned to social expenditure to help the poorest groups.

A second set of studies has appeared in recent years which analyses whether the benefits expected from these reforms have been fulfilled or not. These studies display a surprising degree of consensus: in general, they conclude that growth in the 1990s was quite modest, although it was obviously better than in the "lost decade" of the 1980s. Furthermore, most of the empirical studies conclude that the reforms had a negative impact on the generation of employment and perhaps also on equity. The data indicate that in the 1990s the growth rate of employment was lower than in the second half of the 1980s; unemployment increased; there was a proliferation of informal-sector employment, and the rise in real wages favoured above all skilled workers. There is less agreement on the impact of the reforms on equity: some authors consider that they have had a negative effect on income distribution, while others maintain that there is no

¹ The situation with regard to the labour reforms has been the subject of some controversy. The IDB (1997) maintains that the reforms have been few in number, but Weller (2000a, chapter 7) considers that there have been important changes, although they have often not been incorporated in the legislation.

² Among the earliest studies advocating structural reforms were those made by Anne Krueger (Krueger, 1978; Krueger and others (eds.), 1981, and Krueger (ed.), 1982 and 1983) for the National Bureau of Economic Research. The fact that this author was Chief Economist at the World Bank in the early 1980s meant that her opinions carried weight even outside academic circles.

³ Although there is no doubt that the advocates of the reforms believed that they would favour employment, there is not so much agreement as to whether they explicitly aimed to improve income distribution. Balassa and others (1986, pp. 93-94) clearly did so, as did Krueger (ed.), 1983, pp. 186-187. Williamson, however, expressly excluded the improvement of income distribution from the Washington Consensus measures, saying that in the Reagan/Bush years Washington was not interested in the subject (Williamson, 1990, pp. 413-414, and 1993, p. 1329). Perhaps the best summing-up is Bulmer-Thomas's conclusion that reducing poverty and improving income distribution were not among the main objectives of the new economic model (Bulmer-Thomas, ed., 1997, p. 310).

relation between the two. None of the studies find that the expected positive effects have been achieved in reality.⁴

There are various reasons for this discrepancy between expectations and reality, especially in respect of employment. Above all, the fact that growth rates in the 1990s were lower than expected means that the growth rates of employment were lower too. Forms of investment and growth by sectors show that the least

dynamic sectors and enterprises were those making intensive use of labour, which reduced the possibilities of employment growth still further. In many cases rates of participation were higher, and this made it even more difficult to combat unemployment. Lastly, the hypothesis that Latin America's comparative advantages lay in unskilled labour proved to be wrong on the whole, although it may have been true for part of the region.

III

Evolution of the labour market in the region

In the 1990s, the evolution of the labour market in Latin America was affected by the reforms and by the long-term trends of the economies. In order to enlarge on the diagnosis made in the previous section we will first of all examine the labour supply variables, as reflected in rates of participation, and we will analyse the variation in the demand for labour, as reflected in the total and sectoral generation of employment and the creation of jobs according to size of firm. The evolution of unemployment would be the result of the pressures of supply and demand. The data on wages focus in particular on global trends and on the wage gap between skilled and unskilled workers.

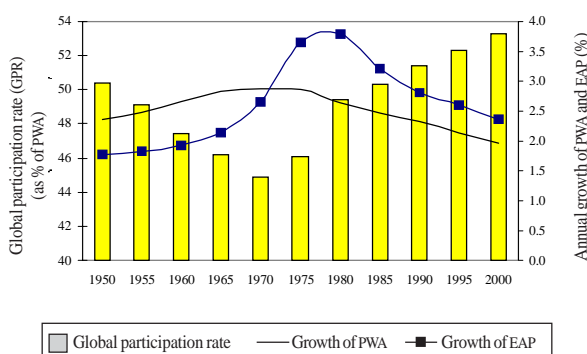
Specialists agree that long-term trends in employment are determined by the evolution of the supply of labour. Variations in the economically active population (EAP) may be explained by changes in the size of the population of working age and the extent to which that population decides to participate in the labour market (the global participation rate). In Latin

America the last two variables have evolved differently in the period following the war. On the one hand, as the demographic transition has progressed the annual growth rate of the population of working age has gone down, thus easing the pressure on the labour market, but on the other hand the degree of participation in the labour force has continued to rise as a result of both long-term processes and transitory fluctuations, especially the greater participation of women. At the same time, urbanization, development of the educational system and the increase in the coverage of social security systems have tended to reduce participation rates, since people have entered the labour force later and retired from it earlier. Since the 1970s, the tendency towards a reduction of the population of working age has had a stronger impact than the reduction in participation rates. Thus, in the 1990s the participation rate for the region as a whole rose by 0.2 percentage points per year, following the trend of the previous decade. Figure 1 combines the effects of demographic changes and variation of the participation rate in order to show their impact on the growth of the economically active population, which went down from 2.9% per year in the 1980s to 2.5% in the 1990s.⁵

⁴ We have taken part in a large multi-year project designed to evaluate the effects of the reforms. See in this respect Stallings and Peres (2000), Weller (2000a) and Morley (2000). Other important sources are Edwards (1995), Bulmer-Thomas (ed., 1997), IDB (1996), Lora and Barrera (1997), Fernández Arias and Montiel (1997), Londoño and Székely (1997), Burki and Perry (1997) and Berry (ed., 1998). Some sources which deal specifically with the question of employment are Tardanico and Menjívar (eds., 1997), Funkhouser and Pérez Sáinz (1998), Lora and Olivera (1998), Weeks (1999), and various issues of the ILO's annual publication *Panorama Laboral de América Latina y el Caribe*. A review of this bibliography may be found in Tuman (2000).

⁵ The complex interaction of factors related with supply and demand is reflected in short-term fluctuations around the long-term trend. Thus, for example, the increase in unemployment tends to raise the growth rate of the global participation rate, since households try to make up for the loss of income by sending more of their members out to work. With time, however, the persistence of a high rate of unemployment may cause people who lose all hope of finding work to withdraw from the labour market, thus reducing the participation rate.

FIGURE 1
Variations in the labour supply, 1950-2000^a



Source: Weller (2000, p. 45).

^a Based on the weighted average for 20 Latin American countries.

The strong correlation between the supply of labour and total generation of employment makes it more difficult to analyse the demand for labour and its possible links with the changes produced by the reforms. In order to minimize this problem, we have focused on its evolution among wage-earners, since this category is more closely linked with the demand for labour. Table 1 shows the differences between total employment and the number of wage-earners, as well as their variation over time, with figures for economic growth by decades since the war, the generation of total employment and employment of wage-earners, and the corresponding elasticities. Leaving aside the 1980s, which were clearly atypical,⁶ the elasticities

in the 1990s were not much different from those registered between 1950 and 1980. In so far as the effects of the reforms were felt in the 1990s, it may be deduced that, at this level of aggregation, they did not affect either positively or negatively the quantitative relation between GDP growth and the generation of employment. What the table does bring out with respect to the past decade is rather that growth rates were lower and influenced the more sluggish generation of employment, especially of wage-earners.

As may be seen from table 2, employment trends showed great differences at the sectoral level in the last decade. Some of these are due to long-standing processes. Thus, in the 1990s there was a further increase in the long-term trend towards a decline in employment in agriculture and growth in employment in the services sector. At the same time, the strong expansion in employment in manufacturing, which had ceased at the beginning of the 1980s only to resume again at the end of that decade, seems to have come to an end. The reforms accentuated many of these trends.

Between 1990 and 1999, employment in agriculture went down at an average rate of 0.4% per year because the demand for labour by the most dynamic activities, generally export agriculture, was not sufficient to offset the loss of jobs in the less dynamic activities, especially peasant agriculture. The reforms contributed to this process in several ways. The reduction in tariffs stimulated outside competition, while at the same time subsidized credit was eliminated, and as the prices of agricultural machinery went down employers replaced labour with equipment.

TABLE 1

Employment: Growth and elasticities, 1950-1999^a
(Weighted annual average)

Period	GDP growth	Employment growth	Employment/GDP elasticity	Growth of wage labour	Wage labour/GDP elasticity
1950-59	5.1	1.9	0.4	2.5	0.5
1960-69	5.7	2.3	0.4	2.7	0.5
1970-79	5.6	3.8	0.7	4.7	0.8
1980-89	1.2	2.9	2.6	2.4	2.0
1990-99	3.2	2.2	0.7	2.0	0.6
1950-99	4.2	2.6	0.6	2.9	0.7

Source: Weller (2000b).

^a From the 1950s to the 1970s, employment growth corresponds to the increase in the labour force. From the 1950s to the 1980s, the figures cover 20 countries; in the 1990s they cover 17.

⁶ The particularly high elasticities of the 1980s were due to the increase in the supply of labour at a time when growth was very

sluggish, although the economically active population grew more slowly than in the 1970s.

In the 1990s, employment in the manufacturing sector increased in Latin America as a whole by only 1.2% per year. The data for employment in medium-sized and large firms show that two processes were taking place simultaneously at the subsectoral level. On the one hand, the subsectors making intensive use of labour lost ground compared with those which were more capital-intensive. In the 1990s, labour-intensive manufacturing activities such as textiles, clothing and leather products and footwear kept on losing ground, while natural resource-based products, which require large inputs of capital per unit of output, maintained the shares they had won in the 1970s and 1980s. At the same time, in many subsectors the incorporation of new technologies was reflected in the reduction of personnel or the generation of a smaller number of new jobs, even in sectors where there was a big increase in output, such as the motor industry.

The greatest dynamism was displayed by services, which accounted for 90% of the net generation of new jobs (table 2, second column). This sector is very heterogeneous, but broadly speaking it consists of two main groups of activities. The first of these—commerce, restaurants and hotels, and social, community and personal services—accounted for 67% of the total number of jobs generated in the region. The second—financial services, insurance, real estate and business services—grew even faster, as also did basic services (electricity, gas and water, plus transport, storage and communications). Because of its small share in total employment, however, this latter sector only accounted for 23% of new jobs.

The economic reforms played an important role in the growth in employment in the services sector, as well as in the polarization that took place in it. Although in most of the countries the privatization of electricity and telecommunications services led to a large number of dismissals, there was also a process of modernization and expansion, which explains why there was nevertheless some generation of employment. Greater trade openness caused an expansion of import- and export-related services, while financial liberalization led to the establishment of new financial services and generated employment. Finally, the pressures for the reduction of costs encouraged the outsourcing of services previously carried out by manufacturing firms themselves, which explains part of the strong growth of business services. At the same time, however, there was an increase in the number of unskilled jobs in the services sector, which were the main source of employment for people who could not find work in other sectors.

TABLE 2

Employment growth by sectors, 1990-1999^a
(Percentages)

Sector	Employment growth	Contribution to total
Agriculture	-0.4	-4.3
Manufacturing	1.2	8.3
Construction	2.8	8.0
Commerce, restaurants and hotels	4.0	32.7
Electricity, gas and water and transport, storage and communications	4.4	10.9
Financial services, insurance, real estate and business services	6.0	12.3
Social, community and personal services	2.7	34.8
Others	-2.3	-2.7
<i>Total</i>	<i>2.2</i>	<i>100.0</i>

Source: Calculations prepared by the authors on the basis of official country statistics.

^a Weighted average for 17 countries.

There were differences not only between sectors but also, and especially, in the generation of employment by size of firm. According to data from the International Labour Organisation (ILO), the main increase in the number of private-sector wage-earners in the 1990s was in micro-enterprises (units with less than six workers) and small enterprises (between six and twenty workers). Thus, between 1990 and 1998 employment in those groups increased by 3.7%, compared with 2.3% in medium-sized and large enterprises and only 0.7% in the public sector (table 3).

The ILO's concept of the informal sector, which has been widely used in studies on employment, covers micro-enterprises and various categories of non-wage employment (excepting the owners of enterprises).⁷ Although the definition is based on the level of productivity of enterprises, in practice this sector is measured by a proxy variable grouping together micro-enterprises, own-account workers, domestic servants and unpaid family members. As shown by table 3, if this definition is used some 60% of the jobs generated in the region correspond to the informal sector. This concept of the informal sector assumes that this type of employment is of low quality because of its deficient working conditions, its low levels of remuneration and

⁷ For an analysis of the informal sector as seen by the ILO, see Mezzera (1990).

TABLE 3

**Urban employment growth, by size
of enterprises, 1990-1998^a**
(Percentages)

Sector	Annual employment growth rate	Contribution to growth:	
		Total	Formal/informal
<i>Total</i>	2.9	100.0	
Informal sector	3.9	61.0	100.0
Own-account workers	3.6	29.0	48.0
Domestic service	5.2	11.0	18.0
Micro-enterprises ^b	3.8	21.0	34.0
Formal sector	2.1	3.9	100.0
Public sector	0.7		
Private enterprises	2.6	39.0	100.0
Small enterprises ^c	3.6	9.5	25.0
Medium-sized enterprises ^d	2.2	12.7	32.0
Large enterprises ^e	2.4	16.8	43.0

Source: ILO (1999a, p. 47).

^a Weighted average for 12 countries.

^b Less than 6 workers.

^c 6-20 workers.

^d 21-100 workers.

^e Over 100 workers.

productivity, and its lack of legal and social equity. This is not completely true, of course, because there is good-quality employment among some own-account workers and micro-enterprises, but the concept continues to be used because of the lack of information on the exact characteristics of these occupations and the assumption that in practice most of the jobs are indeed of a precarious nature.

Even more precarious is the situation of the unemployed, whose number has increased in Latin America even though GDP growth was higher in the 1990s than in the 1980s. In the period from 1980 to 1990 unemployment averaged 6.6%, whereas between 1991 and 2000 it rose to 7.2%.⁸ Table 4 shows that the generalized decline in GDP growth in South America in the late 1990s raised unemployment to record figures for the region, even exceeding the levels reached during the debt crisis of the early 1980s. The increase in unemployment was particularly marked in Argentina, Colombia, Uruguay and Venezuela, which came to register two-digit levels in 1999.

The other term in the labour market equation is remuneration. During the 1990s, average real wages in the Latin American formal sector as a whole improved or at least held their own. In Argentina,

Mexico, Nicaragua, Peru and Venezuela, however, wages were lower in 2000 than in 1980 (table 5). Real wages were quite unstable in many countries, and in some cases –Bolivia, Colombia and Costa Rica– they went down in the early 1980s but later rose again. In Mexico and Peru the opposite trend was observed, with an initial increase followed by falls which, in the case of Mexico, were clearly the result of the 1994-1995 financial crisis. Chile was the only country in which there were steady rises throughout the decade.

If economic theory is right, there should be a compensatory relation between wages and the volume of employment generated, but this does not seem to have been the case in the 1990s, for although there was a fairly general rise in wages the behaviour of employment and unemployment varied considerably from one country to another.⁹ This might be explained by the fact that the labour markets of the region are not in balance, but in order to be able to analyse the phenomenon properly we would need better information than that currently available. Sectoral data are particularly important in this respect, since the labour markets of Latin America are usually highly segmented both by sectors and by other characteristics.

⁸ These figures represent the weighted average for 17 countries. Taking the simple average, the increase was from 8.3% to 8.6%.

⁹ The econometric analysis given in Weller (2000a, chapters 4 and 5) gives a negative correlation between employment generation and real wages, but the coefficient is not significant.

TABLE 4

Unemployment rates, 1980-2000
(Percentages)

	1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 ^a
Latin America	6.6	5.7	6.1	6.2	6.3	7.2	7.7	7.3	7.9	8.7	8.4
Argentina ^b	5.5	6.5	7.0	9.6	11.5	17.5	17.2	14.9	12.9	14.3	15.1
Bolivia ^b	7.8	5.8	5.4	5.8	3.1	3.6	3.8	4.4	6.1	8.0	7.6
Brazil ^b	5.3	4.8	5.8	5.4	5.1	4.6	5.4	5.7	7.6	7.6	7.1
Chile ^c	11.9	8.2	6.7	6.5	7.8	7.4	6.4	6.1	6.4	9.8	9.2
Colombia ^{b,d}	11.2	10.2	10.2	8.6	8.9	8.8	11.2	12.4	15.3	19.4	20.2
Costa Rica ^b	6.8	6.0	4.3	4.0	4.3	5.7	6.6	5.9	5.4	6.2	5.3
El Salvador ^b	9.3	7.9	8.2	8.1	7.0	7.0	7.5	7.5	7.6	6.9	6.7
Guatemala ^c	8.0	4.2	1.6	2.6	3.5	3.9	5.2	5.1	3.8	...	...
Honduras ^b	9.7	7.4	6.0	7.0	4.0	5.6	6.5	5.8	5.2	5.3	...
Mexico ^b	4.3	2.7	2.8	3.4	3.7	6.2	5.5	3.7	3.2	2.5	2.2
Nicaragua ^c	5.3	11.5	14.4	17.8	17.1	16.9	16.0	14.3	13.2	10.7	9.8
Panama ^{b,d}	14.5	19.3	17.5	15.6	16.0	16.6	16.9	15.5	15.2	14.0	15.2
Paraguay ^b	5.6	5.1	5.3	5.1	4.4	5.3	8.2	7.1	6.6	9.4	8.6
Peru ^b	7.4	5.9	9.4	9.9	8.8	8.2	8.0	9.2	8.5	9.2	8.5
Dominican Republic ^{c,d}	...	19.6	20.3	19.9	16.0	15.8	16.5	15.9	14.3	13.8	13.9
Uruguay ^b	8.9	8.9	9.0	8.3	9.2	10.3	11.9	11.5	10.1	11.3	13.6
Venezuela ^c	9.3	9.5	7.8	6.6	8.7	10.3	11.8	11.4	11.3	14.9	13.9

Source: ECLAC, on the basis of official country sources.

^a Preliminary figures.

^b Urban areas.

^c Nationwide total.

^d Includes concealed unemployment.

TABLE 5

Average real wage in formal sector, 1980-2000
(1990 = 100)

	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 ^a
Argentina ^b	128.8	99.1	100.4	101.7	100.4	101.1	100.0	99.9	99.3	99.0	100.1	101.6
Bolivia ^c	57.6	87.6	82.1	85.5	91.2	98.5	100.0	100.5	106.6	110.1	117.0	118.0
Brazil ^d	94.6	104.4	88.9	87.0	95.5	96.3	100.0	107.9	110.7	110.8	105.9	104.8
Chile ^e	77.2	80.9	84.9	88.7	91.8	96.1	100.0	104.1	106.6	109.5	112.1	113.7
Colombia ^f	80.7	94.9	92.4	93.5	97.9	98.8	100.0	101.5	104.2	102.8	105.9	110.0
Costa Rica ^g	104.0	89.8	85.6	89.2	98.3	102.0	100.0	97.9	98.7	104.3	109.2	110.1
Ecuador ^h	88.3	65.4	68.4	74.2	83.5	90.9	100.0	105.4	103.0	98.9	90.7	86.4
Guatemala ^g	88.7	77.1	72.1	82.9	88.8	89.3	100.0	109.7	112.7	116.8	123.5	128.2
Mexico ^b	113.1	88.1	93.8	100.7	109.7	114.9	100.0	90.1	89.1	91.5	92.4	98.0
Nicaragua ⁱ	390.8	81.8	84.5	100.5	93.3	98.2	100.0	97.9	97.7	104.9	109.6	111.3
Paraguay ^j	89.5	87.7	91.8	90.9	91.7	93.0	100.0	103.1	102.6	100.7	98.6	99.9
Peru ^k	265.0	85.7	98.7	95.2	94.4	109.2	100.0	95.2	94.5	92.7	90.7	91.8
Uruguay	99.5	91.7	95.2	97.3	102.0	102.9	100.0	100.6	100.8	102.7	104.3	102.9
Venezuela ^l	302.4	138.1	130.1	136.5	124.4	104.8	100.0	76.7	96.3	101.5	96.8	90.5

Source: ECLAC, on the basis of official country figures.

^a Preliminary figures.

^b Manufacturing.

^c Private sector in La Paz. The figure in the 1980 column actually corresponds to 1985.

^d Workers covered by the social and labour legislation in six metropolitan areas; 1980 average for Rio de Janeiro and São Paulo.

^e Up to April 1993, the figures are for non-agricultural wage-earners. From May 1993, the general index of hourly wages is used.

^f Workers in manufacturing.

^g Average declared wages of workers covered by the social security system.

^h Non-agricultural enterprises with 10 or more workers. The figure in the 1980 column actually corresponds to 1985.

ⁱ Average wage. Does not include remuneration in kind or other benefits.

^j Asunción.

^k Private-sector workers in Lima.

^l Non-manual and manual workers; second half of each year. The figure in the 1980 column actually corresponds to 1982.

TABLE 6

Wage differences by level of education in the 1990s^a
(Percentages)

Country and period covered	University graduates, compared with average level of remuneration		University graduates, compared with remuneration of persons with 7-9 years' schooling	
	First year ^b	Last year ^b	First year ^b	Last year ^b
Argentina (1991-1997)	164.3	169.6	218.3	227.9
Bolivia (1989-1996)	235.0	292.9	251.8	506.4
Brazil (1992-1997)	380.2	383.5	553.2	553.3
Chile (1990-1996)	231.6	247.9	366.1	448.6
Colombia (1988-1995)	222.2	261.6	276.7	327.2
Costa Rica (1990-1996)	285.0	273.2	323.1	316.7
Mexico (1991-1997)	182.1	232.1	160.1	302.2
Peru (1991-1997)	220.7	275.0	321.0	403.1
Mean	226.9	267.4	298.9	365.2

Source: Weller (2000a, p. 167).

^a Coefficient of average wages of specified groups.

^b First and last years of the period shown for each country.

Apart from the question of average wages, it is also important to examine what happened with the different categories of workers. The studies indicate that the wage gap is a key link between the labour market and income distribution.¹⁰ It is a question of studying the divergence, if any, between the wage trends for skilled and unskilled workers. This can be done in various ways, but the most common is based on the level of education and training. Table 6 compares two versions of a wage gap based on level of education in eight countries in the 1990s: the first shows the difference between the wages of university-trained professionals and workers of the average level of the sample, while the second shows the difference between the wages of university graduates and workers with seven to nine years' schooling (equivalent to full basic education or a little more, depending on the educational structure of each country). In most of the cases, the second method gave a larger difference. The increase in the size of the gap over the period studied was quite marked in most cases, although it was small in the case of Argentina and insignificant in that of Brazil; only in Costa Rica did the gap grow smaller.

Another way of studying wage differences is to compare the results for manual and non-manual workers. Data are available for a number of countries

in this respect, including Chile, Colombia, Costa Rica, Mexico and Peru. In almost all cases the results display a pattern similar to that obtained in comparisons by level of education: non-manual workers received bigger pay increases than manual workers, except in Costa Rica.¹¹ Finally, there is a difference between the remuneration of workers in large enterprises and those in small ones: the wages of the latter have risen more slowly than those of the former (Weller, 2000a, p. 181). Although it is more difficult to interpret, this third difference may also include some elements characteristic of differences in skill levels.

The widening of the wage gap between workers with different levels of qualifications is in contradiction to what the reforms were supposed to achieve. Theoretical analysis would appear to indicate that this phenomenon is due mainly to the fact that the relative prices tend to favour capital, which is cheaper than labour, and this variation in relative prices will cause labour to be replaced with capital, so that there will be a higher capital-labour ratio. According to the data collected by Morley for nine countries, however, the actual trends in relative prices have not followed a trajectory in keeping with this ratio. In the 1990s, the ratio rose in Brazil, Costa Rica, Chile and Mexico but it went down in Argentina,

¹⁰ Bulmer-Thomas (ed., 1997), ECLAC (1997), IDB (1998) and Morley (2000).

¹¹ García-Huidobro (1999), Ramírez and Núñez (1999), Montiel (1999), López (1999), and Saavedra and Díaz (1999).

Bolivia and Peru and remained almost unchanged in Colombia and Jamaica (Morley, 2000, pp. 99-102).

If the widening of the wage gap is not explained by relative prices, then it may be due to the restructuring of enterprises. If there is more outsourcing of services, for example, this could stimulate the employment of more highly qualified workers within the firm, whereas the less-skilled occupations such as those in the fields of catering, cleaning and security would be carried out by outside personnel. This could explain the increase in the wage gap between small and large enterprises observed in the 1990s.¹² Another explanatory factor is

the expansion of tertiary activities, which generally make more intensive use of skilled labour, and the reduction in the weight of the primary and secondary sectors, which use less-skilled labour. Even more important were the processes of improvement within the services sector, especially in the case of social and community services and financial and business services. Finally, it is possible that in some countries the waning power of the trade unions may also have played a part, since the less-skilled workers were gradually remaining outside them, while minimum wage policies have often caused the minimum wage to lag behind average wage levels.

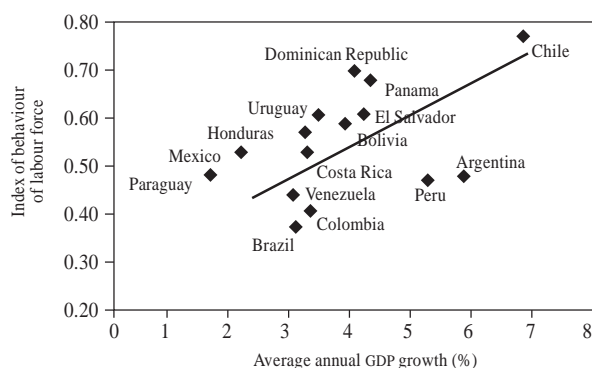
IV

Divergences between the countries in the north and south of the region

Although employment trends in Latin America and the Caribbean as a whole reflected serious problems in the 1990s, the tables in the preceding section show clear differences between countries. To a certain extent, these differences correspond to the economic results obtained by each country, since those which registered the highest growth rates were generally the same ones which had better performance in the labour market. Figure 2 shows the relation between GDP growth rates and an index of labour market performance for 15 Latin American countries between 1990 and 1998.¹³ Generally speaking, the countries which grew most strongly had better results in terms of employment, unemployment and wages.

Chile was the country with the highest economic growth rate, and this had a positive influence on the four labour variables, so that it was the country with the best performance in the labour market. In contrast, the worst result was that of Brazil, whose annual growth rate was next to last in the group. In that country, employment contracted severely, which was reflected

FIGURE 2
Economic growth and behaviour
of the labour market, 1990-1998



Source: Prepared by the authors.

in growing unemployment, even though the supply of labour diminished. Argentina was an exception to the rule, because in spite of its high economic growth rate there was no improvement in the labour situation. Although wage labour increased, the global employment rate went down – particularly after the Mexican financial crisis – and in the late 1990s unemployment rates, boosted by the increase in the labour supply, were far above those registered at the beginning of the decade.

It has also been suggested that another phenomenon may have an influence. In the view of

¹² Although of course specialized services are also procured outside the enterprise.

¹³ The index is an average of four sub-indexes which sum up the countries' performance as regards unemployment, real wages, employment generation and increase in wage labour compared with total employment growth (as an indicator of demand). The best and worst results for each variable were given values of 1 and 0 points, respectively.

TABLE 7

**Characteristics of exports
to the OECD countries, 1980-1996^{a,b}**

	Growing share of market (%)	Decreasing share of market (%)
Dynamic products	“Rising stars” Dominican Republic (76.0) Mexico (71.8) Honduras (62.3) El Salvador (54.5) Costa Rica (46.1) Guatemala (42.5)	“Lost opportunities” Haiti (68.2)
Non-dynamic products	“Waning stars” Paraguay (71.6) Venezuela (62.0) Ecuador (58.6) Chile (54.9) Uruguay (52.9) Argentina (48.2) Colombia (44.4) Bolivia (43.0) Brazil (37.7)	“Loss of competitiveness” Suriname (64.5) Nicaragua (48.8) Guyana (47.3) Peru (46.0) Panama (44.7)

Source: ECLAC (2001b, p. 135).

^a The countries were placed in the quadrants corresponding to over 40% of the total value of their exports of goods to the OECD countries.

^b The figures in brackets correspond to the percentage of sales of the products referred to in the quadrant with respect to their total exports to OECD countries.

ECLAC, a structural difference is beginning to appear in the region: the situation of the countries in the northern part (Mexico, Central America and possibly the Caribbean) is linked with the United States economy through the manufacture of traditional industrial products (especially textiles) and goods with a higher technological content (electronic articles and motor vehicles). In the smaller countries of the north, these links have been strengthened through the effect of the in-bond assembly industries, but in Mexico the production links are more varied. In South America, in contrast, the main source of economic stimulation comes from the processing of natural resource-based products which are exported to Europe and other markets. Among such products are steel, petrochemical products, pulp and paper and prepared foodstuffs. Other industrial products are exported to the subregional market, especially MERCOSUR.¹⁴

Another difference is noted when the types of goods produced in the northern and southern countries are classified according to the buoyancy of their participation in the world market: exports of the products of the northern countries are more dynamic

than those of the south. This difference can be seen by using a computer programme developed by ECLAC which classifies the countries in four groups according to their export results: countries whose main exports enjoy growing market access in dynamic sectors (“rising stars”); countries which are increasing their exports, but in lagging sectors (“waning stars”); countries which are losing their shares in dynamic sectors (“lost opportunities”), and countries which are losing their shares even in lagging sectors (“loss of competitiveness”). Table 7 classifies the countries of Latin America and the Caribbean according to these characteristics, showing that the group made up of Mexico and the Central American countries is mainly in the “rising stars” quadrant, whereas the South American countries are mostly in the “waning stars” category.

For the purposes of the present study, another important aspect of this apparent dichotomy is that the in-bond assembly industry is highly labour-intensive, whereas the industries based on the processing of natural resources are more capital-intensive. This difference as regards the proportions of the factors of production used has clear repercussions on the generation of employment. The available data are

¹⁴ ECLAC (2000, vol. 1, chapter 3); see also Katz (2000).

quantitatively and qualitatively limited, so that the following analysis can only be viewed as a first approximation.

Table 8 gives some basic information on the relative behaviour of the northern and southern countries. Although both groups share some common features, especially the predominance of services as a source of employment, there are two obvious differences. In the northern countries, global employment growth was almost twice that of the southern countries (3.6% versus 1.9%). Furthermore, at the sectoral level, employment growth in the former was more vigorous or at least its decline was less marked. These differences have to do with the positive correlation between the increase in the number of jobs and the growth of the labour supply: i.e., the fact that the growth rate of the working-age population was higher in the first group of countries. The second difference emerging from the table is connected with the demand for labour: employment in the manufacturing sector in the northern countries grew at an average rate of 4.3% per year, i.e., faster than total employment, and it represented 13% of all the jobs created. In the southern countries, in contrast, employment in the manufacturing sector *declined* by an average of 0.1% per year.

Not all the countries evolved in this manner, however. In the southern hemisphere, for example, employment generation grew rapidly in Bolivia and Paraguay both in terms of total employment and employment in the manufacturing sector, although these jobs were of an own-account nature rather than jobs as wage-earners. Among the northern countries, Costa Rica did not do as well as its neighbours in terms of employment generation. Nevertheless, the differences between the two groups of countries are undoubtedly significant and raise important problems for the countries of the south, where in five of the nine nations (Argentina, Brazil, Colombia, Peru and Uruguay) there was a net loss of industrial jobs and in the majority of the countries the global employment trends were definitely unsatisfactory, even in quantitative terms.

Another difference between the northern and southern countries in terms of employment generation concerns the type of employment generated. Table 9 classifies total employment generated in five categories: wage-earners, own-account workers, domestic servants, unpaid family workers, and others.¹⁵ In the northern

countries, the category which grew fastest was that of wage-earners, with an average annual rate of 4.2%, and it represented two-thirds of all the new jobs generated. In the southern countries, in contrast, wage labour only grew by 1.8% per year and accounted for less than half of the new jobs. The alternative was own-account employment, which grew more strongly in the south than in the north (4.0% versus 3.6%), although total employment increased more rapidly in the north. As a proportion of the total number of new jobs generated, own-account employment represented 27% in the north compared with 37% in the south. The differences with regard to the proportion of wage-earning employment are due to the differences in the demand for labour, which grew more rapidly in the north.

The differences regarding the demand for labour make it advisable to review the relation between the growth of GDP and that of employment. Figure 2 shows that the behaviour of the labour market was positively correlated with GDP growth rates. However, the results obtained by the southern countries as a whole were less satisfactory than might be expected from the level of GDP growth, so that in figure 2 most, although not all, of those countries are below the regression line, whereas all the northern countries are above it.

Another way of analysing the relation between growth and employment generation in the various countries and subregions is to calculate the employment elasticity. Table 10 shows the situation in the region in this respect in the 1990s, which backs up the hypothesis of a structural difference between north and south. Whereas the mean elasticity for the 15 countries as a whole is 0.79 (which means that for every increase by one percentage point in the product there is an increase of 0.79% in employment), the figure for the southern countries is 0.52, compared with 0.83 for the northern countries. This indicates that in the latter growth was more labour-intensive, thus helping to generate more jobs than might have been expected from the faster growth in the 1990s.

The significance of these elasticities must be interpreted with caution, however. As may be seen from the table, some of these are very high, both in northern and southern countries. In Bolivia, Honduras, Paraguay and Venezuela the elasticities exceed 1.00. Except partially in the case of Bolivia, these were situations in which supply pressures exceeded the capacity of the economy to generate jobs, in a context of low GDP growth rates. As a consequence, employment was “created” through own-account work and other informal-sector activities, not because the economic models favoured intensive use of labour.

¹⁵ It should be noted that tables 8 and 9 give different totals for some countries because the information sources were different and so were the periods covered.

TABLE 8

Growth of employment and contribution to that growth by individual sectors,^a 1990-1999
(Percentages)

Country and period	Agriculture	Manufacturing	Construction	Commerce ^b	Basic services ^c	Financial services ^d	Social services ^e	Others	Total
Argentina	...	-3.1	1.0	0.3	4.0	4.9	3.0	...	1.4
1991-1999	...	-46.6	5.5	4.7	36.5	37.1	62.9	...	100.0
Bolivia	...	8.8	10.2	9.9	7.2	12.8	-0.3	-7.0	5.4
1990-1997	...	29.4	14.7	47.5	11.8	9.1	-1.5	-7.4	100.0
Brazil	-0.9	-0.2	2.4	2.8	3.0	5.6	2.6	-1.4	1.3
1992-1999	-18.0	-1.6	11.5	26.8	8.4	14.0	62.4	-3.6	100.0
Chile	-1.5	0.4	3.1	3.0	3.0	7.7	2.5	-3.4	1.9
1990-1999	-12.9	3.2	11.4	29.4	12.8	24.1	35.7	-3.5	100.0
Colombia	-0.5	-1.4	0.7	2.1	2.3	5.0	2.8	-6.6	1.1
1991-1999	-11.8	-17.4	3.0	40.7	12.1	18.7	61.0	-6.2	100.0
Costa Rica	-0.3	1.2	2.5	6.0	5.9	7.6	3.0	0.0	2.8
1990-1999	-2.6	7.4	5.9	38.6	12.5	11.1	27.0	0.0	100.0
El Salvador	-2.3	5.0	7.2	9.1	6.0	21.0	3.4	7.1	3.9
1992-1999	-8.1	10.7	4.4	23.0	3.2	5.4	8.0	0.1	100.0
Honduras	2.5	7.3	4.9	7.8	3.6	10.9	5.2	-2.7	4.9
1990-1999	19.9	22.3	4.9	29.5	2.0	3.7	17.9	-0.2	100.0
Mexico	0.0	5.1	1.8	4.3	5.1	5.6	3.8	-0.6	3.1
1991-1999	0.2	28.8	3.4	26.4	7.5	6.0	28.1	-0.4	100.0
Panama	-1.6	3.7	15.4	5.6	4.0	9.7	3.1	12.2	3.7
1991-1999	-9.6	9.6	20.8	32.4	9.0	13.6	23.4	0.8	100.0
Paraguay	2.8	4.9	0.5	10.4	7.8	...	8.4	-32.7	5.2
1992-1999	17.6	11.7	0.6	35.3	6.5	...	37.2	-8.9	100.0
Peru	...	-0.1	7.4	5.7	10.8	12.3	0.2	...	3.8
1990-1997	...	-0.6	9.9	44.1	16.5	16.5	1.7	...	100.0
Dominican Rep.	1.6	3.1	14.4	6.3	6.0	-5.4	1.1	-17.0	3.5
1991-1999	8.9	15.6	19.5	42.7	12.1	-2.9	7.6	-3.6	100.0
Uruguay	...	-4.0	1.8	0.4	1.0	2.9	-0.7	1.1	-0.5
1990-1999	...	-138.3	23.7	12.2	12.0	29.6	-29.6	11.5	100.0
Venezuela	1.0	2.0	3.9	6.0	4.2	2.3	3.4	-0.8	3.5
1990-1999	3.2	8.4	8.5	39.8	8.8	3.8	27.7	-0.2	100.0
Latin America (weighted average)	-0.3	1.2	2.8	4.0	4.4	6.0	2.8	-2.1	2.2
	-4.1	8.3	7.8	32.7	10.8	12.3	34.8	-2.4	100.0
Latin America (mean)	-0.1	1.6	2.8	5.8	4.1	6.6	3.0	-1.1	3.5
	-1.2	9.6	5.9	32.4	8.8	8.6	33.4	-0.3	100.0
Northern countries (mean)	-0.1	4.3	6.0	6.1	5.5	8.6	3.3	-0.3	3.6
	-1.2	13.2	5.4	30.9	8.2	5.7	27.6	-0.1	100.0
Southern countries (mean)	-0.5	-0.1	3.1	5.7	4.2	6.7	3.3	-3.4	1.9
	-11.8	-0.6	9.9	35.3	12.1	17.6	48.3	-3.5	100.0

Source: Calculations prepared by the authors on the basis of official country statistics.

^a The first line for each country refers to the annual growth of employment in the period shown; the second line indicates the contribution of each sector to the total employment generated in that period. The data are nationwide totals except in the cases of Argentina (urban areas), Bolivia (capitals of departments and El Alto) and Peru (Metropolitan Lima). It should be noted that for Latin America and the northern and southern countries the rows do not add up to the total because they represent the means for the columns.

^b Including hotels and restaurants.

^c Electricity, gas and water and transport, storage and communications.

^d Includes insurance, business services and real estate.

^e Includes community and personal services.

TABLE 9

Growth of employment and contribution to that growth by categories of employment in the 1990s^a
(Percentages)

Country and period	Wage earners	Own-account workers	Domestic service	Unpaid family members	Others	Total
Argentina	1.8	-1.0	2.3	...	0.9	1.1
1991-1997	100.7	-20.0	14.7		4.5	100.0
Bolivia	4.7	5.5	-2.9	11.6	16.1	5.5
1990-1997	41.4	34.7	-2.8	12.3	14.4	100.0
Brazil	1.1	1.5	3.8	-1.9	3.1	1.2
1992-1997	49.0	34.2	22.5	-15.7	10.0	100.0
Chile	3.3	2.4	-0.6	-1.9	0.2	2.5
1990-1997	84.1	22.4	-1.4	-15.7	0.3	100.0
Colombia	1.1	4.0	0.1	-7.5	-1.4	1.4
1991-1997	43.8	92.3	0.2	-31.3	-5.0	100.0
Costa Rica	2.7	2.8	2.8	-4.4	7.8	2.7
1990-1997	64.6	20.0	4.4	-6.7	17.7	100.0
El Salvador	5.8	3.1	3.5	-1.9	-4.4	3.4
1992-1997	83.6	26.3	4.4	-5.1	-9.2	100.0
Honduras	4.4	4.9	4.2	3.8	15.8	4.8
1990-1997	40.6	38.1	3.5	9.9	7.9	100.0
Mexico	4.0	4.0	8.4	3.0	-5.9	3.4
1991-1997	62.7	28.2	9.1	11.3	-11.2	100.0
Panama	5.0	5.0	4.0	-2.3	-13.1	4.0
1991-1997	70.8	36.6	5.8	-2.4	-10.7	100.0
Paraguay	2.9	6.3	8.5	20.4	11.5	6.3
1992-1997/98	19.6	37.2	8.9	25.5	8.8	100.0
Peru	1.7	5.3	1.7	...	...	3.8
1991-1997	18.4	81.0	0.6			100.0
Dominican Republic	3.6	0.8	...	8.0	-2.0	1.9
1991-1996	79.3	14.5		12.7	-6.4	100.0
Uruguay	0.8	1.6	...	-0.3	-2.0	0.8
1991-1997	77.0	37.8		-0.5	-14.3	100.0
Venezuela	2.7	8.2	...	-10.0	0.2	3.8
1990-1997	46.8	57.5		-4.6	0.3	100.0
Latin America (weighted average)	2.2	2.2	3.0	3.8	0.2	2.2
	52.7	38.2	9.1	-0.4	0.4	100.0
Latin America (mean)	2.7	4.0	3.2	-1.9	0.2	3.4
	62.1	34.7	3.5	-1.5	0.3	100.0
Northern countries (mean)	4.2	3.6	4.0	0.6	-3.2	3.4
	67.7	27.5	4.4	3.7	-7.8	100.0
Southern countries (mean)	1.8	4.0	1.7	-1.9	0.6	2.5
	46.8	37.2	0.2	-2.6	2.4	100.0

Source: Calculations prepared by the authors on the basis of official country statistics.

^a The first line for each country refers to the annual growth of employment in the period shown; the second line indicates the contribution of each sector to the total employment generated in that period. The data are nationwide totals except in the cases of Argentina (urban areas), Bolivia (capitals of departments and El Alto) and Peru (Metropolitan Lima). It should be noted that for Latin America and the northern and southern countries the rows do not add up to the total because they represent the means for the columns.

TABLE 10
**GDP growth rates and
 employment/GDP elasticity in the 1990s**

Country	GDP growth rate	Employment/GDP elasticity ^a
Argentina	4.7	0.30
Bolivia	4.0	1.35
Brazil	2.5	0.52
Chile	6.2	0.31
Colombia	2.6	0.42
Costa Rica	5.2	0.54
El Salvador	4.5	0.87
Honduras	3.0	1.63
Mexico	3.2	0.97
Panama	4.7	0.79
Paraguay	2.1	2.48
Peru	4.6	0.83
Dominican Republic	5.0	0.70
Uruguay	5.0	-0.17
Venezuela	2.0	1.75
Latin America (mean)	4.5	0.79
Northern countries (mean)	4.6	0.83
Southern countries (mean)	2.9	0.52

Source: ECLAC (2000a, p. 66).

^a The elasticity was calculated by dividing the growth rate of employment by the growth rate of GDP.

As already noted, the behaviour of the manufacturing sector is the main factor explaining the difference in terms of employment creation between the northern and southern countries, and the assembly industry plays an important part in this, which explains the disparities within industry as a whole. Table 11 shows the importance that the assembly industry has had. In reality, during the 1990s it was the only form of manufacturing that registered employment growth worthy of mention.¹⁶ In some countries, especially Mexico and the Dominican Republic, there were already a considerable number

TABLE 11

Employment in the assembly industry, 1990-1999

Country	Employment in assembly industries (thousands)			Employment in assembly industries as a percentage of employment in manufacturing (1999)	
	1990	1996	1999	Total	Formal
Costa Rica	33	48	...	25 ^a	36 ^a
El Salvador	2	38	45	11	...
Guatemala	45	62	...	...	48 ^a
Haiti	...	20	...	...	...
Honduras	18	76	120	32	...
Mexico	446	779	1197	16	28
Nicaragua	0	8	20	16	36
Dominican Republic	130	164	191	37	...

Source: Calculations by the authors on the basis of official country statistics.

^a 1996.

of jobs in such firms at the beginning of the 1990s, but the main increase took place during the decade. In 1999, jobs in the assembly industry represented between 10% and 40% of total employment in manufacturing in the sample of northern countries shown in the table, while they represented up to 48% of total formal-sector employment. As they depend on exports to the United States, the buoyancy of the United States market in recent years was decisive for the development of this industry; it remains to be seen how they will fare when circumstances are less favourable.

The big growth in employment in the assembly industries does not mean that the traditional industries of the northern countries have escaped the heavy impact of trade openness and modernization on employment suffered by the manufacturing sector in the southern countries. In Mexico, just as in Argentina and Brazil, the increase in imports affected labour-intensive industries such as textiles and leather products, and between 1990 and 2000 the number of jobs in non-assembly industries went down by over 10%, with a slight recovery from 1997 on.¹⁷ In view of these common trends, the increase in manufacturing employment in the northern countries and its contraction in those of the south may be attributed mainly to the presence of the assembly industries in the former.

The assembly industries have often been accused of not complying with basic labour standards such as the right of association, of having substandard working conditions and of not making a significant contribution to economic and social development.¹⁸ The sector includes very different types of enterprises, however, and it is hard to generalize.

¹⁷ Weller (2000a, chapter 5) and ECLAC (2001a, chapter 3).

¹⁸ See for example ILO (1996, pp. 34-35). For a more detailed analysis of the assembly industry, including both its advantages and disadvantages, see Buitelaar, Padilla and Urrutia (1999) and Buitelaar and Padilla (2000).

¹⁶ See ECLAC (1997, p. 93, and 2001a, chapter 3).

V

Policy recommendations

There are still substantial problems in Latin America in terms of economic development, investments and productivity, but progress was made during the 1990s in these respects compared with the 1980s. The problems related with employment and equity grew worse, however: employment generation was sluggish, the quality of jobs deteriorated, and inequality probably increased. Consequently, governments must devise policies expressly aimed at solving these problems. The data we have presented here on the differences between employment generation in the north and south of the region indicate that such policies must to some extent be adapted to the characteristics of each country.¹⁹

For the region as a whole, however, policies must bear in mind in general that measures to speed up growth must form an integral part of any strategy designed to promote employment generation. In order to reduce unemployment and inequality, growth rates must be high and stable. The nature of the growth obtained is also important. The new development model applied in Latin America entrusts the private sector with the task of leading investment, but governments can offer incentives so that growth will be based on more intensive use of labour. This is why the creation of infrastructure is important: it has the dual advantage of increasing the competitiveness of the country and also generating a considerable number of jobs. Concessions, as an extension of the privatization process, are a useful means of achieving this.

As regards the northern countries, the assembly industry offers great potential for improving the labour market situation both quantitatively and qualitatively. Substantial differences may already be observed among assembly firms in terms of technology, human capital requirements, compliance with labour legislation and other aspects, indicating that they are capable of developing with positive consequences for employment.

Recognition of this potential would help to overcome the futile confrontation between those who criticize the shortcomings of many assembly industries in terms of working conditions and the supporters of these enterprises, who insist that most of the people working in them have no satisfactory employment alternatives. As the jobs offered by the assembly industry correspond to the formal sector, they most probably offer some advantages compared with informal-sector activities, but they are often characterized by their deficient working conditions and refusal to allow workers to join trade unions. By combining outside pressures on the enterprises to comply with basic standards, such as the obligation to apply codes of conduct and the adoption of seals of social quality, with internal measures to guarantee the right to join trade unions and the fulfillment of labour legislation, it would be possible to improve working conditions without jeopardizing the competitiveness of the enterprises.

The assembly sector could also be improved through reforms which gradually change the basis of its competitive advantages from low factor costs to the greater use of knowledge: a trend which can already be observed in some production networks, especially in the U.S./Mexico border zone and in Costa Rica. Another improvement could be to integrate the assembly industry more tightly into the production structure of the country by creating links with small and medium-sized enterprises. This would undoubtedly require not only legal reforms but also an improvement in the competitiveness of domestic producers.

In the South American countries, the assembly industry is not so important as the need to give support to small enterprises so as to complement the capital-intensive production structure that prevails at present. In devising employment policies for these units, a distinction must be drawn between small and medium-sized enterprises and micro-enterprises. The former generally have some economic potential, so that the problem is to increase their competitiveness, but although this is also true of some micro-enterprises, many of them operate more as survival strategies than as firms which have any significant business

¹⁹ This section is based on Stallings and Peres (2000, chapter 7) and Altenburg, Qualmann and Weller (2001). For other proposals for policies to improve the employment situation, see IDB (1996), Edwards and Lustig (eds., 1997) and Tokman and Martínez (1999).

capacity for improving working conditions. In the longer term, then, the workers in the great majority of these units need to be given more education and training so that they can find better employment opportunities in other sectors of the economy.

In other parts of the world, two methods have been used to improve the situation of small enterprises and could serve as useful examples for the governments of Latin America. The first is the formation of groups of enterprises engaged in the same line of activity, in order to reduce the cost of services for small enterprises. Among the most successful of these groups are those which have been set up in northern Italy. Credit operations are particularly costly when it is necessary to negotiate with a number of small firms, and the use of a system of collective loans has proved to be viable in this respect, even in the case of micro-enterprises (examples are the Banco del Sol in Bolivia and the Grameen Bank in Bangladesh). The same method has given good results in the case of small agricultural producers too. The formation of groups can be useful not only for credit but also for reducing the cost of other inputs and marketing.

The second method of tackling the need to create productive jobs is for small and medium-sized firms to establish links with larger companies as suppliers. It is in the interest of the larger firms to help increase the competitiveness of their small suppliers in this way, especially in the fields of information, technology, training and finance. In a number of Asian countries, including Japan, such relations with suppliers have markedly improved the viability of small firms, even though at times of crisis the latter tend to be the losers. A variant of this approach is the contract production model, whereby a foreign marketing firm buys the products of firms that manufacture them to its specifications. There are a number of such agreements in Latin America, some of them more successful than others.

Some labour experts have proposed that the labour market should be made even more flexible.²⁰ In our opinion, the labour markets are already much more flexible than is generally believed. We are also concerned at the possibility of introducing radical reforms with dubious consequences both for new jobs and for the quality of the existing ones. It would be

very undesirable to apply an across-the-board solution in view of the marked differences among the labour markets of the region.

Instead of centering their attention exclusively on making the labour markets more flexible, the authorities should rather seek ways of making them operate better. At all events, if a government did decide to press ahead with flexibilization it would also have to provide access to an unemployment insurance scheme and, in order to facilitate the transition from one job to another, cease to make benefits conditional on length of service in a given firm. Another way of improving the operation of the labour markets would be to provide workers and firms with more information in order to reduce the period spent looking for work and the resulting temporary unemployment. As these measures would not eliminate structural unemployment, they would have to be combined with the employment generation policies mentioned earlier.

Initiatives for stimulating employment are not a substitute for the other social policies but rather a complement to them. There are two kinds of complementarity, which overlap with each other. One is to increase the capacity of the labour force to adapt to the new demands of the labour market, especially now that the region is participating more fully in the world economy; in this respect, education and training are of fundamental importance, although health and housing are also important. The other is based on the establishment of safety nets to aid the most vulnerable groups: i.e., those who do not have access to the labour market or whose income is not sufficient to allow them to maintain their families. Both types of initiatives require an increase in social expenditure.

After the contraction in social expenditure which took place during the crisis of the 1980s, all the countries increased it in the following decade, some of them by a substantial proportion.²¹ The resources for this increase come from one or more of the following three sources: faster GDP growth, an increase in public spending as a percentage of GDP, or an increase in the proportion of total public spending represented by social expenditure. Countries where social expenditure accounts for only a small proportion of GDP should increase that proportion in order to expand their social services; the others will probably

²⁰ See, for example, Guasch (1996), Burki and Perry (1997), Márquez and Pagés (1998) and Heckman and Pagés (2000).

²¹ See ECLAC (1999, chapter 4).

have to resort to one of the other two mechanisms. Several countries, however, are approaching the maximum politically viable level of social spending as a proportion of total public expenditure. In these circumstances, they have three possibilities: to make more efficient use of the existing resources, to increase total public expenditure, for which they would have to increase total revenue, or to expand the participation of the private sector. All these options present problems, and the question of which of them is most advisable will vary according to the country, depending on its circumstances and the preferences of its society as a whole.

It will not be much good increasing and improving social expenditure if it is subsequently reduced when there is a crisis. This is what happened in the 1980s, and as social expenditure has a markedly pro-cyclical tendency there is always a danger of future reductions. Governments must take care to ensure that social expenditure is protected at times of crisis. The long-term social losses resulting from crises are often never recovered. Children who drop out of school may never return to it, workers who lose their jobs may lose experience of incalculable value if they have difficulty in finding work again, and families who lose their homes may have problems for many years afterwards. The most likely thing is that those who benefit from subsequent reactivation of the economy will not be the same people who were adversely affected by the crisis.

The social services must give priority to improving and expanding access to education. Spending on education has the double advantage

that it contributes both to competitiveness and greater equality, albeit in the relatively long term. Many of the problems of income distribution and productivity suffered by Latin America are due to its large supply of unskilled labour, which is the result of many years of shortcomings in education. It is of the utmost importance to overcome this legacy of educational insufficiency. This matter has been extensively analysed, but there are still numerous controversies and problems regarding the manner of achieving this goal. In the case of basic education, the main thing is to improve its quality; in secondary education, what is needed is to expand its coverage and access to it. With regard to higher education, it is necessary to improve access and ensure proper selection of the areas of specialization. A substantial increase in the number of people entering the labour market with full secondary education would help to solve both the economic and the social problems of the region.

In short, it is urgently necessary for the Latin American and Caribbean countries to take steps to solve their problems in respect of employment, which is the main link between economic and social development. Employment problems are also a danger to democracy in the region, as a number of cases have shown. The solutions must be multi-faceted. In the area of economics, they involve an increase in growth rates and hence also in investment, while at the social level they will demand special efforts in education. This alone is not enough, however, since it is also a question of applying policies designed to promote employment and devoting special attention to the problems of small and even micro-enterprises.

(Original: Spanish)

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