

# **ECONOMIC REFORMS, GROWTH AND EMPLOYMENT: LABOUR MARKETS IN LATIN AMERICA AND THE CARIBBEAN**

**Jürgen Weller**



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# Foreword



At the start of the new decade, the debate on economic policy centres on the consequence of the reforms implemented in Latin America and the Caribbean in the last two decades. Trade and financial liberalization and the privatization of production activities have radically altered the rules of the game governing labour and business. The macroeconomic policy changes that accompanied or preceded the reforms sometimes strengthened the latter's specific objectives, especially the growth of exports, but on other occasions they had the opposite effect. That combination of factors prompted the emergence of new market structures and transformations in microeconomic behaviour.

Assessing the effects of the reforms on economic growth, employment and income distribution is of more than academic interest. Governments, political parties and social actors require a thorough evaluation of the results, so as to devise or propose policies that complement the reforms or counter their unwanted consequences. The Economic Commission for Latin America and the Caribbean (ECLAC) actively participates in this process.

This book is part of a project carried out by ECLAC, in conjunction with researchers from nine countries, to study the impact of the reforms. Directed by Dr. Barbara Stallings, the project has produced 14 books and 70 working papers. The summary appears in the first volume, entitled *Growth, Employment and Equity: The Impact of the Economic Reforms in Latin America and the Caribbean*. It is complemented by four issue-specific volumes analysing investment, technological change, employment and equity. Additionally, another nine country volumes examine the particular characteristics of the reforms in Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Jamaica, Mexico and Peru. The working papers are available at ECLAC's web site ([www.cepal.cl](http://www.cepal.cl)).

One feature of the project that distinguishes it from other comparative studies of economic reform is that it specifically addresses the interaction between macroeconomic and microeconomic processes. To understand the impact of the reforms more fully, it is necessary to disaggregate the regional level and to study the differences between countries and in the microeconomic behaviour of firms according to sector, size and ownership. The globalization of the economy and government policies such as structural reform affect different countries and groups of firms in different ways. Some have been able to exploit the new opportunities, while the situation of others has deteriorated. The outcome of such developments gives rise to aggregate trends that others have observed and measured, but to design economic policy measures and improve future performance, it is essential to know what underlies those aggregates.

The differing effects of the reforms are also evident in labour markets. Jürgen Weller, an ECLAC economist, thus takes account of their profound heterogeneity in the analysis of the region's labour markets presented in this book. That diversity partly derives from the special way in which labour markets work, as reflected in the presence of different segments driven by labour demand and by supply. This analysis thus differs from approaches which start from the premise of homogeneous labour markets, or which argue that the segmentation stems from politically induced distortions. Such approaches fail to capture the inherent dynamics of the region's labour markets. The author argues that economic reforms and effective labour institutions do not necessarily lead to equilibrium in the labour market, which underscores the importance of empirical research.

Since it might be expected that the reforms would mainly affect the segment driven by labour demand, the book focuses on wage employment, although it also addresses the evolution of supply and of other employment categories. Additionally, the author maintains that an understanding of labour market dynamics demands an examination not only of trends at the aggregate level, but also of changes at the sectoral level. This approach provides a dynamic vision of the use of production factors, specifically the labour force, which explains why the economic reforms did not fulfil the expectations about job creation.


In that context, the book shows that it is mistaken to speak (as some do) of jobless growth, but that some sectors did indeed suffer a significant decline in labour intensity. The productive restructuring triggered by the reforms not only affected job creation, but also had a marked impact on the composition of employment. Changes within and between sectors created a labour demand bias in favour of more educated workers, which tends to aggravate labour market segmentation. The author's analysis clearly reveals the size of the challenge facing the region in terms of creating more and better quality jobs.

ECLAC could not have carried out a project of this scale without the cooperation of many individuals and institutions. We wish to thank the researchers that participated in each of the nine countries, as well as the coordinators of the thematic and national volumes. We are also indebted to the members of the project's External Advisory Committee: Nancy Birdsall, Director of Economic Programs at the Carnegie Endowment for International Peace; René Cortázar, Executive Director of Chilean National Television; Norman Hicks, senior economist at the World Bank; Juan Antonio Morales, President of the Central Bank of Bolivia; Pitou van Dijck, Professor of Economics at the University of Amsterdam; and Dorothea Werneck, Executive Director of the Brazilian Agency for Export Promotion.

External financing came from a number of international donors. First, we wish to recognize the central role of the Netherlands Ministry for Development Cooperation, which provided the project's basic donation. The International Development Research Centre of Canada (IDRC) also made a substantial contribution that allowed us to expand the scope of the project significantly. These two sources were supplemented with funds from the Ford Foundation and the Swedish International Development Agency. We offer our deepest thanks to all the donors, without whose support this project would not have been possible.

JOSÉ ANTONIO OCAMPO  
EXECUTIVE SECRETARY  
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN

## PREFACE



This book analyses the evolution of Latin American and Caribbean labour markets in the 1990s and the impact of the economic reforms on them. The research on which it is based was part of a project on “Growth, Employment and Equity: The Impact of the Economic Reforms in Latin America and the Caribbean”, which was carried out by ECLAC and researchers from nine countries. The project studied how the reforms affected a series of economic and social variables (namely, those mentioned in the project’s title, as well as investment and technological change).

The book made extensive use of the results of a special processing of data from household surveys in nine countries of the region (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Jamaica, Mexico and Peru). The processing was organized according to a common design by the project consultants in those countries. The consultants, whose cooperation is much appreciated, were Dillon Alleyne, Oscar Altimir, Luis Beccaria, José Márcio Camargo, Guillermo García-Huidobro, Luis Carlos Jemio, Julio López, Nancy Montiel, Emilio Morgado, Marcelo Neri, Liliana Núñez, Juan Mauricio Ramírez and Jaime Saavedra.

Additionally, the book made use of those same consultants’ analyses of their respective countries, other documents drawn up during the project, official national sources, secondary comparative literature and studies on the evolution of the labour markets in the countries of the region. In general, the information concerns the nine countries mentioned. Not all of them could always be considered, however, because of problems of data availability. In some cases, information on other countries of the region was included to provide a more complete picture, as were data on trends in the region as a whole.




Discussions held during the project helped orient the research and prompted reflection on labour market dynamics in light of the analysis of other economic and social areas. In this regard the contributions of other colleagues associated with the project to one degree or another were very stimulating. These included Barbara Stallings (project coordinator); Ricardo Bielschowsky, Jorge Katz, Graciela Mogueillansky and Samuel Morley (the coordinators of the other modules); and Oscar Altimir, Hubert Escaith, Ricardo Ffrench-Davis, Ricardo Martner, Wilson Peres, Joe Ramos and Osvaldo Rosales.

Discussion of the preliminary research findings was a great help in improving the final result. I would like to thank several of those mentioned above for their valuable comments in the workshops organized for that purpose, as well as Irma Arriagada, Luis Beccaria, René Cortázar, Martine Dirven, Guillermo García-Huidobro, Ricardo Infante, Luis Carlos Jemio, William F. Maloney, Carmen Pagés, Juan Carlos Ramírez, Pilar Romaguera and Jaime Ros.

Claudia Behrendt, Rafael Hernández, María Eugenia Johnson, Sofía López, Lucas Navarro, David Rosas, Ximena Sánchez and Carolina Valenzuela made efficient contributions at various stages of the research. I am grateful to all them. I, however, have sole responsibility for the contents of this book, especially for its mistakes.

## CHAPTER I

# INTRODUCTION



Labour conditions in Latin America and the Caribbean have long been a cause for concern. Despite relatively high economic growth rates in the postwar decades, a large part of the labour force was excluded from productive activities. The crisis of the 1980s exacerbated labour problems, since informality and unemployment grew while real wages fell.

With the resurgence of neoclassical theory, it was argued that the region's labour problems originated in distortions of the factor and goods markets. Those distortions constrained economic growth and fashioned a productive structure that was little conducive to the use of labour. The elimination of such distortions would therefore lead to higher levels of employment and better wages, which would be of particular benefit to workers with relatively low levels of education. Initial reform attempts therefore reflected the expectation that the main positive outcome for the labour market would stem from non-labour market reforms, such as trade and financial reform, or the elimination of the urban bias, as these would remove many of the distortions. Only in the 1990s was mounting emphasis placed on a labour market reform that was geared towards flexibility.

Contrary to the expectations raised by the economic reforms, the region posted a disappointing labour performance in the 1990s, and many analysts are now assessing the reforms negatively with regard to their impact on labour. According to ECLAC, for example, "the new bases of growth in Latin America and the Caribbean have apparently had a limited effect on job creation and average wage levels" (ECLAC, 1997, p.60). This gave rise to insufficient job creation and the concentration of new jobs in low productivity activities. Similarly, the IDB (Lora and Olivera, 1998) analyses the "paradox" that labour indicators have not been more positive despite the countries' better

macroeconomic and microeconomic performance. The International Labour Organization (ILO), however, examines the evolution of labour performance between the late 1980s and mid-1990s, finding that the outcome was more positive for countries that applied economic reforms early than for those that reformed more recently.<sup>1</sup> Hence the need to distinguish different phases of the impact of the reforms on employment.

Figure I.1 places the present study in the context of the ECLAC project “Growth, Employment and Equity: The Impact of the Economic Reforms in Latin America and the Caribbean”.<sup>2</sup> The figure shows the importance of employment as a linking mechanism between economic factors (especially growth) and equity. It also reveals how job creation and its characteristics depend on the labour supply and its composition, as well as on labour demand. Demand hinges on economic growth and technological change, which largely determines the labour intensity and skills requirements of the workforce. Just as the effects of the reforms on economic growth and technical change are conditioned by the way that the markets and corresponding institutions work, so labour market institutions play an important role in the market’s performance. The results of some aspects of the research do not feature extensively in this book; these include long-term employment trends in Latin America and the Caribbean, extra-regional trends and the detailed evolution of employment in the nine countries under study.<sup>3</sup>

The analysis of labour performance in the region’s economies centres on their capacity to create productive employment after the reforms were implemented. The book therefore focuses on labour demand, represented by wage employment, although as shown below, this is not to disregard the dynamics of supply or the evolution of non-wage employment. The study also considers the heterogeneity among countries and among the sectors and segments in each, as well as the nature of the new jobs.

Chapter II summarizes the expectations that the economic reforms raised with regard to job creation, arguing that the theoretical basis of those expectations in fact precludes formulating definitive conclusions about the impact of the reforms on employment. This is because of certain weaknesses,

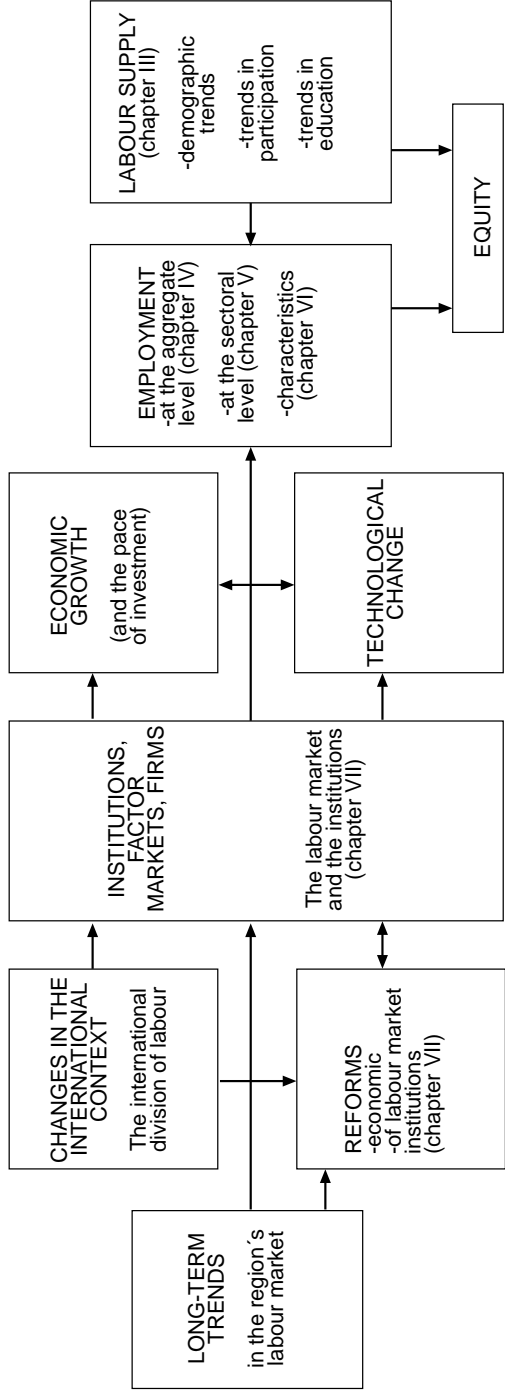
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1 “In all these countries [Bolivia, Chile and Costa Rica, plus Colombia as the only country with more recent reforms] unemployment falls, wages rise, informality is stable or increases slightly, and productivity increases (except Bolivia).” ILO, *Panorama laboral*, 1996, p.19; see also ILO (1999b, section B.1).

2 With regard to the findings of other research conducted within the project, see Stallings and Peres (2000), Mogueillansky and Bielschowsky (2000), Katz (2000) and Morley (2000). The working papers in ECLAC’s Economic reforms series can also be consulted. These are available on ECLAC’s web site: <http://www.eclac.cl/espanol/investigacion/series/refecono/indice.htm>.

3 See Alleyne (2000); Altimir and Beccaria (1999); Camargo and Neri (1999); García-Huidobro (1999); Jemio (1999); López (1999); Montiel (1999); Morgado (1999); Ramírez and Núñez (2000); Saavedra Chanduví (1999); Weller (1998a, 1998b).

Figure I.1  
**THE ANALYSIS OF EMPLOYMENT CREATION IN THE CONTEXT OF THE PROJECT “GROWTH, EMPLOYMENT AND EQUITY. THE IMPACT OF THE ECONOMIC REFORMS IN LATIN AMERICA AND THE CARIBBEAN”**



Note: The references to the chapters indicate the parts of this book where the corresponding topics are treated.

notably in trade theory and labour market theory. The development of the labour markets and the influence of the reforms, therefore, are mainly analysed from an empirical perspective. Chapter II thus presents the analytical elements that are taken into account in this study.

Chapter III reviews trends in the labour supply. Over the long term, employment and labour supply are closely linked. This is only partly explained by their interaction with demand and wages, since various factors that are exogenous to the labour market, such as demographic trends, have also affected its development in recent decades. Another part of the explanation lies in urbanization and the expansion of education and pensions systems. In the 1990s the reforms and other factors caused no interruption of the prevailing trends in labour supply.

Chapter IV analyses the evolution of aggregate employment in the 1990s, emphasizing the impact of the economic reforms. While the long-term progression of *aggregate* employment is strongly determined by the dynamics of the labour supply, the low level of *wage* job creation reflects a significant weakness in labour demand. (Unlike the 1950-1980 period, wage employment did not grow more than employment as a whole in the 1990s.) The primary cause of that weakness was sluggish, and less labour-intensive, economic growth. Trade liberalization and exchange rate appreciation had a bearing on the decline in labour intensity within the productive process. The reforms apparently favoured economic growth, but they also contributed to these processes and therefore to the decline in labour intensity.

Despite this reduced labour intensity, there was no jobless growth. Indeed, taking into account variables such as the employment rate, the unemployment rate, the relative pace of wage job creation and real wages, economic growth was the main explanation for differences in labour performance among the countries of the region in the 1990s.

The downturn in the labour intensity of growth can be studied at the sectoral level (chapter V). The primary and secondary sectors were modernized substantially in the course of the decade. Against expectations, this was a labour-saving process and led to an increase in average labour productivity. In this regard, however, the northern and southern subregions diverged considerably, with more intensive labour use in the former (Mexico, Central America and parts of the Caribbean). A large percentage of the new jobs created in the 1990s were in the tertiary sector. This reflects the demand for labour in activities that were being transformed (such as trade, business services, financial services, transport and social services), as well as the growth of informal activities. Because of the latter trend –and despite modernization– the average labour productivity of tertiary activities as a whole did not increase.

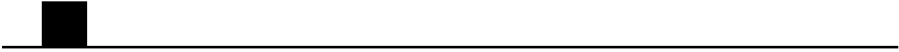
Chapter VI examines changes in the characteristics of employment and the heterogeneity of the employment structure. Modernization and sectoral restructuring, together with the attendant changes in labour demand, sparked

a bias towards hiring workers with higher levels of education. While this part of the labour force had a better chance of finding wage employment, many people with lower levels of education were forced into non-wage jobs. This process, which was closely linked to educational factors, resulted in the constitution of two distinct segments of the labour market, one driven by demand and the other by supply. As a result of the preference for skilled workers, the wage gap between university-educated wage earners and less qualified groups widened in most countries. Modernization processes (with the concomitant creation of jobs requiring higher levels of education and training) were accompanied by the simultaneous emergence of a large percentage of new jobs in low productivity activities, which generated greater heterogeneity in the employment structure. In this context, wage employment tended to become more precarious, especially in terms of contractual conditions and social protection.

Partly as a result of the relatively unsatisfactory labour performance that followed the so-called first-generation reforms, the need to reform labour market institutions was given greater priority in the 1990s. There was a fairly broad consensus that some elements of the institutional framework created in earlier decades had not adapted to the new economic context. Efforts to make the labour market more flexible included labour reforms, wage and employment policies and measures at the firm level (chapter VII). Beyond this consensus, however, there was profound divergence as to what qualities were appropriate for labour market institutions given the new conditions of growth. This book stresses the labour market's specific characteristics and the aims of its institutional components. These aims are basically two-fold: to spur market efficiency and to strengthen the market position of those who are in a structurally weaker position in order to ensure proper working conditions. This dual goal, as well as the distinction between labour market flexibility and the flexibility of labour as an input, prompts the conclusion that making labour market institutions more flexible should not mean maximum deregulation. Rather, it demands a search for ways to adapt those institutions to the new economic environment, a process in which the various social actors should participate. Finally, the conclusions (chapter VIII) discuss the main findings of the research.

## CHAPTER II

### ECONOMIC REFORMS AND EMPLOYMENT: EXPECTATIONS AND ELEMENTS OF ANALYSIS



The development of the labour market between 1950 and 1980 has been characterized as a simultaneous process of assimilation and social exclusion (PREALC, 1991, p. 2). A growing proportion of the economically active population (EAP) was integrated in dynamic activities. However, in the context of interlinked push-pull factors, a large segment of workers left the agricultural sector and frequently emigrated to the big cities, where they could only find work in low-productivity, low-wage activities (Infante and Klein, 1991; Weller, 1998a, pp. 9-22). The process of partial integration was fostered by the development of labour market institutions that were geared to protecting workers in a market that is structurally biased towards employers. As happened with integration in “modern” productive processes, however, labour market institutions were in force for only a part of the economically active population. These institutions could not by themselves offset the enormous social and economic instability of the countries of the region. Despite relatively low rates of open unemployment on average, it was generally perceived that the region suffered serious labour problems.<sup>4</sup> A key phenomenon was the

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4 “[One] of the peculiar features of Latin America is the persistence of a large proportion of the employed labour force with low levels of productivity... The productive absorption of this labour force is hindered by the dynamic inadequacy of the economy, which is unable to reduce this proportion despite the high accumulation and growth rates of the modern sectors. This, in turn, is explained by the nature of technological change and the distribution and appropriation of wealth” (Tokman, 1982, p.129). From another perspective, Balassa and others (1986, p.71) also found labour problems, but they posited another explanation: “...at the same time, the high expectations for creation of new jobs under an import-substitution oriented development strategy in Latin America were disappointed. The establishment of relatively capital-intensive industries did not permit the full absorption of workers released by agriculture, which suffered discrimination under this strategy.”

visible and invisible underemployment evident among large sectors of rural agriculture and the urban informal sector.

Labour problems worsened during the crisis of the 1980s, as the formal sector's capacity to create productive jobs declined and as most new employment was located in the informal sector. Agriculture had been a temporary haven, but its share of employment continued to fall and the growth of the secondary sector was curbed. By contrast, the tertiary sector kept growing and in that decade came to account for more than half of total employment. As households required work and income, so informal employment expanded and, at the end of the decade, open unemployment again fell to pre-crisis levels. At the same time, labour productivity and average wages declined. In sum, in the context of a strong downturn in economic growth, the labour situation seriously deteriorated in many countries of the region during the 1980s.

Theorists generally agreed that the labour market faced problems, but there was no consensus on the causes or on the prospects for employment, unemployment and labour income. Table II.1 shows the conceptions of the Latin American labour market that gained prominence from the 1940s onwards, as well as the results expected in each case. These views clearly coincide with the dominant thinking on economic development in each period.<sup>5</sup>

The neoclassical resurgence had a strong political impact. Often encouraged by certain multilateral and bilateral cooperation organizations, it influenced the formulation of growth strategies in the 1980s and 1990s. In that context it was argued that the main causes of problems in the labour market lay in the distortions wrought by the economic policies of the prevailing model of industrialization. In that view, the most important distortions affected the operation of markets other than the labour market, although some features of the latter also discouraged job creation. The main distortions were said to be the following:

- The anti-export bias: it was argued that import substitution industrialization (ISI) strategies (which were characterized by tariff protectionism, an overvalued exchange rate and fiscal policies that taxed exports) gave rise to a productive structure that did not match the region's factor endowment, and the labour factor was therefore under-used.
- The urban bias: to foster industrialization, agricultural activities had been subordinated to the role of providing foreign exchange, cheap foodstuffs and industrial inputs (by means of price, credit, fiscal and tariff policies, for example); such practices curbed the growth of the generally labour-intensive agricultural sector.

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5 Thomas (1996) briefly summarizes the main theoretical contributions to the analysis of the Latin American labour market.



Table II.1  
**VIEWS OF THE LABOUR MARKET IN LATIN AMERICA**

SCHOOL	DECADES	OPERATION	RESULTS
Neoclassicists (optimists)	1940s and 1950s	One market Only frictions	Full employment <sup>a/</sup> Levelling of income
Dualism: Lewis (optimist)	1950s and 1960s	Two sectors <sup>b/</sup> Excess supply	Full employment Levelling of income
Structuralism (pessimist)	1960s and 1970s	Two sectors Excess supply	Unemployment Income inequality
Informal sector (optimistic version) <sup>c/</sup>	1970s and 1980s	Two sectors Excess supply	Full employment Levelling of income
Neoclassical resurgence (optimist)	1980s in Latin America	One market Only frictions	Full employment Levelling of income
Segmentation (pessimist)	1970s in the United States; 1990s in Latin America	Two sectors Several sectors Excess supply	Unemployment Income inequality

**Source:** Francisco Verdera V., "El mercado de trabajo en Lima Metropolitana: estructura y evolución, 1970-1990", Working Paper No. 59, Lima, Instituto de Estudios Peruanos (IEP) and Consorcio de Investigación Económica, 1994, p.12.

a/ There is only frictional unemployment.

b/ Basically defined as modern and traditional.

c/ In its pessimistic version it resembles the segmentation approach.

- The bias in favour of capital intensity: the relative price of capital was cut to stimulate the modernization of productive activities, for example by facilitating imports of machinery and equipment and by subsidizing credit and inputs.
- The bias against labour demand: distortions such as non-wage labour costs, unionization, the large size of the public sector, minimum wages and similar factors had made labour more expensive.

Neoclassicists also argued that as a result of the above, the productive structure had developed in a such way that the intersectoral composition and intrasectoral combination of factors discouraged job creation. Such distortions had to be eliminated through economic reforms, especially trade, fiscal, financial, labour, exchange rate and price policy reforms. This would benefit employment in three ways:<sup>6</sup>

- by inducing higher economic growth;
- by reorienting investment towards more labour-intensive activities; and

6 See Krueger (1978 and 1983); Bhagwati and Martin (1980).

- by stimulating technological change in favour of a factor substitution that benefited labour.

Because of the link between capital and skilled labour, together with the relative abundance of manpower with lower skill levels, workers in the latter group would be in greater demand. This would have a positive impact on their relative wages (by narrowing the wage gap between workers with low and high levels of education) and thus on income distribution (Krueger, 1983, pp.104-108).

It was thought that higher economic growth would be a key contribution of reforms geared to job creation.<sup>7</sup> Since higher growth was assumed to be the outcome of the whole package of coherently interlinked reforms, the employment impact was not attributable to specific reforms.

It was possible to infer, however, what impact the individual reforms would have on intersectoral and intrasectoral changes, in terms of greater labour demand. In that context, the main positive impact on employment was ascribed to trade liberalization, since this corrected distortions that until then had precluded the use of factors according to comparative advantages. Trade reforms would thus have a substantially positive impact on employment, by virtue of the intersectoral and intrasectoral transformations induced by the reform itself.

Other reforms that were expected to lead to the greater labour intensity of economic growth (by means of intersectoral and intrasectoral transformations) include the following:

- Reform of exchange rate policy was expected to lead to a competitive exchange rate, which would stimulate exports to the detriment of imports and production for the domestic market. This would benefit labour-intensive activities and technologies.
- Fiscal reform would lower the taxes on external trade, which would enhance the favourable effects of trade and exchange rate reforms.
- Financial reform would eliminate subsidized credit and liberalize interest rates, thus increasing the price of the capital vis-à-vis labour.
- Eliminating price controls, especially for products of mass consumption, would stimulate the production of such goods, which are generally labour-intensive.
- Deregulating the labour market would lower the costs of the labour factor and would thus favour hiring.

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7 In her study on trade and employment, Krueger (1983, pp.53-54) argues: "In general there is a fairly strong presumption that factors that tend to increase the rate of economic growth also tend to shift the demand for more labor rapidly to the right. Insofar as the rest of this book focuses upon commodity composition and factor substitution effects of alternative trade regimes, it may be that the single most important effect of choice of trade regimes upon employment is overlooked." However, she also allows: "What should be borne in mind throughout this volume is that the links between more rapid economic growth and developments in the labor market are not entirely understood."

Privatization and the general shrinking of the State apparatus were the only reforms expected to have a negative impact on employment. However, that effect would, first, be short-term; second, it would have a positive impact on the labour market by eliminating distortions; and third, it would put an end to unsustainable situations over the longer term.

The reforms would, in particular, benefit the large sectors producing tradable goods, namely, agriculture and manufacturing. In agriculture, the elimination of existing distortions would improve the sector's relative prices. This would stimulate agricultural production because of the region's comparative advantages in this sphere, the result of abundant manpower and favourable natural conditions (World Bank, 1986). The elimination of the urban bias would cause agricultural production to expand, which would have a significant positive net impact on employment because of the high labour intensity of the sector as a whole (World Bank, 1990, p.63). Beyond the increase in labour demand caused by the expansion of agricultural production, the proposed measures would have an additional positive impact on employment in the sector for the following reasons:

- the elimination of capital-intensive technology development (a characteristic feature of agricultural policy in previous decades) would encourage greater use of agricultural labour (Squire, 1981, pp.157-162); and
- the reorientation of agricultural production towards exports would have an additional positive impact, since it would generally be more labour-intensive than production for the domestic market (Krueger, 1983, pp.14-15).

In manufacturing, the reform-induced reorientation of production towards exports was also expected to have a favourable impact on employment (Krueger, 1983; Balassa, 1986):

- even in distorted trade regimes, and more so under the conditions of free trade, industrial exports would have a higher proportion of the labour factor in national value added than import-competing industries;
- export industries would make greater use of unskilled labour than would industries geared towards the domestic market; and
- among export industries and import-competing industries, the categories with little or no protection would use labour more intensively than those with higher protection.

The neoclassical resurgence provided the main theoretical basis for the economic reform proposals of the 1980s.<sup>8</sup> In many countries of the region, these arguments gained force as international financial institutions won

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8 Williamson (1990) synthesized the set of reforms within the framework of the "Washington Consensus".

prominence during the debt crisis, since some of the academics who advocated such reforms had acquired much influence in those institutions.

In the 1980s no great thought was given to labour reforms. This was largely because the main impact was expected to spring from efforts to liberalize other markets and because the labour markets were thought to be working satisfactorily.<sup>9</sup> Priority was therefore given to reforming other markets, although some labour market distortions were evident. Additionally, it would have been politically difficult to approve the corresponding reforms since resistance would probably have arisen among groups that would lose out if the labour market were to be made more flexible. In many cases, therefore, such reforms were deferred (Nelson, 1991).

Given the mediocre performance in terms of job creation, however, in the 1990s greater stress was placed on the harmful effects of labour market institutions, as well as on the need to deregulate the market. The aim was to stimulate economic growth, to do so in a more labour-intensive way and to facilitate the sectoral reallocation of labour.<sup>10</sup>

This book questions neoclassical assumptions about the impact of the reforms on employment. It does so by analysing the two theoretical areas that are pertinent here, namely, the commercial and the labour spheres. The theoretical basis that the neoclassicists used to infer the positive effects mentioned above excessively simplifies the region's real circumstances, and the conclusions are therefore insufficiently grounded to predict that employment would develop in the manner described.<sup>11</sup>

As already mentioned, the first issue arises from trade theory and the expectations that export activities would become the engine of job creation as a consequence of trade reform.<sup>12</sup> As evident from the discussion above, trade reform and its possible impact on factor use were central in raising such high expectations of vigorous job creation. While there is no denying the influence of the relative factor endowment on the structure of production, most notably of tradable goods, a series of arguments does cast doubt on the assumption that the factors would be fully used as a result of the elimination of distortions, especially trade distortions.

First, some clarifications should be made about the model normally used as grounds for arguing that trade reform would have a positive impact on employment in developing countries. The model assumes the existence of only two countries and two factors: a country with abundant capital and a

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9 See Berry and Sabot (1978); Squire (1981); Gregory (1986).

10 See, for example, Riveros (1992); Burki and Edwards (1995); Guasch (1996); Lora and Pagés (1997); IDB (1997); Burki and Perry (1997). Williamson (1997) also insists on the need to deregulate the labour market.

11 No reference is made here to the discussion about the impact of the reforms on economic growth; in this respect see Stallings and Peres (2000, especially chapter 4).

12 Some of the criticism below arose in the same analysis that defined the theoretical bases of the reforms.

labour shortage, and another with abundant labour and a capital shortage. The reality, however, is quite different. There are varying degrees of relative abundance, and the region seems to be at an intermediate level. Relative to countries with abundant labour, it lacks comparative advantages in products with a high density of low-skilled labour (Wood, 1997).<sup>13</sup> Moreover, the growing international mobility of factors tends to alter the relative endowment of resources. This is underpinned by the significance of a third factor of production, namely natural resources. A part of international trade consists of goods in which the comparative advantages of a given country are not determined by its relative endowment of capital and labour (Heckscher-Ohlin-Samuelson goods), but by its particular endowment of natural resources. This erodes the significance of the relative abundance of capital and labour in production (Krueger, 1983, pp.64-69).

Even if comparative advantages in labour-intensive activities were proven, they must be made absolute advantages for a country to exploit them. For Ricardo, under the gold standard, this process occurred with changes in the different countries' price levels. Today it would occur with exchange rate adjustments (Streeten, 1990, pp. 43-44). However, as exchange rates move in line with the impact of many factors other than goods trade, it is by no means guaranteed that these "correct domestic prices" will be transformed into "correct international prices". Thus an efficient allotment of internal resources does not necessarily lead to greater international competitiveness, in which case the volume of exports would not increase significantly. The thinking behind contrary assertions cannot therefore ensure the full use of factors.

Apart from these considerations on comparative advantages and the way to exploit them, it should be pointed out that the reforms (especially trade liberalization) affect different economic sectors in different ways. The assumption that production for export will become an engine of job creation neglects the fact that the reforms can have a negative effect on import-competing tradable goods, at least initially. Job losses will occur in these categories as protection is lessened.<sup>14</sup> Commercial liberalization should therefore boost employment in the production of non-tradable goods and services in the short term, but the evolution of employment would be uncertain in the transition towards renewed equilibrium (Edwards, 1986, pp.189-199).

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13 In this context the change in expectations about job creation according to the destination of exports is important, since it is argued that developing countries' exports are only more labour-intensive in trade with developed countries and not in trade with countries that have a similar factor endowment –for example, in the context of regional trade integration agreements (Krueger, 1978).

14 It has consequently been argued that the influence of these job losses depends on whether the change in the trade regime is led by exports or by the liberalization of imports (Agosin and Ffrench-Davis, 1993).

No firm conclusions can therefore be drawn about job creation in the sector that, overall, produces the vast bulk of new jobs.<sup>15</sup>

It can thus be concluded that although the relative endowment of capital and labour plays an important role in the composition of exports and imports, other elements influence that composition and, in particular, affect the volume of external trade, since they are crucial for exploiting the corresponding comparative advantages and for determining the impact on the use of manpower.<sup>16</sup> It cannot be firmly concluded that the expected intersectoral restructuring would lead to the full use of factors, especially labour. For regions like Latin America and the Caribbean, the link between trade liberalization and employment is theoretically much less certain than is normally claimed. This holds true for the intersectoral impact (are labour-intensive activities favoured?) and for intrasectoral changes (will labour-intensive technologies be used?).

A second criticism concerns the assumptions about how the labour market works. A premise of this study is that the labour market works differently from other markets. This is basically because the merchandise being traded is human labour, which is simultaneously a factor of production and the main mechanism for the material reproduction of households.<sup>17</sup> The impossibility of separating the good sold from the human being causes problems of market efficiency.<sup>18</sup> It establishes social relationships that transcend the typical economic relations of other markets, entailing, for example, ethical considerations that affect how the market works. Consequently, the labour market should not be viewed as simply another market, but rather as a social institution (Solow, 1990).

Over time, various labour institutions have been in operation in this market, with concomitant effects on labour supply, demand and intermediation. These institutions include the regulation of working conditions (such as level and type of wages, types of contract or firing conditions),

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15 It was expected, however, that the liberalization of the capital account would stimulate spending in the reforming country. This would encourage the non-tradable goods and services sectors, in particular, with the attendant job creation (Edwards, 1986; Cox Edwards and Edwards, 1994).

16 See Porter's study (1990) and his discussion of competitive advantages, in which the availability of basic factors is important for some kinds of products, while others (the "advanced factors") are increasingly important in international competition. See also the studies on systemic competitiveness, such as Bradford (1994) and Esser and others (1996).

17 At the macroeconomic level, this duality is manifest in the fact that the wage is simultaneously a production cost and an important component of aggregate demand. Horton, Kanbur and Mazumdar (1994b, pp.54-55) summarize the behaviour of labour markets during the structural adjustment of the 1980s; they find that in some cases the fall in real wages was so sharp that it inhibited the recovery of growth, because of the concomitant impact on domestic demand.

18 These include problems of incomplete information at the time of signing the contract (for example, as regards the capacities, skills and attitudes of the worker, and the requirements and conditions of the work), and problems of property rights (linked to the growth of human capital as a result of training), which demand transparent and appropriate regulations (IDB, 1996).

mechanisms for establishing and controlling such conditions, the various actors' organizations, institutions that affect the availability and nature of the labour force (such as systems of health care, education or professional training), information systems and the organization of work within companies (Rodgers, 1993; Standing, 1991). By the very nature of the labour market, this set of institutions should have a two-fold aim:

- to guarantee the efficiency of the labour market and
- to strengthen the market position of the structurally weaker actors and help create proper working conditions (broadly speaking).

Workers are structurally weak, largely because the demands of material reproduction make it difficult for them to react to a price (wage) cut by reducing supply. This has sparked collective responses (unions, as well as strikes as a mechanism of collective supply reduction, generally for short periods). It has also led to social responses, based on ethical, social and political considerations about minimum socially acceptable levels of well-being, income distribution and social stability. An analysis of the labour market's institutional framework must thus take account of its two objectives; an essential dimension would be neglected if one or another aspect were to be ignored.

Beyond the general characteristics of the labour market, it is important to consider its specific conditions in Latin America and the Caribbean. The region's productive apparatus is marked by a high degree of structural heterogeneity. This springs from the segmentation of the markets for human capital, physical capital, technology and goods, and it finds expression in wide intersectoral and intrasectoral productivity gaps (Pinto, 1998; Ramos, 1993). Because of the characteristics of the labour market (especially households' need for reproduction), such a diverse productive structure prompts labour segmentation. A degree of labour mobility is seen between the segments, but some workers with the same levels of training earn different wages (Márquez and Mezzera, 1988). In a stylized manner, therefore, two segments of the labour market may be distinguished: one that is demand driven and another that is supply driven.

In the demand-driven segment, firms' demand for labour largely depends on aggregate economic growth and on the nature of the technologies used. Some substitution of factors occurs in response to changes in their relative prices, but the technologies available substantially constrain that possibility (Weeks, 1991). Because of that constraint, plus the relative rigidity of the structure of demand for goods produced by sectors with different degrees of labour intensity, changes in relative prices do not necessarily lead to the full use of factors (Ramos, 1993). Integration in global markets tends to restrict technological options even further, since it usually requires the use of optimal technology. This reduces the possibility of combining the factors in a different way.

Moreover, contrary to the assumptions about competitive labour markets (in which workers of equal personal characteristics would receive the same

wages, irrespective of the nature of the job), it has been shown that formal-sector firms can find it beneficial to pay a salary above the equilibrium wage so as to retain a more productive labour force, raise the level of specific skills, guarantee conflict-free labour relations and thus boost productivity.<sup>19</sup> This kind of wage premium can be higher in some sectors than in others because of technological characteristics and their different demands in terms of supervision costs, which explains intersectoral wage differentials. Furthermore, it has been shown that wage differentials between firms are stable for different jobs, irrespective of their nature, the need for supervision or similar factors. This can be ascribed to equity considerations, which tend to reduce excessive differentials within a single establishment (Abuhadba and Romaguera, 1993; Mizala and Romaguera, 1998).

The demand-driven segment of the labour market is therefore shaped by factors that limit flexibility in both quantity (the workforce required) and price (wages). Only with difficulty can such factors be labelled distortions, however, since they are characteristic features of the market.

The second segment of the labour market is supply driven. It works differently from other markets, since the suppliers (the workers) generally lack the capacity to react flexibly to a price cut (real wages) because they have to sell their labour to earn a living.<sup>20</sup> It should be kept in mind, moreover, that the labour supply is affected by factors that are not strictly economic, such as the long-term global trend of greater female participation in the labour force.<sup>21</sup> Although economic factors play a role in this regard, changes in the perception and self-perception of women's role in society is central to the trend.

The relative inflexibility of labour supply has a particular impact on wages that are close to the subsistence level, and the supply curve at this level can therefore cease to be positive. Specifically, if the main breadwinner is unemployed, households might decide that other members should look for work so as to improve the chances of securing labour income (by thus "diversifying" supply). Also, if the real wage falls, the main breadwinner might seek extra jobs. Consequently, because of the limited labour demand wrought by imperfections in other markets, and given the impossibility of adjusting that supply through falling wages, the employment structure spawns a supply-driven segment that is characterized by low levels of productivity and low wages (Mezzerà, 1990).

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19 For a review of the literature on efficiency wages in developing countries, see Riveros and Bouton (1994). The existence of efficiency wages in Colombia is established by Sánchez and Núñez (1998) and in Mexico by Maloney and Ribeiro (1999).

20 Apart from leaving the labour market in response to low wages (and also because of a lack of labour demand) and forgoing labour income, they have no recourse but self-employment.

21 The former socialist countries were an exception in this regard. After having had very high levels of female labour participation, many women have withdrawn from the labour market as a result of the critical economic situation and the resurgence of certain cultural patterns.



An analysis of the evolution of the region's labour market cannot assume that it is competitive. Neither can it assume a balance between supply and demand in the absence of distortions, or in circumstances in which the distortions have little effect. Rather, labour markets are segmented (the segmentation mainly originates in other markets), and underemployment is high because of a structural imbalance. This is not to deny the interaction between price (wages) and quantity (employment), but it throws into question whether such interaction leads to market clearing, given the region's present conditions.

In this context, the notion that the Latin American and Caribbean labour market features two sectors, one demand driven and the other supply driven, is useful in that it helps explain the evolution of employment and unemployment. It should be noted, however, that in practice the segments are not mutually exclusive. In particular, a large sector of microenterprises and small companies that hire non-family labour is nonetheless subject to the pressure of the labour supply.<sup>22</sup> There are also transformations that could deepen the heterogeneity within both segments.<sup>23</sup>

These conceptual reflections on the impact of trade reform and the working of the labour market in the region reveal that there is no theoretically conclusive, positive correlation between the reforms and labour performance. Assessing the impact of the reforms on the evolution of the labour market is therefore an empirical endeavour, in which a highly pertinent role must be assigned to the circumstances in which those reforms were implemented and the way in which they were applied. The Latin American and Caribbean experience of the 1970s and 1980s, for example, shows the importance of the sequence between policies to stabilize prices, fiscal accounts and the external sector, and the reforms. Other factors include external conditions (access to external resources, the nature of external demand for exportable goods); internal conditions (sociopolitical processes that effect the scope and nature of the reforms); and the peculiarities of both the reforms themselves and of trade policies (the priority assigned to deepening liberalization or export promotion) (García, 1993).

The central question of this study is as follows: what capacity have the region's economies had to create productive employment (in terms of both volume and composition) after the reforms of the last 15 to 20 years? The question is approached from the perspective of labour demand, which is viewed as being conditioned by the levels and characteristics of economic

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22 In the 1980s, wage employment grew with an elasticity of 2.0 relative to output. This high elasticity obviously cannot be explained by the characteristics of demand; see chapter IV.

23 Chapter VI refers to these processes. The intensity of the segmentation varies considerably by country.

growth. Those characteristics are largely influenced by production technologies (see the diagram in chapter I). In stressing the evolution of the demand-driven segment, this study focuses on the dynamics of wage labour, since it is in this category that demand (ready to “pay a price”) is most clearly expressed, although the pressure of supply is also evident in wage employment (especially in microenterprises).

It could be argued that the restructuring of relations between companies and workers, particularly as a result of the growing subcontracting of services and labour, undermines the validity of an analysis based on wage labour. However, the vast bulk of subcontracting does not alter a worker’s status as an employee. It alters only the characteristics of wage employment (for example, in terms of firm size and job security). Wage jobs that become another form of employment (because of subcontracting) account for only a small proportion of all subcontracted labour.

In any case, emphasis on wage labour does not mean it cannot be positioned within the labour force as a whole. Quite the contrary, the study takes account of the dynamics of supply (volume and composition, chapter III) and non-wage employment. Both of these reflect the requirements of productive job creation used to measure the labour performance of the growth model that arose from the application of the economic reforms.<sup>24</sup> In sum, although the study concentrates on employment and, especially, wage employment, labour performance is assessed in the context of the labour market as a whole (chapter IV).


Moreover, because of the heterogeneity of the productive and labour structures, as well as the unequal impact of the reforms, the analysis must also distinguish between sectors (chapter V). The different developments at the sectoral level are important for understanding the nature of new jobs and of labour demand, as well as the increasing heterogeneity of the labour markets (chapter VI). On the other hand, labour market institutions also affect the nature of employment, and they condition the efficiency with which labour supply and demand are adjusted in quantity and quality (chapter VII).

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24 This does not mean that the behaviour of supply is wholly exogenous, since labour participation responds to the dynamics of demand.

## CHAPTER III

# THE TRANSFORMATION OF THE LABOUR FORCE: THE EVOLUTION OF LABOUR SUPPLY IN THE 1990S



The way in which the economically active population (EAP) develops is determined by demographic trends and the degree to which the working age population offers its labour in the labour market. The progression of the demographic transition has caused the annual growth rate of the working age population to fall in Latin America and the Caribbean, thus lessening the pressure on the labour market. At the same time, the new cohorts entering the market have higher levels of formal education, which improves their chances of productive integration in the workforce, although serious doubts persist as to the quantitative and qualitative results of the region's education systems.

Labour participation is subject to long-term trends and to conjunctural fluctuations. The slower growth of the working age population has been counteracted by the long-term trend of increasing labour participation, which stems from the growing integration of women in economic activities. Consequently, the region's labour force is becoming ever more skilled and experienced, with a higher proportion of female workers. These trends are analysed below in greater detail; subsequent chapters examine how they interact with trends in labour demand.

### A. Demographic Trends

In almost all Latin American and Caribbean countries, the demographic transition has produced a decline in the growth rates of the working age population (also called the active age population). Over the past few decades, many countries reached an inflection point at which the rates ceased to grow.

In only a few countries (Bolivia, Paraguay and the Central American republics) did the demographic transition approach that point at the end of the 1990s or at the start of this decade. In the region as a whole, the population between 15 and 64 years of age grew by 2.7% annually in the first half of the 1980s, and by 2.2% in the second half of the 1990s. Projected growth for 2010 is just 1.7%.<sup>25</sup> In the region as a whole, therefore, as well as in most countries, the demographic pressure of the labour supply has lessened.

Of the countries under study, Jamaica, Argentina and Chile (in that order) recorded the lowest growth rates for the population aged 15 to 64 (under 2% during the 1990s), while in Costa Rica, Bolivia, Mexico and Peru that sector grew at annual rates of over 2.5%. Brazil and Colombia are at an intermediate level, with growth rates of between 2% and 2.5% (see table III.1).

Table III.1

**LATIN AMERICA AND THE CARIBBEAN: GROWTH OF THE WORKING AGE POPULATION (15 TO 64), BY FIVE-YEAR PERIODS, 1980-2000**  
(Annual growth rates)

COUNTRY	1980-1985	1985-1990	1990-1995	1995-2000
Latin America <sup>a/</sup>	2.7	2.5	2.4	2.2
Argentina	1.2	1.4	1.8	1.6
Bolivia	2.1	2.6	2.6	2.6
Brazil	2.7	2.4	2.3	2.2
Chile	2.3	1.9	1.7	1.5
Colombia	3.1	2.5	2.4	2.4
Costa Rica	3.5	2.9	3.6	3.1
Jamaica	2.9	1.7	1.5	1.4
Mexico	3.4	3.3	2.8	2.3
Peru	3.0	2.6	2.4	2.7

**Source:** Author's calculations, on the basis of Economic Commission for Latin America and the Caribbean-Latin American and Caribbean Centre, Population Division (ECLAC-CELADE), "Latin America: population projections, 1970-2050", *Demographic Bulletin*, vol. 31, No. 62 (LC/DEM/G.180), Santiago, Chile, July 1998; and Economic Commission for Latin America and the Caribbean (ECLAC), *Statistical Yearbook for Latin America and the Caribbean*, 1997 (LC/G.1987-P), Santiago, Chile, 1998. United Nations Publication, Sale No. S.98.II.G.1, p.8.

a/ Does not include the Caribbean countries.

As a result of the demographic transition, in particular the slower growth of the active age population, the average age of the labour force tended to increase (thereby boosting levels of labour experience), while the pressure of supply from those without work experience declined.

25 Author's calculation, on the basis of CELADE (1998).

In some cases, the levels or trends of the working age population's growth rate were affected by migration as well as birth and mortality rates. Only two of the nine countries under study recorded positive migration flows during the 1990s (ECLAC-CELADE, 1998, table 8): Argentina, where such flows caused the growth rate of the working age population to accelerate from relatively low levels, and Costa Rica, where they reinforced the high growth rate of that population.<sup>26</sup> By contrast, in Bolivia, Jamaica, Mexico and Peru, labour emigration limited the growth of the working age population.

## B. Labour Participation

### 1. Trends Through the 1980s

During the 1950s and 1960s, the sharp increase in the labour supply induced by demographic growth was attenuated by a decline in labour market participation. The labour force participation rate (LFPR, also called the activity rate) represents the percentage of the working age population that is employed or seeking employment. In the region as a whole, the LFPR fell from 50.4% in 1950 to 44.9% in 1970 (Weller, 1998a, p.11).

This decline stemmed from trends in male participation, which fell from 81.3% to 70.4% between 1950 and 1970, in the context of urbanization. A key factor in this regard was the expansion of the educational system, which allowed many youth to postpone their entry into the labour market. Urbanization intensified that trend because educational coverage is greater in urban areas, and young urban males thus generally enter the labour market later. At the same time, while many men remain active in agriculture until they are very advanced in years (albeit with a shorter workday), in the city fewer employment opportunities are available for older people, and the greater coverage of social security systems eliminates more people's need for labour income. In both the younger and older age groups, therefore, male labour participation fell considerably amid significant rural-urban migration.

By contrast, the rate of female participation fell to 19.4% in the 1950s and rose again in the 1960s. In 1970 it reached 19.6%, slightly above the 1950s level. Female participation is difficult to measure for methodological reasons.<sup>27</sup>

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26 In Argentina, the increase of the growth rate of the working age population was also fostered by an unexpected rise in the birth rate in the 1980s (Llach and Llach, 1998, pp.21-22).

27 The difficulty of distinguishing between jobs that characterize a person as "economically active" and work whose objective is the reproduction of the home tends to lead to an underestimation of female participation, especially in rural agriculture. On this distinction and the measuring of different kinds of work, see Beneria (1992) and Pollack (1997). Beyond the problems of measurement, however, women face real constraints on their integration in economic activities, such as the traditionally sparse demand for female wage labour in agriculture and problems of access to land.

However, the phenomenon can generally be explained as follows: women's participation is high in economies with incipient wage relations and with a somewhat undifferentiated social and sexual division of labour, because in such circumstances women usually play an important role in generating income.<sup>28</sup> As that division of labour widens, women are increasingly limited to work that is more directly linked to the home and that is seen as unproductive; this lessens their participation in the labour market. The same can stem from the break-up of bound labour, which had forced members of dependent homes to work for the *hacienda* owner.<sup>29</sup>

The 1970s, however, saw the effects of urbanization and the expansion of education systems already underway in many countries. Urbanization curbed male participation, largely because of higher school attendance and the earlier retirement of older people in urban areas, but it stimulated female participation. Since female participation is, at least statistically, very low in agriculture but greater in other sectors, an increase in non-agricultural activities offers women a greater chance of integration in the labour market. Thus, unlike men, women's rate of participation is higher in urban areas than in the countryside. Consequently, between 1970 and 1990, women's labour participation grew sharply, and the LFPR increased from 44.9% to 51.4% (Weller, 1998a, p.11).

The long-term trend towards the growing integration of women in the labour market is the outcome of a sociocultural process that has not developed uniformly in the various regions and countries. While patterns of male labour participation are very similar in countries with different levels of per capita income and different sociocultural backdrops, they differ significantly for women (World Bank, 1995b, p.24). In Latin America and the Caribbean, for example, there is a wide gap between women's participation in Jamaica and their participation in the Latin American countries.

## 2. *Labour Participation in the 1990s*

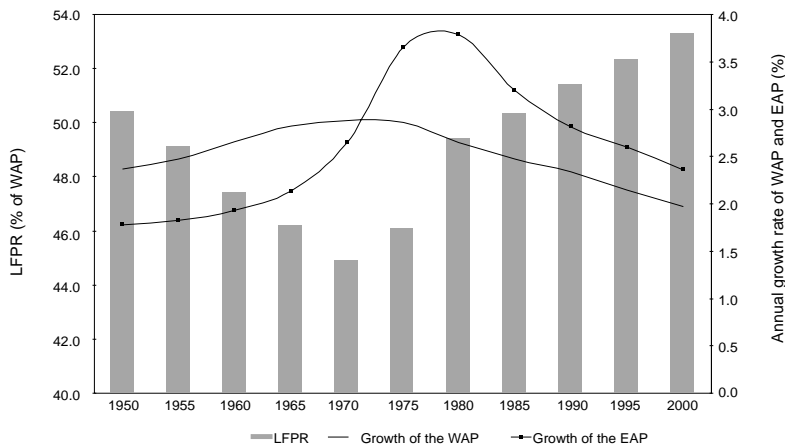
The long-term trends in the labour supply persisted in the 1990s, in terms of both demographic trends and labour participation. Because of the demographic transition, the growth rates of the working age population continued to fall, while the labour force participation rate continued to rise. As a result, the EAP grew at rates that were lower than in the mid-1970s, but above the demographic trend (see figure III.1). Among the components that

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28 See Dierckxsens (1990). In Latin America and the Caribbean, the country with the highest level of female labour participation was until recently Haiti, where it was estimated at 65.5% in 1970 and 52.6% in 1980 (CELADE, 1992). See also the high rates in many African countries (ILO, Yearbook of Labour Statistics, several years).

29 ECLAC (1985, pp.7-8) attributes the sharp fall in female participation in Bolivia in the 1950s to the agrarian reform that eliminated the obligation of tenant farmers and their relatives to work without pay for the *hacienda* owners. A similar process might have influenced the decline in female labour in Chile.

Figure III.1  
**LATIN AMERICA AND THE CARIBBEAN: TRENDS IN LABOUR SUPPLY**



**Source:** Author's calculations, on the basis of data from the Latin American and Caribbean Demographic Centre (CELADE) and official national figures.

LFPR = Labour force participation rate.

WAP = Working age population.

EAP = Economically active population.

make up the labour supply at the regional level, demographic growth is more important in the growth of the labour force than is participation.

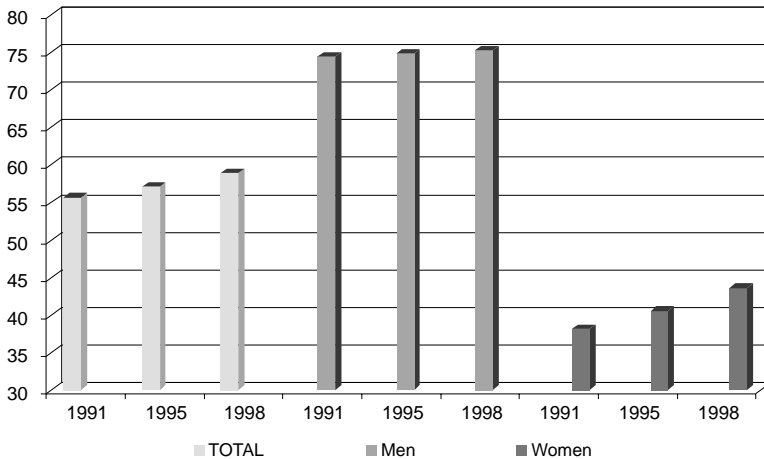
According to projections by the Latin American and Caribbean Demographic Centre (CELADE), the activity rate for the region as a whole grew by about 0.2 points a year in the 1990s. As in the previous decade, participation increased more in many smaller countries, such that on the basis of simple averages the labour force participation rate increased by 0.3 points annually.

This means that for the region as a whole, the economic reforms and the improved macroeconomic performance of the 1990s relative to the previous decade did not have a significant impact on the long-term trends in the labour supply, since they neither curbed nor spurred them. Due to the aforementioned demographic changes alone, the annual growth of the labour supply fell from 2.9% in the 1980s to 2.5% in the 1990s.

As regards trends by gender, the increase in labour participation reflected the pattern prevailing since the 1970s: stagnation in the rate of male participation and an increase in that of women (see figure III.2).<sup>30</sup>

30 The values in figure III.2 represent the simple average of 12 countries. Hence the values of the LFPR do not coincide with those of figure III.1, which are weighted averages.

Figure III.2  
**LATIN AMERICA AND THE CARIBBEAN:  
 TRENDS IN LABOUR PARTICIPATION, 1991-1998**



**Source:** Author's estimates, on the basis of official national figures.

**Note:** Simple average of 12 countries.

Changes in the sexual division of labour, as reflected in the expansion of the female labour force, were reinforced by various processes:

- Longstanding processes of urbanization fostered women's labour participation, which is higher in urban areas than in the countryside.
- Labour participation is higher among more educated women (ECLAC, *Social Panorama of Latin America*, 1997, p.190), and a higher level of education thus furthers women's insertion in the labour market.
- The expansion of "typically female" activities (trade, services), the gradual increase in female employment in some activities traditionally viewed as "typically male" and the emergence of new job opportunities for women (*maquila* assembly work, export agriculture) promoted their integration in the labour market.<sup>31</sup>

The processes that facilitated this transformation of the labour market include the demographic transition (in that fewer children eased –but did not eliminate– the problem of childcare during working hours), as well as greater access to household appliances that lessened the time needed for domestic chores. As a result of these two phenomena, men have largely managed to

31 In this connection see Candia (1993); Cox Edwards and Roberts (1993); ECLAC (*Social Panorama of Latin America*, 1997, p.54); and chapter V of this book. It should be stressed that employment opportunities for women are insufficient, as reflected by the fact that female unemployment rates are generally higher.



avoid changing their role in the sexual division of labour in response to the greater participation of women in the labour force. The outcome has often been double or triple workloads for women (housewife, mother, worker).

Women's greater participation in the labour force partly reflects their need to secure an income, either because an increasing number of households are headed by single women or because the man's income is low. However, the positive correlation between female labour participation and educational levels suggests that for economically active women as a whole, such participation is not limited to meeting basic material needs, although it is geared to satisfying the needs of the home. Consequently, an ever smaller proportion of economically active women leave the labour market when their husband's income rises (in the case of Colombia, see, for example, Ribero and Meza, 1997). Women's growing labour participation cannot be viewed as a reflection of a secondary workforce that only seeks work temporarily in response to specific conditions (Arriagada, 1997).

By contrast, the tendency for youth to stay in school longer is at odds with the long-term trend towards an increase in the labour force participation rate. Because unemployment is usually higher among this group, longer school attendance –and longer absence from the labour market– tends to reduce the overall level of unemployment. This reinforces the labour impact of this age group's shrinking participation on the population as a whole, a decline induced in turn by the slowing of demographic growth (Márquez, 1998, pp.8-9).

A comparison of the evolution of the labour supply in the countries under study reveals some deviations from the regional trends. In most of these countries, the labour force participation rate was higher by the mid-1990s than at the beginning of the decade. Brazil and Jamaica were the main exceptions. In both cases, comparison of the figures for the first and final year in table III.2 reflects a declining tendency throughout the whole of the 1990s, although in Brazil there was some fluctuation, with an increase in participation between 1993 and 1996 that temporarily interrupted the decline.<sup>32</sup> Costa Rica experienced fewer changes, although 1996 was a year of economic contraction accompanied by a temporary decline in participation (see table III.2).<sup>33</sup> Argentina, Bolivia, Chile and Peru<sup>34</sup> recorded very sharp increases in the participation rate, while the growth in Colombia and Mexico was less but still significant.

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32 The falling trend of Brazil's labour force participation rate is confirmed by the series of monthly data for the six main metropolitan areas in the period 1991-1998 (IPEA, 1999).

33 In 1997 and 1998 the Costa Rican participation rate increased significantly.

34 For Peru, the data for 1991 are not strictly comparable with the preceding and subsequent data. Because of instability in some areas of the country, that year's survey only included the urban coast, the urban *sierra* and the rural *sierra*. The national survey of 1994 produced very similar data. Thus, while the regions mentioned are home to much of the country's population, the abrupt changes are not due to that difference in the sample's coverage.

Table III.2  
**LATIN AMERICA AND THE CARIBBEAN (NINE COUNTRIES): LABOUR PARTICIPATION BY AGE AND SEX, 1990s**  
*(Percentage of the working age population)*

COUNTRY AND AGE GROUP	PERIOD	TOTAL		MEN		WOMEN	
		FIRST YEAR	FINAL YEAR	FIRST YEAR	FINAL YEAR	FIRST YEAR	FINAL YEAR
Argentina	1991-1997	59.8	62.6	78.7	78.4	42.3	47.6
- 14 to 24		43.1	43.7	52.4	51.8	33.8	35.2
- 25 to 54		72.7	75.7	95.5	95.3	52.2	57.9
- 55 and above		41.7	50.5	66.8	71.9	20.2	32.0
Bolivia	1989-1996	52.8	56.4	62.7	64.8	43.8	48.7
- 10 to 25		32.4	36.9	34.6	39.0	30.4	34.9
- 26 to 50		77.3	80.0	96.9	94.6	61.5	67.5
- 51 and above		50.7	52.8	67.7	69.3	36.5	38.4
Brazil	1992-1997	61.5	60.1	76.6	73.9	47.2	47.2
- 10 to 24		50.1	46.4	61.5	56.3	38.7	36.4
- 25 to 49		78.1	78.9	95.6	94.9	61.7	64.1
- 50 and above		48.9	46.0	66.8	63.4	32.8	31.1
Chile	1990-1996	51.6	54.4	73.5	74.6	31.3	35.5
- 15 to 24		38.5	36.9	51.4	46.7	25.7	26.9
- 25 to 54		66.1	70.0	93.7	94.5	40.8	46.8
- 55 and above		29.0	31.9	48.3	52.7	12.9	15.1
Colombia	1988-1995	56.8	58.1	78.6	76.5	37.0	41.4
- 12 to 24		44.3	41.6	59.5	52.8	30.5	31.1
- 25 to 54		71.0	74.4	97.0	96.7	47.4	54.7
- 55 and above		43.5	42.2	69.9	66.7	19.2	20.0
Costa Rica	1990-1996	53.5	52.2	77.0	73.6	30.3	31.1
- 12 to 24		55.0	50.1	74.2	67.7	34.5	31.2
- 25 to 54		58.1	59.6	83.9	82.8	33.6	37.2
- 55 and above		32.1	27.9	55.4	48.4	8.9	9.4
Jamaica	1989-1996	69.8	68.4	78.1	77.8	62.2	60.0
- 14 to 24		54.3	49.6	60.2	55.6	48.4	44.2
- 25 to 54		82.9	87.6	96.8	96.5	83.1	79.6
- 55 and above		54.7	54.1	71.1	72.5	40.5	37.9
Mexico	1991-1996	53.6	55.4	77.8	77.7	31.5	34.7
- 12 to 24		43.1	43.8	59.1	59.5	28.3	28.9
- 25 to 54		65.9	68.4	96.8	96.5	38.2	43.4
- 55 and above		44.1	42.8	71.7	66.8	18.6	21.0
Peru	1991-1997	58.0	67.8	70.6	80.2	46.3	56.1
- 14 to 24		41.4	55.4	48.2	62.8	34.8	48.3
- 25 to 54		73.6	80.8	89.9	95.8	59.5	67.0
- 55 and above		47.1	51.7	64.8	67.2	29.0	36.9

**Source:** Author's calculations, on the basis of official national figures.

Note: Coverage is the national total except for Argentina (urban areas) and Bolivia (departmental capitals and El Alto).

In all countries the proportion of women in the labour force rose, whether because their participation rate grew more than that of men (Argentina, Bolivia, Chile, Mexico and Peru,) or because it grew or was stagnant while that of men fell (Brazil, Colombia and Costa Rica). The only exception was Jamaica, which saw a marked decline in the rate of women's participation, while that of men fell only slightly.<sup>35</sup>

A very significant feature is that the increase in women's labour participation is concentrated in the intermediate and older age groups. Specifically, the participation of women in the intermediate age group (25 to 54) increased in almost all countries, even those that recorded a decline in the total labour force participation rate.<sup>36</sup> Again, Jamaica was the exception.

In all countries, the weight of the younger age group in the labour force generally declined. This was not only for the demographic reasons mentioned above, but also because of a less marked increase or a decline in their participation rate. In fact, this rate fell for the youngest group in Brazil, Chile, Colombia, Costa Rica and Jamaica. This reflects the fact that young people remain longer in the educational system, and it should therefore be considered a positive trend.<sup>37</sup> When faced with a lack of job opportunities, however, youth do not always opt to continue studying. In Argentina, for example, the labour participation of the group aged 24 and under did not fall between 1991 and 1997. This was despite a sharp increase in unemployment that had particular effects on this group, whose unemployment rate rose from 13.1% to 24.9% in that period. In fact, the proportion of students in this age group actually fell, from 45.2% to 44.1%, while the proportion of youth who were not economically active and not studying rose from 11.6% to 12.3%.<sup>38</sup>

Peru recorded a very pronounced growth in youth participation, largely because of the reincorporation in the labour market of individuals who had ceased to look for work because of the absence of job opportunities. In fact, between 1985 and 1991 Peru's labour force participation rate fell from 67.3% to 58.0%. A strong contributing factor in this was the lower labour participation of those in the 14-24 age group, whose rate fell from 52.7% to 41.4%.<sup>39</sup> Many of these youths left work and joined the hidden unemployed. Young people's perceptions of job opportunities improved in the 1990s, and they flooded back into the labour market.

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35 The definition of labour activity in Jamaica is broader than in most countries of the region, since unemployed people who do not actively seek work but are willing to work are considered as economically active. This conceptual difference also contributes to Jamaica's high participation rate.

36 This confirms the results of a study on the potential labour supply among inactive people in Chile, which identified women aged 25 to 54 as the source of that potential (Gálvez, 1994).

37 This trend helped decisively to reduce labour participation in the 1950s and 1960s because of the expansion of primary education and, to a lesser degree, of secondary schooling.

38 Author's calculation, on the basis of information from the consultants Oscar Altimir and Luis Beccaria.

39 Data prepared by the consultant Jaime Saavedra.

The long-term trends mask short-term fluctuations, largely born of reactions to the variations in household labour incomes (caused by job losses, a decline in real wages or contrary changes) and of the perception of the changing job opportunities offered by the market. These variations consist mainly of individuals entering and leaving the labour market, especially those in the secondary workforce composed of family members who are not normally the household's main breadwinner. Given the trends in the labour participation of women in the intermediate and older age groups, the secondary workforce increasingly consists of young people of both sexes. A downturn in economic growth can thus stimulate greater integration in the labour market, since the attendant decline in the labour market can oblige the secondary workforce to seek employment. If the economic slump is prolonged, however, it can prompt withdrawal from the secondary labour force because of the perception that it is impossible to find a job. Similar fluctuations occur during an economic upswing, since the degree to which household needs are satisfied and the perception of the corresponding job opportunities change during the cycle. Typically, therefore, there is a recurrent short-term cyclical movement of the participation rate around the long-term trend.

### **C. The Educational Level of the Labour Force**

The composition of the working age population according to educational level has recently undergone significant change. At the beginning of the 1990s the region had favourable indices of general schooling relative to other regions, especially at the primary and tertiary levels, while it was relatively backward in secondary education (IDB, 1993). In the mid-1990s, almost all the countries of the region recorded gross enrolment rates of about 100% at the primary level (ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, 1999, p.43). At the same time, enrolment generally increased in the subsequent stages of schooling (see table III.3).

In most of the countries under study, enrolment at the secondary and tertiary levels increased during the 1980s and 1990s. There were also reversals and some stagnation, however, such as Costa Rican secondary education or tertiary education in Brazil, Jamaica and Mexico in the 1980s.

Despite longer school attendance, a high percentage of the labour force has very low levels of education in most of the countries under study (see table III.4). The situation is particularly serious in Brazil, Colombia and Costa Rica, where between 50% and 60% of the labour force has a maximum of six

Table III.3  
**LATIN AMERICA AND THE CARIBBEAN (NINE COUNTRIES): GROSS ENROLMENT RATES IN SECONDARY AND TERTIARY EDUCATION,<sup>a/</sup> 1980-1996**

COUNTRY	SECONDARY SCHOOLING			TERTIARY SCHOOLING		
	1980	1990	1996	1980	1990	1996
Argentina	56	68	71	22	41 <sup>b/</sup>	39 <sup>c/</sup>
Bolivia	37	38	47	13	19	26
Brazil	34	40	56	12	11	12 <sup>d/</sup>
Chile	61	77	81	n.a	20	30
Colombia	34	56 <sup>b/</sup>	68 <sup>d/</sup>	10	14	21
Costa Rica	70	56	57	23	23	28 <sup>c/</sup>
Jamaica <sup>e/</sup>	67	64	66 <sup>f/</sup>	7	6	6 <sup>f/</sup>
Mexico	49	54	65	15	14	15
Peru	64	67	72	20	27	31

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), *Statistical Yearbook for Latin America and the Caribbean*, 1998, Santiago, Chile, LC/G.2043-P, February 1999. United Nations Publication, Sale No: S.99.II.G.I, pp.46-47.

a/ Total of those enrolled divided by the corresponding population, multiplied by 100.

b/ Corresponds to 1991.

c/ Corresponds to 1994.

d/ Corresponds to 1995.

e/ For the second level, in 1990 and 1992 only students in general education.

f/ Corresponds to 1992.

Table III.4  
**LATIN AMERICA (EIGHT COUNTRIES): COMPOSITION OF THE ECONOMICALLY ACTIVE POPULATION, BY GENDER AND EDUCATION LEVEL, 1990s**  
*(Percentages)*

COUNTRY AND EDUCATION GROUP <sup>a/</sup>	MEN	WOMEN	MEN	WOMEN
	FIRST YEAR <sup>b/</sup>	FIRST YEAR <sup>b/</sup>	FINAL YEAR <sup>b/</sup>	FINAL YEAR <sup>b/</sup>
Argentina, total	63.2	36.8	60.8	39.2
Up to incomplete primary	7.7	3.9	5.9	3.1
Complete primary	19.9	8.9	17.4	8.6
Incomplete secondary	13.9	6.2	14.0	6.7
Complete secondary	10.3	7.5	10.3	7.6
Incomplete higher	5.8	4.3	7.2	5.6
Complete higher	5.6	6.0	6.0	7.6
Bolivia, total	56.7	43.3	55.5	45.0
Up to 5 years	13.3	18.0	10.6	15.4
6 to 8 years	9.8	6.3	10.4	7.4
9 to 12 years	19.9	10.4	19.8	12.2
13 years and above <sup>c/</sup>	7.6	7.1	8.2	6.4
Complete university	5.0	1.4	3.8	1.6

Table III.4 continue

COUNTRY AND EDUCATION GROUP <sup>a/</sup>	MEN FIRST YEAR <sup>b/</sup>	WOMEN FIRST YEAR <sup>b/</sup>	MEN FINAL YEAR <sup>b/</sup>	WOMEN FINAL YEAR <sup>b/</sup>
Brazil, total	60.5	39.5	60.1	39.9
Up to 3 years	22.6	12.8	20.2	10.9
4 to 6 years	18.0	11.0	17.2	10.6
7 to 9 years	8.9	5.9	10.3	6.8
10 to 12 years	7.4	6.4	8.5	7.8
13 to 15 years	2.4	2.7	2.5	2.9
16 years and above	1.2	0.7	1.4	1.0
Chile, total	68.1	31.9	66.3	33.7
Up to 3 years	6.6	2.1	5.2	1.7
4 to 7 years	14.9	5.2	13.0	4.6
8 years	7.6	2.8	6.8	2.6
9 to 11 years	12.6	4.8	12.0	5.3
12 years	14.6	8.1	15.7	9.4
13 years and above	11.7	8.9	12.6	9.7
Undeclared	0.1	0.1	1.1	0.4
Colombia, total	66.0	34.0	62.7	37.3
Up to 3 years	22.6	8.7	16.3	6.6
4 to 6 years	20.5	9.5	19.7	9.6
7 to 9 years	8.9	5.1	9.1	5.9
10 to 12 years	9.1	7.2	12.0	10.1
13 to 15 years	1.7	1.5	1.8	2.0
16 years and above	3.2	1.9	3.6	2.9
Costa Rica, total	71.5	28.5	69.9	30.1
Up to 3 years	13.7	3.2	10.2	2.6
4 to 6 years	31.1	10.0	30.7	10.2
7 to 9 years	9.3	3.9	10.4	4.4
10 to 12 years	10.6	6.5	11.0	6.6
13 to 15 years	3.3	2.6	4.1	3.9
16 years and above	2.9	2.0	3.0	2.3
Mexico, total	69.3	30.7	67.3	32.7
Unschoolled	8.1	3.5	6.1	3.0
Incomplete primary	17.7	5.9	14.1	5.6
Complete primary	14.4	6.8	14.7	6.9
Secondary	16.6	9.7	17.6	10.2
Upper-middle and upper	12.4	4.9	14.8	6.9
Peru, total	58.4	41.6	57.3	42.7
Up to 3 years	6.1	8.6	7.8	10.4
4 to 6 years	10.4	7.1	11.5	8.6
7 to 9 years	8.5	4.9	9.1	5.6
10 to 12 years	21.4	13.4	18.3	10.8
13 to 15 years	5.3	3.4	5.8	3.9
16 years and above	6.8	4.1	4.8	3.4

Source: Author's calculations, on the basis of the research.

a/ Coverage is the national total except for Argentina (urban areas) and Bolivia (departmental capitals and El Alto).

b/ The first and the final year refer to 1991 and 1997 in Argentina and Peru, to 1989 and 1996 in Bolivia, to 1993 and 1996 in Brazil, to 1992 and 1996 in Chile, to 1988 and 1995 in Colombia, to 1990 and 1996 in Costa Rica, to 1991 and 1996 in Mexico.

c/ Complete university studies are excluded.

years of schooling.<sup>40</sup> In all cases, longer schooling translates into a decline in the weight of those with lower educational levels and an increase of those with intermediate and higher levels.

Improving the labour force's educational level has two consequences. First, as mentioned earlier, it slows the increase in the participation rate. Second, the composition of the labour force changes, as newcomers to the labour market are on average better educated than the previous age cohorts. Specifically, the educational "floor" rises, and, among the labour force's youngest group, illiteracy falls to very low levels.<sup>41</sup> At the same time, the expansion of secondary and tertiary education tends to improve young people's chances of facing the growing educational requirements of labour demand, although this does not necessarily mean that such an improvement has been quantitatively and qualitatively adequate.<sup>42</sup> A stagnation of enrolment in tertiary education, for example, obviously makes it hard to meet the educational demands imposed by today's rapid economic and technological changes.

Finally, with generalized enrolment in primary education, the new age groups entering the labour market are more homogenous in their educational levels than preceding generations. Considering the labour force as a whole, however, their assimilation increases the dispersal of educational levels (Duryea and Székely, 1998).

## D. Conclusions

The 1990s saw the persistence of three trends in labour supply that were generally evident in the 1970s and 1980s: the increasing participation of women in the labour market, the raising of educational levels and the "ageing" of the labour force, accompanied by an increase in average labour experience.

These trends reflect long-term structural changes, and it can therefore be assumed that they will persist, as is evident for trends grounded in demographic processes. As regards women's greater labour participation, such a phenomenon has clearly attended all urbanization processes to date; it has also been a feature of the differentiation and mercantilization of economies,

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40 The situation in Bolivia, in contrast, seems relatively favourable, but it should be kept in mind that the data refer only to the EAP in the main urban centres. Note that in 1995 the illiteracy rate among the population aged 15 and over was estimated at 16.9% (ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, 1999, p.41).

41 Among the urban population aged 15 to 24, illiteracy does not generally surpass 2%. The main exception is Brazil, with more than 4% (ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, 1997, p.42). The situation is less positive in rural areas.

42 The quality of education, a crucial factor in the proper upbringing of young people, cannot be discussed here. In this respect see ECLAC (1997, pp.109-112).

at least where the integration of women in the labour market has not been proscribed by rigid religious norms. This trend seems likely to persist in Latin America and the Caribbean, since in many countries of the region the rate of female participation remained below the levels of some Asian, European and North American countries in the 1990s, although the gap narrowed.<sup>43</sup>

The pressure of supply in the labour markets tended to lessen as a result of demographic changes, although the active population continued to grow faster than the working age population because of increases in labour participation. Demographic and educational changes are upgrading the two components that are generally identified as basic for the development of human resources, namely, formal education and labour experience. From the perspective of the labour market, however, this upgrading only matters if it corresponds to the dynamics of labour demand. There are two reasons for this. First, in periods of acute productive restructuring, certain types of jobs are eliminated, which reduces the value of some specific kinds of labour experience, because of the use of new technologies. Second, if the education system is to make a significant contribution to improving the characteristics of the labour force by increasing its educational level, it must satisfy the quality needs of labour demand.

43 For the sake of comparison, the rates of labour participation in some Western Hemisphere, Asian and European countries are as follows:

COUNTRY	YEAR	TOTAL	MEN	WOMEN	COUNTRY	YEAR	TOTAL	MEN	WOMEN
Canada	1997	64.8	72.5	57.4	Japan	1997	63.7	77.8	50.4
France	1998	54.7	62.2	47.8	Philippines	1997	65.5	82.4	48.9
Germany	1997	57.4	67.8	47.7	Republic of Korea	1997	62.2	75.6	49.5
Hong Kong	1997	61.8	75.7	48.0	Russian Federation	1996	58.5	68.1	50.4
Indonesia	1997	66.3	83.4	49.9	United Kingdom	1997	62.6	71.7	53.9
Iran	1991	46.1	79.9	9.9	United States	1997	67.1	75.0	59.8

**Source:** Author's calculations, on the basis of International Labour Organization (ILO) data. See ILO, *Yearbook of Labour Statistics*, Geneva (1998).



CHAPTER IV

**REFORMS AND GROWTH: TRENDS IN  
EMPLOYMENT IN THE 1990s**

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The proponents of reforms argued in theoretical terms that the reforms should have favourable repercussions for job creation. They expected that the elimination of existing distortions would accelerate economic growth and that such growth would be more labour-intensive, since growth would shift towards activities and technologies that would use labour intensively.

The reality was somewhat different. The 1990s saw the persistence of the main trends in labour supply and in aggregate employment. Modest economic growth and the decline in labour intensity, however, led to a weak labour demand, manifest in only a moderate expansion of wage employment. The reforms played a contradictory role in this respect. While (modestly) stimulating economic growth and fostering the productive transformation of several sectors, they also led to a decline in labour intensity. Job creation was therefore polarized: a high percentage of new jobs were created in low productivity sectors, while there were simultaneous processes of occupational upgrading. Nonetheless, the labour performance of the countries of the region was diverse, with economic growth being the main factor behind that diversity.

This chapter analyses recent labour trends in three steps: first, it outlines some overall trends in job creation during the 1990s relative to previous decades; second, it examines in greater detail how job creation changed with the introduction of the reforms in the nine countries under study; and third, it analyses the nature of job creation in the region at the aggregate level in the 1990s.

## A. General Trends

The first step is to examine job creation and variations in the employment elasticity of output for the region as a whole in recent decades (see table IV.1).

Table IV.1  
**LATIN AMERICA AND THE CARIBBEAN: OUTPUT, EMPLOYMENT AND ELASTICITIES, 1950-1997**

PERIOD	GROWTH OF OUTPUT	GROWTH OF EMPLOYMENT	EMPLOYMENT ELASTICITY OF OUTPUT	ANNUAL GROWTH OF WAGE EMPLOYMENT	WAGE EMPLOYMENT ELASTICITY OF OUTPUT
1950s	5.1	1.9	0.4	2.5	0.5
1960s	5.7	2.3	0.4	2.7	0.5
1970s	5.6	3.8	0.7	4.7	0.8
1980s	1.2	2.9	2.6	2.4	2.0
1990s <sup>a/</sup>	3.8	2.2	0.6	2.2	0.6
1950-1997	4.3	2.7	0.6	3.0	0.7

**Source:** Author's calculations, on the basis of ECLAC data, official national data and Programa Regional del Empleo para América Latina y el Caribe (PREALC), *Mercado de trabajo en cifras. 1950-1980*, Santiago, Chile, 1982.

Note: For the 1950s to 1970s, employment growth corresponds to the growth of the labour force. This procedure seems justified in the absence of broader data on unemployment, since (i) absolute levels of unemployment were historically low; (ii) the cases for which data are available show no great fluctuations; and (iii) in the 1970s, when the labour force grew most, the rate of open unemployment was in decline throughout the region (except for Chile and, to a lesser degree, Peru), which would trigger even higher employment growth.

a/ 1990-1997.

The growth rates of employment increased until the 1970s and fell thereafter, reaching 2.2% in the 1990s. With relatively high rates of economic growth in the 1950s and 1960s, the employment elasticity of output remained constant, increasing in the 1970s. Since output growth was low in the 1980s and the pressure of labour supply remained high (although it began to fall), the elasticity rose sharply. In the 1990s, finally, the employment elasticity of output returned to the regional average of the whole 1950-1997 period.

With regard to *the region's labour force as a whole*, these data seem to indicate that the reforms did not produce a fundamental shift towards a greater relative use of labour as compared to the long-term trend of the preceding decades (as advocates of the reforms argued would occur). Neither was there a shift

towards less employment intensity (as critics claimed in the 1990s). Rather the growth of open unemployment in the 1990s seems to have been caused by the weakness of economic growth, which was insufficient to absorb the growing labour supply.

It should be kept in mind, however, that over the long term the labour supply and employment are closely correlated, especially in the absence of protection systems for the unemployed. Moreover, as chapter III argued, in the long run the labour supply is strongly influenced by sociocultural processes that cannot be interpreted exclusively on the basis of economic variables. It would thus be mistaken and overly simplistic to ascribe the greater or lesser growth of employment in different periods to the characteristics of economic growth, specifically to greater or lesser labour intensity and the consequent labour demand. This matter is addressed later, together with the general outcome in terms of the direct impact of economic growth.

As regards the creation of *wage employment*, the pattern is similar to that of the labour force as a whole, although wage employment more faithfully reflects the nature of growth in labour demand. Indeed, the high elasticity of the 1980s indicates that wage employment also reacted to the pressure of supply, as corroborated by the fact that a high percentage of wage employment arose in small firms and microenterprises (PREALC, 1991, p.23).<sup>44</sup> By contrast, in the 1970s, in the context of high levels of growth in output, investment and the labour force, the relatively high wage employment elasticity of output was associated with labour-intensive economic growth.<sup>45</sup> Finally, elasticity levels were similar in the other decades considered (the 1950s, 1960s and 1990s), at slightly below the regional average for the whole 1950-1997 period. Unlike in the 1950-1980 period, however, in the 1990s wage employment did not grow more than employment as a whole. This reflects the substantial weakness of labour demand, the causes of which are analysed below.

## B. The Reforms and Employment

### 1. *The Impact of the Reforms*

Despite the generally favourable expectations of job creation as a result of the reforms, various theoretical considerations, as well as the experience of

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44 From the demand side, the intensive use of labour could have been stimulated by a change in the relative prices of capital and labour, caused by exchange rate devaluation and the fall in real wages recorded in many countries of the region. However, this is a less important factor than that represented by supply.

45 Unlike in the 1980s, in the 1970s the elasticity was greater for wage employment than for employment as a whole, revealing the relevance of labour demand.

the 1970s and 1980s, show that the impact of the reforms on the labour market is generally negative in an initial phase. Liberalization impairs import-competing activities, while the policies of State reform tend to constrain public-sector growth. Both factors have a negative short-term impact on employment in the corresponding sectors. The scale of the impact depends on the speed with which the measures are taken. These negative effects on employment tend to become apparent before the positive effects in the export sectors, which benefit most from liberalization; this gap is especially sharp in the context of policies that lessen protection before fostering export growth (Agosin and Ffrench-Davis, 1993). The outcome is even more negative if the reforms are implemented against a background of severe macroeconomic disequilibria that require stabilization measures.<sup>46</sup> Job creation in both tradable and non-tradable activities is thus revitalized only in a second phase, when the operation of the new economic model stabilizes and investment and output grow faster.<sup>47</sup>

Table IV.2 identifies a threshold year for the reforms, on the basis of data from Morley, Machado and Pettinato (1999).<sup>48</sup> The reform period is seen as the half-decade that starts with that threshold year (phase 2). The table also presents the available information for the five years immediately before the reforms (phase 1) and for the post-reform period (phase 3).

As table IV.2 shows, in six of the nine countries economic growth was higher in the reform period than in the five years prior to the reforms; in two countries the situation deteriorated, and in one it remained stable. Obviously, the fact that there are more cases of higher growth after the reforms cannot be ascribed exclusively to the reforms. Other factors, such as the successes of macroeconomic stabilization (especially in conditions of hyperinflation), also played a very important role. According to an econometric exercise undertaken by ECLAC, the reforms had a modest positive impact on economic growth in the nine countries under study (Stallings and Peres, 2000). This concurs with the findings of similar studies (IDB, 1997).

The effects of the reforms on economic growth are not analysed in detail here, as they are not the subject of this study. The above results do show that, all things equal, the reforms ought to have had a positive impact on employment by stimulating economic growth. It should be kept in mind, however, that even if the reforms positively affected growth and even if growth

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46 The World Bank highlights the importance of macroeconomic conditions in the evolution of labour variables during the reforms: "The demand for labor has fallen in almost all episodes of transition and adjustment (...) as a result of some combination of macroeconomic decline and labor redeployment." See World Bank (1995b).

47 See Llach and Llach (1998, p.3), who present data on economic growth, the variation in employment and the employment elasticity of output for the reform period and the subsequent phase in five countries (Argentina, Chile, New Zealand, Spain and the Republic of Korea). The elasticity was typically low (or negative) in the first phase and higher in the second.

48 For cases in which there is not a single threshold year, priority was given to the year when the trade reform entered into force.

Table IV.2  
**LATIN AMERICA AND THE CARIBBEAN (NINE COUNTRIES): GROWTH  
 AND EMPLOYMENT BEFORE, DURING AND AFTER THE ECONOMIC  
 REFORM PERIOD**

COUNTRY AND SPECIFICATION OF THE THREE PHASES (THE FIRST YEAR OF THE SECOND PHASE IS THE THRESHOLD YEAR)	ANNUAL GDP GROWTH			EMPLOYMENT RATE			
	PHASE 1	PHASE 2	PHASE 3	START PHASE 1	END PHASE 1	END PHASE 2	END PHASE 3
Argentina (1985-1989, 1990-1994, 1995-1998)	-1.3	6.4	3.3	52.5	53.1	51.3	51.2
Bolivia (1981-1985, 1986-1990, 1991-1997)	-1.9	2.3	4.1	46.5	42.2	43.5 48.5	50.2
Brazil (1984-1988, 1989-1993, 1994-1997)	4.8	0.8	4.0	59.2	61.6	58.7	58.6
Chile (1969-1973, 1974-1978, 1979-1989, 1990-1998)	1.6	1.6	3.6 6.5	42.8	41.4	36.8 49.0	42.0 50.9
Colombia (1987-1991, 1992-1996, 1997-1998)	3.7	4.8	1.9	48.1	53.5	53.0	52.7
Costa Rica (1982-1986, 1987-1991, 1992-1998)	1.7	3.7	4.0	46.4	46.9 50.8	49.3	52.2
Jamaica (1986-1990, 1991-1995, 1996-1998)	4.9	1.1	-1.5	55.1	58.5	57.2	55.2
Mexico (1984-1998, 1989-1993, 1994-1997)	1.1	3.9	2.5	47.0	51.9	53.3	54.1
Peru (1986-1990, 1991-1995, 1996-1998)	-1.9	5.8	3.2	59.0	54.7	58.0	58.0

**Source:** Author's calculations, on the basis of ECLAC data and official national data.

**Note:** The employment rates of phases 2 and 3 in Costa Rica and phase 3 in Bolivia are from a new series. In Chile, the second line refers to a fourth phase (1990-1998), in which the employment rate comes from a new series.

gathered pace with the reforms in most of the countries under study (as table IV.2 shows), at the regional level growth was lower than that recorded between the 1950s and 1970s.

Despite higher economic growth, labour performance was less positive. Table IV.2 shows that in the five years following the reforms, the employment rate increased in only three of the nine countries under study (as against six in the preceding period of lower growth).<sup>49</sup> It should be stressed here that since the 1970s the long-term trend in the region has been towards an *increase* in the employment rate.<sup>50</sup> The fact that it fell in six countries reflects the weakness of job creation, especially in the context of higher economic growth.

It could therefore be assumed that economic growth was less labour-intensive in the reform period. This hypothesis was tested in an exploratory econometric exercise on the impact of the variables that influence labour demand, applying ordinary least squares and fixed effects by country in a panel model. Data were available for six countries (Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico) for the period 1985-1998. In a first step, an attempt was made to take account of the typical variables that affect employment in a neoclassical production function: output, technological change and the relative prices of capital and labour. In that framework, higher economic growth would boost labour demand, but labour-saving technological change and a lower relative price for capital would cause it to fall.

The use of capital in the countries of the region depends to a large extent on its import cost, which in turn is influenced by the real exchange rate. An increase in the latter (depreciation of the local currency) tends to raise the relative price of capital, stimulating a more labour-intensive economic growth. Real wages, on the other hand, reflect the evolution of the cost of labour in national currency.

A trend variable was included in the model to capture the impact of the longer-term processes of possibly labour-saving technological change. Beyond this trend, trade liberalization might favour technological change, since it facilitates access to new technologies and stimulates their use in national production so as to improve competitiveness with respect to foreign production. If technological change is labour saving, commercial openness would curb the labour intensity of economic growth. This is contrary to what was argued when the reforms were presented, since it was supposed that the reforms (specifically trade liberalization) would lead to a reallocation of resources that would foster greater labour intensity.

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49 The employment rate, which is the percentage of employed persons within the working age population, does not completely eliminate the supply factor, but it does reduce the weight of its demographic component.

50 This trend is inferred from the evolution of the participation rate (chapter III) and from the relatively stable long-term unemployment levels.

The following model was used in this first step of the analysis:

$$L = f \{GDP, WAGE, TREND, RER, OPEN\}$$

where

L: number of employed persons

GDP: gross domestic product

WAGE: real wages in the formal sector

TREND: the trend variable

RER: index of the real exchange rate

OPEN: ratio of exports plus imports to GDP

The statistical data are from ECLAC. For the exchange rate and the openness variable, the averages of the current year and the two previous years were used, so as to reflect the fact that investment decisions react not only to immediate changes but also to longer-term trends. In investment projects that take longer to develop, job creation further lags behind the investment decision and the start of the project. The variables were expressed as the first difference of the logarithm, such that the results can be interpreted as semi-elasticities between employment and the other variables.

In this regression, economic growth is the variable with the greatest impact (positive) on employment (see table IV.3, column 1). Two additional variables, namely, the exchange rate and trade openness, affect the labour intensity of growth (both significant at 5%): greater openness reduces it, while an increase in the real exchange rate (reflecting a depreciation of the local currency) raises it. Formal-sector wages and the trend were not significant, although they showed the expected signs.

The results thus show that two of the economic trends that strongly marked the region's performance (currency appreciation and commercial openness) reduced the labour intensity of growth. Even so, there is no dissociation between economic growth and job creation (that is, there is no jobless growth), which confirms the results of the comparison of labour performance by decade (see table IV.1).

In a second step of the analysis, economic reform indices were added to the model, following Morley, Machado and Pettinato (1999). These include the trade reform index, the capital account reform index and the average reform index, representing the reforms as a whole. A distinction was made between immediate and longer-term effects, for the latter case using an average of the indices of the five years preceding each observation.

To lessen possible problems of collinearity between the trend variable and the reform indices,<sup>51</sup> as well as among the indices themselves, the trend

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51 Growth trends prevail in the region's reform indices, as shown by data from Morley, Machado and Pettinato (1999).

Table IV.3  
**LATIN AMERICA (SIX COUNTRIES): DETERMINANTS OF  
 EMPLOYMENT CREATION, 1985-1998**  
*Dependent variable: DLOG(L)*

INDEPENDENT VARIABLE	(1)	(2)	(3)	(4)	(5)	(6)	(7)
GDP	0.40 (6.17)	0.39 (5.70)	0.39 (6.02)	0.41 (6.01)	0.42 (6.50)	0.39 (5.86)	0.38 (5.92)
Real wages	-0.05 (-1.01)	-0.04 (-0.91)	-0.03 (-0.65)	-0.04 (-0.85)	-0.04 (-0.84)	-0.04 (-0.93)	-0.03 (-0.71)
Trend	-0.08 (-1.49)						
Real exchange rate index	0.05 (2.14)	0.04 (1.68)	0.04 (2.08)	0.04 (1.80)	0.05 (2.29)	0.04 (2.04)	0.04 (2.09)
Trade openness	-0.15 (-2.32)	-0.08 (-0.97)	-0.08 (-1.14)	-0.09 (1.32)	-0.11 (-1.80)	-0.10 (-1.09)	-0.08 (-1.23)
Average reform index		-0.05 (-1.78)					
Average reform index (five-year average)			-0.06 (-2.78)				
Capital account reform index				-0.03 (-2.12)			
Capital account reform index (five-year average)					-0.03 (-2.59)		
Trade reform index						-0.05 (-1.49)	
Trade reform index (five-year average)							-0.07 (-2.87)
R <sup>2</sup>	0.38	0.38	0.39	0.38	0.39	0.37	0.40
Adjusted R <sup>2</sup>	0.28	0.29	0.30	0.29	0.30	0.28	0.30
N	78	78	78	78	78	78	78

**Source:** Author's calculations, on the basis of contributions by Lucas Navarro, ECLAC consultant. Note: t-statistics are in parentheses. The dependent variable (L) is the number of employed persons, expressed as a log. The independent variables are the first difference of the logs of GDP, real wages in the formal sector, an index of the real exchange rate and trade openness (the ratio of exports plus imports to GDP), followed by the reform indexes described in the text.

was eliminated and an assessment was made of the effect of each of the reforms separately in different regressions (see table IV.3, equations 2 to 7).

When the variables corresponding to the reforms were included, (equations 2 to 7), the results for economic growth and wages are the same as in the first regression, while those for the exchange rate and, especially, commercial openness were less significant. In that connection it should be kept in mind that there is a positive correlation between trade reform and the



degree of openness, and a negative correlation between the capital account reforms and the real exchange rate.<sup>52</sup>

According to the regressions, the reforms had a negative impact on the labour intensity of economic growth, since a higher index reduces labour demand.<sup>53</sup> This is the case for the reforms as a whole and, separately, for trade reform and the reform of the capital account. The negative effect on employment is more significant in the regressions using the average of the last five years. This suggests that the reforms not only had an immediate negative impact on employment (for example, because of defensive strategies adopted by companies in the face of liberalization and the reduction of staff in privatized companies), but they also led to less labour-intensive growth over the longer term.<sup>54</sup> At the aggregate level, therefore, the impact of the reforms on labour intensity was contrary to what was expected.

The variables influencing labour demand (presented in table IV.3) explain only a small part of the trends in employment, as indicated by the low  $R^2$  values. This is consistent, however, with the substantial relevance of labour supply, which the previous chapter stressed. As shown later (section C of chapter V), the explanatory force of these variables is clearly greater when the evolution of formal employment is analysed.

In summary, the econometric exercises tend to confirm the substantial importance of economic growth for job creation: the evidence indicates that the reforms had a slightly positive influence on growth, and they thus had a positive impact on employment. Contrary to expectations, however, the reforms reduced the labour intensity of growth, with negative consequences for job creation. This process was not fleeting, since the decline in labour intensity seems to have persisted over the longer term. Closely linked to that, trade openness has had a negative impact on the labour intensity of growth at the aggregate level. Finally, the real exchange rate and labour intensity demonstrated a positive correlation. This is another factor that negatively influenced labour demand, given the tendencies towards appreciation evident in the region during most of the 1990s.

Beyond these general results, the employment rate behaved quite differently in the various countries during the reform period (see table IV.2). The next section analyses this variable, in particular taking into account its

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52 Such correlations stem from the stimulus that trade reform gives to imports and exports, and from the increased capital flows spurred by opening up the capital accounts in a context of abundant external funds and attractive investment conditions, which leads to the appreciation of the local currency.

53 Similarly, according to econometric estimates by the Inter-American Development Bank (IDB) for 13 countries in the region, the reforms reduced the growth rate of employment (IDB, 1997, p.98). Márquez and Pagés (1997) also find that the trade reforms had a mild negative impact on employment.

54 The results for longer periods are also more significant in the regressions corresponding to the exchange rate and trade openness.

prior development and the external macroeconomic conditions that prevailed throughout the 1990s.

## 2. *Reforms and Macroeconomic Conditions: Differences among Countries*

The countries' labour performance *in the reform phase* (phase 2 in table IV.2) can be differentiated according to their situation in the pre-reform period. In the three countries where employment fell in that period (Bolivia, Chile and Peru) the introduction of the reforms coincided with the application of price stabilization programmes that ended periods of high inflation or hyperinflation and stimulated renewed economic growth (albeit to differing degrees). Another member of this group is Argentina, which experienced a long period of low economic growth and several years of economic contraction. The employment rate in urban areas fell from 54.7% in 1974 to 54.0% in 1980 and then to 52.5% in 1985, recovering slightly at the end of the 1980s (phase 1 in table IV.2).<sup>55</sup> In two of these countries (Bolivia and Peru), a profound economic crisis reduced not only employment but also labour participation, since many individuals stopped looking for work, presumably considering it impossible to find a job. They thus became economically inactive in the labour statistics, although they should in fact be considered as part of hidden unemployment. At the same time, the participation of wage earners in the employment structure declined, and the economy became more informal.<sup>56</sup> In Greater Buenos Aires, Argentina, the participation of self-employed workers grew from 23.3% to 25.3% of workers between October 1984 and October 1989.<sup>57</sup> In Bolivia, the participation of wage earners in urban employment fell from 58.4% to 56.9% between 1980 and 1985 (Horton, 1994, p.113). In Lima, Peru, it fell from 58.8% to 55.1% between 1984 and 1990 after declining sharply in earlier periods (Verdera, 1994, p.17).

Successful stabilization gave rise to new job opportunities that tended to offset the direct negative impact of the reforms in some sectors, such as the public sector and manufacturing. Those opportunities prompted many people who had left the labour market to seek work again. Macroeconomic policies successfully stabilized prices and caused a marked increase in internal demand,

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55 Author's calculations, on the basis of information from the consultants Oscar Altimir and Luis Beccaria, and from the Latin American and Caribbean Demographic Centre (CELADE). The employment rate, provided by Argentina's National Institute of Statistics and Censuses (INDEC) refers to employed individuals as a proportion of the total population. To enhance its comparability with the other countries, this study estimated it as the proportion of the population aged 15 and over.

56 Self-employed workers generally constitute the largest part of the informal sector, which is characterized by low productivity and income.

57 See INDEC's web site ([http://www.indec.mecon.ar/comunica/c\\_eph/cp55020.txt](http://www.indec.mecon.ar/comunica/c_eph/cp55020.txt)).

linked in turn to significant inflows of foreign capital.<sup>58</sup> This facilitated a sharp increase in the employment rate, fed by the large reserve of hidden unemployment. In Bolivia and Peru, however, the vast majority of these new opportunities did not arise in the formal sector, but rather in informal activities.<sup>59</sup>

In Chile, the reforms began in the context of a programme of recessionary stabilization that in 1975 led to massive job losses in the sectors producing tradable and non-tradable goods (García, 1993, p.104). The employment rate fell abruptly and unemployment soared from 4.8% in 1973 to 18.3% in 1978 (Infante and Klein, 1992, p.24). Economic growth recovered between the late-1970s and 1981 in the context of a stabilization programme with an exchange rate anchor and large capital inflows. With greater openness and exchange rate appreciation, job creation lessened in the tradable goods sectors but gathered pace in tertiary activities, as a result of which unemployment fell slightly (to 15.7%, in 1980).

However, stabilization programmes with an exchange rate anchor and the importance of capital flows for economic growth increased the country's vulnerability to external shocks. In Chile, therefore, unemployment again rose as a result of the profound crisis of the early 1980s, reaching 28.5% in 1983 (the figure includes those in emergency programmes). At the same time, the informal sector's share of employment, which had stood at 32% in 1972, increased to 37% in 1976 and to 38% in 1983.<sup>60</sup>

The strong positive impact of stabilization was also fleeting in the 1990s, in a context of growth. In Argentina and Peru, the growth rate of internal demand fell at the start of the decade, and in subsequent years exports became the most dynamic component of overall demand. This curbed the strong growth of employment, centred on the non-tradable goods sectors and nourished by the income effect of the reforms and favourable external conditions. In Argentina, the employment rate grew from 51.5% to 53.4% between May 1990 and October 1992, but then fell to 50.6% in October 1994, even before the outbreak of the Mexican crisis. After falling still further during the following 18 months, it grew to 51.4% in October 1998, the month when the Argentine economy again began to feel the impact of an external crisis. In Peru, the employment rate declined so strongly before the 1990s that it did not return to the 1985 level until 1997, after a sharp increase in employment during that decade.

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58 In Argentina domestic demand grew by 16.9% in 1991 and by 16.3% in 1992. In Peru it increased by 5.9% in 1993, 14.2% in 1994 and 14.5% in 1995 (author's calculation, on the basis of ECLAC data).

59 Between 1990 and 1995, the share of informal employment in total employment in Lima rose from 51.8% to 55.0% (ILO, *Panorama Laboral 1997*, p.48). In Bolivia, in the second half of the 1980s, new employment was concentrated in non-wage jobs in the context of moderate economic growth (Arze and others, 1993, table II.18).

60 Author's calculation, on the basis of Infante and Klein (1992, p.25).

In the second group of countries (Brazil, Colombia, Costa Rica, Jamaica and Mexico) reforms curbed the upward trends in employment that had been evident before the reforms were introduced. The only exception was Mexico, which recorded a modest increase. This does not mean, however, that the income effect of financial liberalization and of external capital flows played no role in this group. In Colombia, for example, in the context of financial liberalization with exchange rate appreciation, the marked growth of internal demand between 1992 and 1994 drove the employment rate up from 53.5% in the first year to 54.6% in the second. It remained at around that level until 1995, but later it fell because of much less favourable macroeconomic conditions.

Thus, in the countries in this group, the immediate negative impact of the reforms on employment was not offset by the emergence of new job opportunities and sources of income. As in the Chilean case, although less markedly, the employment rate stagnated or fell in most of these countries in the reform period, as shown in table IV.2 (phase 2).

In the *post-reform period* (phase 3 of table IV.2), only four of the nine countries saw the economy grow faster than in the previous period, while the others suffered stagnation or economic crisis. In that context, the employment rate grew in four countries, stagnated in three and fell in two. The evolution of the employment rate generally coincided quite closely with growth rates, and the countries that grew most (Bolivia, Chile and Costa Rica) posted the biggest increase in employment.

The exception was Brazil, where the negative effects of liberalization were offset in phase 2 by a depreciation of the real exchange rate.<sup>61</sup> The reforms had a greater impact in phase 3, especially on manufacturing employment. Because of the Real plan and the normalization of relations with the international financial system, capital inflows were higher from 1993 onwards, which led to a sharp increase in internal demand between 1993 and 1995 (between 6% and 8% per year). As in other countries, this fostered employment growth, such that the employment rate rose from 55.5% to 56.5% during that period in Brazil's six main metropolitan areas. The growth of internal demand fell abruptly with the deterioration of macroeconomic conditions from 1996 onwards, and the employment rate declined to 55.2% in 1997 and to 53.8% in 1998.

As table IV.2 shows, in Chile the third phase (the one following the reform period) is divided into two sub-periods. The first of these is notable, because this was when the composition of new jobs in Chile corresponded to initial expectations: between 1983 and 1989 the primary and secondary sectors increased their share of employment from 40% to 45% (Infante and Klein,

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61 Between 1989 and 1993, the real exchange rate depreciated by 28%.

1992, p.26).<sup>62</sup> However, this trend was curbed when the country entered a new phase in the 1990s, and, like the region as a whole, the tertiary sector began to emerge as the main source of new jobs (García-Huidobro, 1999).

In sum, comparing the performance of the countries under study shows that the reforms tended to have a direct negative impact on employment during an initial period, with a fall in the employment rate. In some cases that impact was offset by stronger economic growth, underscoring the importance of the internal and external macroeconomic conditions within which the reforms were applied. Specifically, access to abundant external capital at the start of the 1990s allowed many countries of the region to implement price stabilization programmes that favoured the growth of activities producing non-tradable goods and services. A significant number of jobs were thus created, which to a greater or lesser degree made up for job losses in the sectors that were directly affected by the reforms. However, since the dynamism of job creation depended largely on the flows of external capital, the different regional and extra-regional crises curbed economic growth and job creation.

Another factor affecting the labour variables was the previous situation in the labour market. Specifically, in countries where the preceding economic crisis had led to massive job losses in the formal sector and significant withdrawal from the labour market, the renewed economic dynamism prompted the emergence of new job opportunities and a sharp increase in the supply of labour offered by people who had previously been discouraged.

### C. Labour Market Trends in the 1990s

This section analyses the evolution of employment in the region during the 1990s. The period has been characterized as the reform decade, since practically all countries had either already carried out some degree of first generation economic reforms or did so during this decade. Those reforms sought to give the market a greater role in the allocation of resources (Morley, Machado and Pettinato, 1999). The analysis covers the period 1990-1997.<sup>63</sup> Although the Mexican crisis of 1994-1995 had a negative impact on a few countries, this period was otherwise a relatively positive stage in terms of economic growth, which was later seriously affected by the international financial crisis.

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62 Without considering the high level of unemployment, the employment structure behaved similarly to that outlined by Edwards (1988): in the first phase, a sharp fall in the employment share of the tradable goods sectors (especially manufacturing) and an increase in the share of the non-tradable goods sectors (especially the informal sector); in the second phase, significant growth of employment in the tradable sectors, which led to a slight increase in its share of total employment, and a decline in the weight of informal activities (Infante and Klein, 1992). In the 1990s, Bolivia also saw a relative expansion of tradable goods activities (Jemio, 1999).

63 Data for the period 1990-1997 were not available in all cases. In particular, information from the special processing of household surveys carried out for this study covers other periods.

In the period 1990-1997, internal and external macroeconomic conditions at the regional level were more favourable than during the 1980s. Inflation, which in some countries had reached hyperinflationary levels, was generally contained within the framework of stabilization policies that used an exchange rate anchor. This was possible because of the broad access to external capital facilitated by financial liberalization. In this way inflation fell without a prolonged contraction of domestic demand, whose swift stabilization had a positive effect on labour demand.

During much of the decade, these circumstances led to an appreciation of most currencies of the region. This unfavourably affected output and had an even more negative influence on employment in the sectors producing tradable goods, which were already feeling the impact of liberalization. Greater internal demand was nonetheless fostered by a combination of abundant capital flows, currency appreciation and domestic financial systems that had also been subject to liberal reforms and modernization. Concentrated in construction and consumption, and partly financed by a credit boom (Ffrench-Davis and Reisen, 1997), the growth of internal demand particularly benefited those sectors producing non-tradable goods and services, as well as imports. Consequently, several countries saw a substantial increase in employment in the 1990s, especially those countries where economic activity had been depressed by the effects of high inflation.

The economic growth induced by external capital slowed, however, largely because of a change in external conditions (the Mexican, Asian and Russian crises) and of the attendant problems of imbalances, both external (growing current account deficits) and internal (financial crisis). The income effect therefore dissipated, economic growth fell, and the sparse job creation in activities producing tradable goods was felt more sharply.

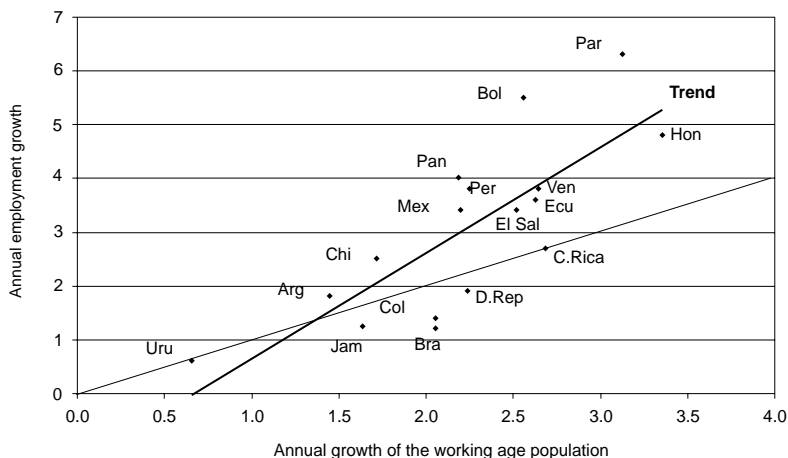
### *1. Employment Trends*

The close link between labour supply and job creation, outlined earlier in general terms, was confirmed in the 1990s. This is evident in figure IV.1, which shows the annual growth of the working age population and yearly job creation in 17 countries of the region.

The labour supply is represented in figure IV.1 by the working age population (WAP) rather than by the economically active population (EAP), because whereas the WAP growth rate is stable in the short run, the EAP includes, in addition, factors that respond to trends in the labour market. A circular causality thus arises between trends in labour supply and demand. In contrast, the WAP can be viewed as the underlying labour supply, which is not influenced by variations in labour participation.

In most of these 17 countries, employment clearly grew faster than the WAP (as indicated by their position above the 45-degree line). This is consonant

Figure IV.1  
**LATIN AMERICA AND THE CARIBBEAN (17 COUNTRIES):  
 LABOUR SUPPLY AND EMPLOYMENT, 1990s**



**Source:** Author's calculations.

with the trend for labour participation. In only five countries (including Brazil, Colombia and Jamaica) did employment grow less than the underlying labour supply. In addition, there is a relatively high correlation between the two variables, which validates the assumption that the behaviour of the labour supply largely determines the growth rate of employment, both over the long term and in a comparison between the countries.<sup>64</sup> This does not contradict the previous result, according to which economic growth in a given country has a strong influence on job creation in the short term.

What were the trends in labour demand, which is mainly reflected in wage employment, in comparison with other employment categories? As table IV.1 showed, the different measurements of employment trends at the regional level reveal that wage employment grew at the same rate as employment as a whole. Table IV.4 presents a more disaggregated vision of employment trends in the various categories between the early 1990s and 1997, both for the region as a whole and for the nine countries under study. The data are based on

<sup>64</sup> The link between the behaviour of the underlying labour supply and that of wage employment is not as close as that with employment as a whole, but it is also positive.

information from household surveys. This means they are approximations, since the absolute data (and therefore the growth rates) depend on the expansion factors, which in turn are based on census information, and on the corresponding projections applied to the sample results. The annex details the geographical and temporal coverage for the countries included in table IV.4.

At the regional level, categories that are largely marked by unfavourable working conditions and poor incomes (such as self-employment and domestic service) grew more than wage employment. Public employment among wage earners grew at a lower rate than employment as a whole, because of privatization programmes and more restrictive fiscal policies. The number of unpaid family workers stagnated, thus sustaining the long-term trend towards a decline in their relative weight in the employment structure, which is mainly related to the relative contraction of the rural economy. In the region as a whole, wage employment provided a little more than half of the new jobs, and self-employment another third.

A comparison of the countries under study reveals significant differences. In four of the nine countries (Bolivia, Brazil, Colombia and Peru), wage employment grew at a lower rate than employment as a whole, partly because the substantial contraction of public employment was not offset by an expansion in private-sector employment. By contrast, in Argentina, Chile, Jamaica and Mexico wage employment grew quite strongly, thus increasing its weight in the employment structure. In Costa Rica wage employment grew at the same rate as employment as a whole, but *private* wage employment was relatively dynamic. A similar development took place in Peru, partly because the privatization of public companies and the attendant public job losses offset other forces, giving rise to a relatively modest increase in total wage employment.<sup>65</sup>

Recent transformations in the labour market were characterized by the growing integration of women. In all countries except Jamaica, women increased their share of employment. This growth was generally concentrated in wage labour. In all countries except Mexico and Peru, women wage earners increased as a share of total employment, especially in Argentina, Chile and Costa Rica (see table IV.5). The participation of female wage employment increased in Bolivia and Colombia, as did the share of unpaid and self-employed women. The growth of female employment was concentrated in these latter categories in Mexico and Peru. Finally, the relative weight of

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<sup>65</sup> Analysis of job creation requires attention not only to the number of employed people, but also to the hours they work in a specific period. In previous decades the wage earners' workday tended to shorten, but in the 1990s the situation was diverse: in some countries (especially Argentina, but also Chile and Colombia) the average number of hours worked fell, while in Brazil and Costa Rica the average remained relatively stable, and in Jamaica and Peru it increased (data provided by the consultants).



Table IV.4  
**LATIN AMERICA AND THE CARIBBEAN: ANNUAL GROWTH OF  
 EMPLOYMENT BY CATEGORY AND CONTRIBUTION TO JOB  
 CREATION, 1990s<sup>a/</sup>**

COUNTRY AND PERIOD <sup>b/</sup>	WAGE EARNERS			SELF- EMPLOYED	DOMESTIC SERVICE	UNPAID FAMILY WORKERS	OTHERS	TOTAL
	PRIVATE	PUBLIC	TOTAL					
Argentina, 1991-1997 <sup>d/</sup>	1.7	3.2	1.8	-1.0	2.3	n.a.	0.9	1.1
	86.9	13.8	100.7	-20.0	14.7	n.a.	4.5	100.0
Bolivia, 1990-1997 <sup>d/</sup>	5.5	-1.4	4.7	5.5	-2.9	11.6	16.1	5.5
	42.8	-1.4	41.4	34.7	-2.8	12.3	14.4	100.0
Brazil, 1992-1997 <sup>d/</sup>	1.1	1.0	1.1	1.5	3.8	-1.9	3.1	1.2
	45.0	4.0	49.0	34.2	22.5	-15.7	10.0	100.0
Chile, 1990-1997	n.a.	n.a.	3.3	2.4	-0.6	-4.2	0.2	2.5
	n.a.	n.a.	84.1	22.4	-1.4	-5.5	0.3	100.0
Colombia, 1991-1997	1.4	-0.6	1.1	4.0	0.1	-7.5	-1.4	1.4
	47.4	-3.7	43.8	92.3	0.2	-31.3	-5.0	100.0
Costa Rica, 1990-1997	3.5	0.1	2.7	2.8	2.8	-4.4	7.8	2.7
	63.9	0.7	64.6	20.0	4.4	-6.7	17.7	100.0
Jamaica, 1989-1996	3.1	-1.8	2.2	-0.5	n.a.	-4.2	14.7	1.2
	122.0	-16.5	105.5	-11.8	n.a.	-16.0	22.2	100.0
Mexico, 1991-1997 <sup>d/</sup>	4.1	3.4	4.0	4.1	8.4	3.0	-5.1	3.4
	57.9	4.3	62.1	28.7	9.0	11.2	-11.1	100.0
Peru, 1991-1997 <sup>d/</sup>	4.3	-4.7	1.7	5.3	1.7	n.a.	n.a.	3.8
	32.3	-13.9	18.4	81.0	0.6	n.a.	n.a.	100.0
Latin America and the Caribbean, weighted average <sup>d/</sup>	2.2	0.7	2.2	2.8	3.9	0.4	0.4	2.2
	49.7	2.0	51.8	35.9	9.9	1.7	0.6	100.0
Latin America and the Caribbean, median <sup>e/f/</sup>	3.2	0.6	2.7	3.1	3.5	-1.9	0.5	3.4
	52.6	2.5	62.1	34.2	3.9	-0.5	2.4	100.0

**Source:** Author's calculations, on the basis of each country's household surveys.

a/ The first line for each country refers to the annual growth of employment during the period indicated. The second line shows the contribution of each category to total employment generated during the period.

b/ The coverage for the countries is the national total, except for Argentina (Greater Buenos Aires) and Bolivia (departmental capitals and El Alto). The figures for Latin America and the Caribbean correspond to 17 countries.

c/ Public employment refers only to the public administration.

d/ Extrapolated data for 1991. Self-employed also include employers and unpaid workers.

e/ Data for 17 countries, except for unpaid workers (15 countries) and domestic service (13). The distinction between private- and public-sector wage earners refers to 13 countries.

f/ The total does not necessarily add up to 100, since the figures used are medians.

Table IV.5  
**LATIN AMERICA AND THE CARIBBEAN: SHARE OF FEMALE  
 EMPLOYMENT IN TOTAL EMPLOYMENT, BY EMPLOYMENT  
 CATEGORY**

COUNTRY	TOTAL		WAGE EARNERS		SELF-EMPLOYED AND UNPAID WORKERS		DOMESTIC SERVICE	
	YEAR 1	YEAR 2	YEAR 1	YEAR 2	YEAR 1	YEAR 2	YEAR 1	YEAR 2
Argentina	36.6	37.9	21.2	22.5	8.3	7.7	7.2	7.7
Bolivia	43.3	45.0	12.3	13.5	23.3	24.2	6.3	4.7
Brazil	38.8	39.5	16.6	17.3	15.3	14.3	6.3	7.0
Chile	31.0	31.9	16.4	19.1	7.4	7.3	6.2	4.9
Colombia	32.3	35.9	15.0	18.1	10.8	12.5	3.4	2.9
Costa Rica	28.2	29.4	17.4	19.0	6.6	6.5	4.3	4.3
Jamaica	43.7	42.6	26.3	27.2	17.0	14.8	n.a.	n.a.
Mexico	30.4	33.6	15.5	15.1	11.0	13.6	3.2	4.3
Peru	40.4	42.6	11.2	11.2	27.5	29.9	1.0	1.1

**Source:** Author's calculation, on the basis of the research.

Note: Years 1 and 2 refer to 1991 and 1997 for Argentina and Mexico; 1989 and 1996 for Bolivia and Jamaica; 1992 and 1997 for Brazil; 1990 and 1996 for Chile and Costa Rica; 1988 and 1995 for Colombia; and 1994 and 1997 for Peru. The coverage for the countries is the national total, except for Argentina (urban areas) and Bolivia (departmental capitals and El Alto). In Argentina, Costa Rica and Mexico, domestic service is wholly attributed to women. In Argentina and Costa Rica, the column "self-employed and unpaid workers" refers to all non-wage categories.

domestic service, a traditional occupation for women with lower educational levels, increased in the region's bigger countries (Argentina, Brazil, Mexico), but it was stable or fell in others.

In almost all the countries of the region, private wage employment grew faster in microenterprises than in the rest of the private sector. According to the ILO, the informal sector provided about 60% of new urban jobs between 1990 and 1998.<sup>66</sup> The share of informal labour in urban employment thus increased from 44.4% to 47.9% over that period (ILO, *Panorama laboral*, 1999). In general terms, employment in the informal sector is marked by low productivity, low wages and scant social and legal protection. At the regional level, therefore, the composition of employment in the 1990s deteriorated.

<sup>66</sup> The ILO uses indirect indicators to measure the informal sector, which is taken to include self-employed workers (excluding administrative personnel, professionals and technical staff); unpaid workers; domestic employees; and those employed in establishments with up to five workers (ILO, *Panorama laboral*, 1999, pp.58-59).

Table IV.6 shows that in contrast to this worsening trend, most countries saw an upgrading of skill levels in the employment structure, reflected in an increase in the share of jobs requiring the highest skills. In examining the table, it should be kept in mind that the classifications used by the countries are not always directly comparable, especially in the second group (administrative staff and office workers).

Table IV.6  
**LATIN AMERICA (SEVEN COUNTRIES): SHARE OF PROFESSIONALS,  
TECHNICAL STAFF AND ADMINISTRATIVE PERSONNEL IN THE  
EMPLOYMENT STRUCTURE, 1990s**

COUNTRY AND PERIOD <sup>a/</sup>	MANAGERIAL, PROFESSIONAL AND TECHNICAL PERSONNEL		ADMINISTRATIVE AND OFFICE PERSONNEL <sup>b/</sup>	
	YEAR 1	YEAR 2	YEAR 1	YEAR 2
Bolivia, 1993-1996	21.1	20.1	4.8	6.9
Brazil, 1993-1996	7.1	7.8	12.2	12.1
Chile, 1992-1996	17.9	20.9	7.6	8.5
Colombia, 1988-1995	8.9	10.6	n.a.	n.a.
Costa Rica, 1990-1997	12.7	14.6	7.8	8.5
Mexico, 1991-1996	10.6	11.3	8.5	8.5
Peru, 1994-1997	11.8	11.0	5.5	4.5

**Source:** Author's calculations, on the basis of the research.

a/ The coverage for the countries is the national total, except for Bolivia (departmental capitals and El Alto).

b/ Refers to office workers in Bolivia, Chile and Mexico.

A prominent feature here is the increase in the proportion of professionals and technical staff in almost all countries, especially Chile, Colombia and Costa Rica. The exceptions were Bolivia and Peru. In both countries, as mentioned earlier, many people who had withdrawn from economic activity, especially youth and women with limited education, swarmed back into the labour market (see table III.4).

The situation is less clear among administrative staff and office workers. Their share increased in Bolivia, Chile and Costa Rica, stagnated in Brazil and Mexico, and fell again in Peru. Nevertheless, on average there was an increase in the share of the groups that require high skills.

The employment structure has thus undergone an apparent polarization. On the one hand, the creation of high-skilled jobs was relatively dynamic; on the other, informal activities grew strongly. Chapter VI returns to this issue.

Because job creation was weak, unemployment did not fall in the 1990s, despite higher economic growth than in the previous decade. In 1998, in fact, average unemployment in 20 countries was the same as at the start of the 1990s. In the weighted average, unemployment increased markedly because of rising numbers in Argentina and Mexico and, towards the end of the decade, in Brazil and Colombia.<sup>67</sup> Of these four countries, only Mexico managed to reduce unemployment relatively fast. These countries' negative performance also led to a significant increase in the simple average of unemployment rates in the nine countries from 1995 onwards. In that year it increased from 7.6% to 8.7%, and in 1999 it grew again, to 10.1%.<sup>68</sup>

## 2. *Trends in Wages*

In the 1980s, real wages in the formal sector proved to be much more flexible than was previously thought. In the context of high inflation and declining average productivity, such wages often suffered sharp reversals. Formal-sector real wages rose again in the 1990s with improved labour productivity. In 1998, average real wages for 14 countries of the region were almost 20% higher than at the end of the 1980s.<sup>69</sup>

In several of the countries under study (Bolivia, Brazil, Colombia, Costa Rica and Jamaica), average real wages in the formal sector fell at the beginning of the decade but later recovered (see table IV.7). In Mexico and Peru real wages behaved in the opposite way, with increases in the early years and a decline from 1995 onwards. In Argentina, the containment of inflation at minimum levels kept average real wages practically constant. Chile was the only country where the real wage continuously grew.

The significant variations in formal sector real wages reveal their flexibility. Despite the drop in inflation (that is, the weakening of the mechanism that prompted sharp falls in real wages in the 1980s), real wages fluctuated in most countries, closely reflecting the dynamics of labour demand. Figure IV.2 shows that in most countries there is a close link between economic growth and labour demand (represented by the increase in wage employment); this both confirms and illustrates the results of this chapter's earlier econometric exercise. The figure also shows that a close link between those two variables and the real wage.

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67 At the regional level the unemployment rate rose, with some fluctuations, from 5.9% in 1990 to 7.2% in 1995, 8.0% in 1998 and 8.7% (preliminary estimate) in 1999 (see ECLAC, *Economic Survey of Latin America and the Caribbean*, 1999; ECLAC, 1999a).

68 Author's calculation, on the basis of ECLAC data.

69 Author's calculation, on the basis of ECLAC data.

Table IV.7  
**LATIN AMERICA AND THE CARIBBEAN (NINE COUNTRIES):  
 EVOLUTION OF AVERAGE REAL WAGES IN THE  
 FORMAL SECTOR, 1980-1998**  
*(Index 1990 = 100)*

COUNTRY	1980	1991	1992	1993	1994	1995	1996	1997	1998
Argentina <sup>a/</sup>	130.0	101.4	102.7	101.3	102.0	100.9	100.7	100.2	99.1
Bolivia <sup>b/</sup>	64.9	93.4	97.1	103.6	111.8	112.6	113.9	123.1	127.5
Brazil <sup>c/</sup>	91.3	85.2	83.3	91.5	92.2	95.7	103.3	106.0	106.1
Chile <sup>d/</sup>	95.4	104.9	109.6	113.5	118.8	123.6	128.7	131.8	135.3
Colombia <sup>e/</sup>	85.0	97.4	98.6	103.2	104.1	105.4	107.0	109.8	108.4
Costa Rica <sup>f/</sup>	115.8	95.4	99.3	109.5	113.6	111.4	109.1	110.0	117.6
Jamaica <sup>g/</sup>	103.4	71.4	75.4	91.6	108.4	105.0	106.7	117.6	120.9
Mexico <sup>a/</sup>	128.3	106.5	114.3	124.5	130.4	113.5	102.3	101.1	103.9
Peru <sup>h/</sup>	309.3	115.2	111.1	110.2	127.4	116.7	111.2	110.4	108.2

**Source:** Author's calculations, on the basis of ECLAC data and information arising from the research.

a/ Manufacturing.

b/ Private sector in La Paz. The figure in the "1980" column corresponds to 1985.

c/ Workers covered by social and labour legislation.

d/ Until April 1993, average earnings of non-agricultural wage earners. From May 1993, general index of hourly earnings.

e/ Workers in manufacturing.

f/ Registered for social security.

g/ Non-agricultural private-sector wage earners. The figure in the "1980" column corresponds to 1986.

h/ Private-sector workers in the metropolitan area of Lima.

Figure IV.2 shows that in six of nine countries under study, changes in the economic growth rate and changes in the growth rate of wage employment are closely linked. The distance between the curves representing the economic growth rate and the rate of job creation reflects differences in the employment elasticity of output. The countries that displayed a strong correlation between economic growth and the evolution of employment in the 1990s include Argentina, Brazil, Chile, Costa Rica, Mexico and Peru (except in 1994), while the link between the two variables is less strong in Bolivia, Colombia and Jamaica.

In some cases, there is a wide gap between high economic growth rates and low job creation. This reflects both a lower employment-output elasticity and –the other side of the coin– the higher growth of labour productivity. In

Figure IV.2  
**LATIN AMERICA AND THE CARIBBEAN (NINE COUNTRIES):  
 GROWTH OF WAGE EMPLOYMENT AND REAL WAGES  
 IN THE FORMAL SECTOR**

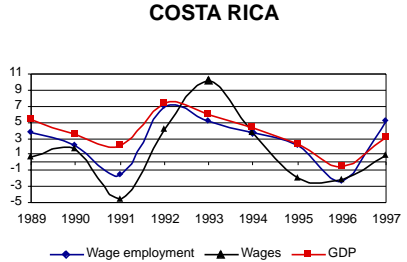
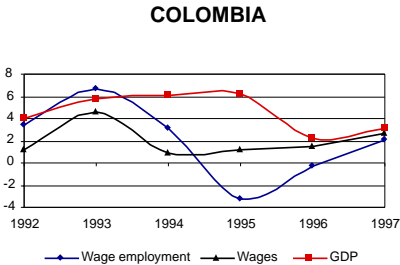
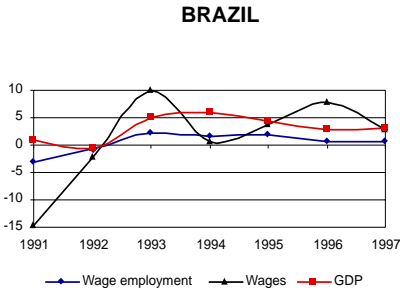
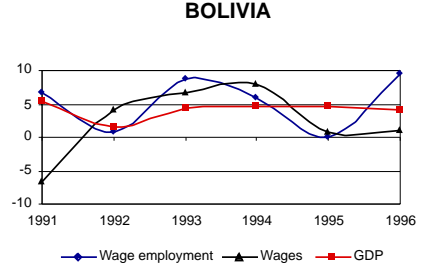
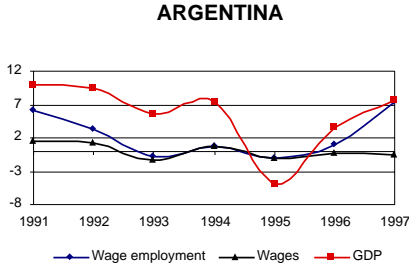
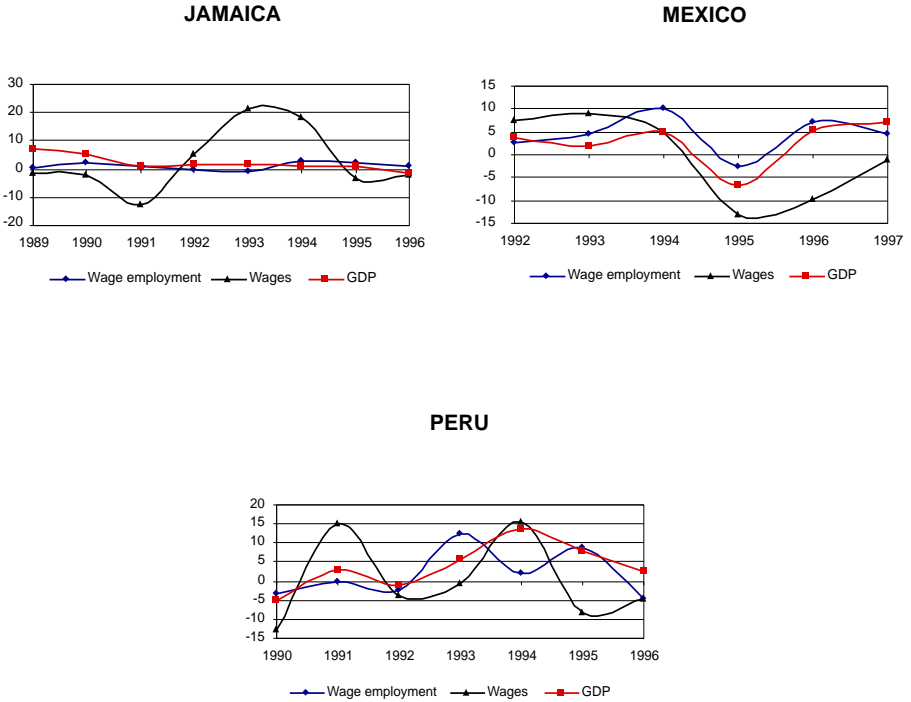


Figure IV.2 continue



**Source:** Author's calculations, on the basis of ECLAC data and information arising from the research.

**Note:** The evolution of wage employment refers to the national total, except for Argentina (urban areas), Bolivia (departmental capitals and El Alto) and Peru (Lima).

other cases (Bolivia and Mexico), the rate of job creation exceeded the rate of economic growth for most of the decade.<sup>70</sup>

There is also a positive correlation between wage employment and real wages, albeit with some differences reflecting varying degrees of wage flexibility. The main exceptions in this regard were Brazil, Jamaica and Peru. Brazil recorded a significant recovery of the real wage thanks to the expansive stabilization of the Real Plan, while in Peru the common trend of wages and wage employment ended in 1994.<sup>71</sup> In Argentina there was a correlation between wage employment and wages, but the latter fluctuated much less because they were less flexible in an inflation-free economy.<sup>72</sup> The econometric exercise showed a slight, but statistically unimportant, negative correlation between the real wage and employment (see table IV.3), although in most cases the impact of economic growth on labour demand was stronger, as expressed in a positive correlation between growth and wage employment and between growth and wages.

At the same time, minimum wage policies were cautious in most countries of the region. In the 1980s wage policy was seen, above all, as an instrument to help control inflation, a view that led to severe real losses in minimum wages. At the beginning of the 1990s, they again fell sharply and remained at that level in subsequent years, until the first relatively significant increase in 1998.<sup>73</sup>

### 3. *Labour Performance by Country*

Beyond the regional trends, the countries displayed a high degree of heterogeneity in labour performance. Table IV.8 shows this performance for the nine countries under study, summarizing the evolution of five variables: variations in the unemployment rate, the employment rate, formal-sector real wages, labour productivity and the connection between the growth of wage employment and employment as a whole (as an indicator of the relative strength of labour demand).

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70 With regard to Bolivia, it should be noted that the data only refer to departmental capitals. In this period there was strong rural-urban migration (Crespo, 2000). The labour supply therefore grew dynamically in the cities, while at the national level there was a compensating effect and the rate of employment growth was lower.

71 In the case of Peru it should be noted that the evolution of wage employment refers only to Lima.

72 The household surveys record a much higher wage flexibility, however. According to the surveys, the average real wage in Greater Buenos Aires increased by 38.4% between May 1990 and May 1994, and then fell by 9.9% between May 1994 and October 1996 (Altimir and Beccaria, 1999, p.63).

73 Between 1981 and 1992, the average growth rates of real minimum wages for 18 countries of the region was negative in every year (author's calculation, on the basis of official national figures; ECLAC, *Economic Survey of Latin America and the Caribbean*, various editions).



Table IV.8  
**LATIN AMERICA AND THE CARIBBEAN (NINE COUNTRIES):  
 CHANGES IN LABOUR INDICATORS IN THE 1990s**

COUNTRY	UNEMPLOYMENT	EMPLOYMENT	WAGE LEVEL	REAL WAGES EMPLOYMENT	LABOUR PRODUCTIVITY
Argentina	-	-	+	=	+
Bolivia	+	+	-	+	-
Brazil	-	-	=	+	+
Chile	+	+	+	+	+
Colombia	-	=	-	+	+
Costa Rica	=	+	=	+	+
Jamaica	=	-	+	+	-
Mexico	-	+	+	+	=
Peru	-	+	-	+	+

**Source:** Author's calculations.

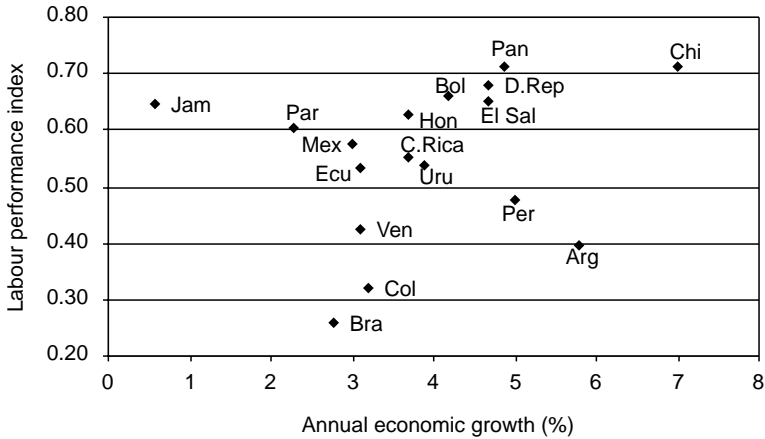
Note: The assessment refers to changes between the 1990 and 1998 (Bolivia and Peru: 1997). + signifies a favourable change, - signifies an unfavourable change, = signifies very little or no change. Column 1: Variation of the unemployment rate. Column 2: Variation of the employment rate. Column 3: Growth of wage employment relative to the growth of employment as a whole. Column 4: Variation of the average real wage in the formal sector. Column 5: Variation of average labour productivity.

The countries exhibit substantial differences. Chile performed relatively well, as did Costa Rica and Mexico, to a lesser extent. The results were not satisfactory in Argentina, Brazil and Colombia. Figure IV.3 summarizes this performance for the nine countries under study, plus eight countries that are included to provide a broader information base. An index was built to quantify the results for the countries in four of these variables. For that purpose, sub-indices were calculated for each variable, with a value between 0 and 1 according to each country's distance from the worst-performing country (0) and the best-performing (1). The average of those four indices was taken to calculate each country's index of labour performance, which is compared in the figure with that country's economic growth.<sup>74</sup>

Returning to issues touched on throughout this chapter, it can be said, first, that economic growth largely explains the wide disparity in labour performance between countries. Second, in some countries where labour performance was worse than expected given the level of economic growth

<sup>74</sup> For the purposes of reviewing the correlation between the evolution of a country's labour market and its economic growth, the labour productivity of construction was excluded from the index of labour performance, since it would have introduced a spurious element to the correlation.

Figure IV.3  
**ECONOMIC GROWTH AND LABOUR PERFORMANCE, 1990s**



**Source:** Author's calculations, on the basis of ECLAC data and official national data.

(Argentina and Peru), macroeconomic circumstances allowed high economic growth in the 1990s, but the profound economic reforms negatively affected some sectors of the labour market. Jamaica is atypical in the contrary sense, as it performed better than expected because of the relatively intense creation of paid jobs in tertiary activities in the private sector, together with an improvement in real wages and stagnation of unemployment, albeit at a high level (Alleyne, 2000).

## D. Conclusions

Trends in employment are shaped by supply and demand factors. The dynamics of supply are a key determinant of employment growth over the long term (and also in comparing countries with each other), while in the short term variations in employment growth depend on the level and characteristics of economic growth. The economic reforms may have

influenced job creation by accelerating growth, by altering labour intensity, or by affecting both simultaneously. As discussed in chapter II, the reforms were expected to have positive effects in both respects.

The long-term analysis showed no interruption of the general trends on the region's labour market, and job creation as a whole broadly followed the evolution of the labour supply, whose prevailing tendencies persisted. The employment elasticity of output was also at levels comparable to those of earlier decades (except for the 1980s). This does not mean that the reforms had no effects on job creation. Those effects, however, were contradictory. On the one hand, the reforms had a positive but modest effect on economic growth which, all things equal, fostered labour demand. On the other hand, they also made that growth less labour intensive. The decline in labour intensity was linked to trade liberalization and currency appreciation, trends that were widespread in the region during the 1990s.

Despite the reforms' positive impact on growth, in many countries it was weak in comparison to earlier periods and insufficient to meet the need for jobs.<sup>75</sup> Additionally, while some factors stimulated growth partly as a result of certain reforms, they also became highly volatile; capital inflows, in particular, were characterized by this pattern.

As a consequence of modest growth and the attendant decline in labour intensity, labour demand became relatively weak at the regional level, and, in contrast to the 1950-1980 period, wage employment did not grow more than employment as a whole. The weakness of labour demand gave rise, first, to an increase in open unemployment and, second, to the fact that many of the new job opportunities arose in low-productivity segments offering poor quality work. On the other hand, trends towards an upgrading of employment were also evident: not only did the educational level of the working age population rise (as seen in the previous chapter), but the share of higher skilled jobs in employment also increased. In this sense the increase in employment was polarized, with growth in both the demand- and the supply-driven segments of the labour market.

At the aggregate level, the labour demand triggered by economic growth was expressed as an increase in both wage employment and wages. In general, real wages recovered somewhat in the 1990s, following their unfavourable movement in many countries during the previous decade.

The countries of the region performed heterogeneously during the specific period in which each of them introduced their reforms, and they continued to do so in the 1990s. Economic growth explains much of that variety. Other relevant factors were the pre-reform record and the macroeconomic circumstances in which the reforms were introduced.

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75 Stallings and Peres (2000) discuss possible reasons for this performance.

Labour performance deteriorated towards the end of the 1990s, above all because of the international crisis. Here, too, the results were diverse. Many countries in the north of the region benefited from strong growth in the United States; they did not suffer as sharp a fall in economic growth (with the attendant consequences for labour) as those in the south endured.

The next two chapters examine in greater detail some of the considerations discussed in these conclusions, first with regard to varying performances at the sectoral level and then with respect to the nature of the jobs created.

CHAPTER V

**SECTORAL TRENDS IN EMPLOYMENT  
IN THE 1990S**

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Until the 1970s, the changing composition of employment in the region was marked by an increase in the share of the secondary and tertiary sectors and a decline in the share of the primary sector. At the same time, average labour productivity grew in all three and the large productivity gaps between them narrowed slightly (Weller, 1998a, pp.19-20). The crisis of the early 1980s interrupted some of these trends, especially the growth of employment in the secondary sector and of productivity in the labour markets as a whole.

The economic reforms raised expectations for job creation to be concentrated in activities producing tradable goods, especially for export. However, the region's labour markets developed in a manner similar to that of the highly industrialized countries: in the primary and secondary sectors, job creation was low and labour productivity increased sharply; new jobs were concentrated in the tertiary sector, where average labour productivity was stagnant. The sluggish job creation in the primary and secondary sectors was largely due to the efforts of the region's economies to boost competitiveness in a context of liberalization and global technological change. In tertiary activities labour trends were highly diverse, with strong growth of employment in activities benefiting from reform-induced modernization processes, as well as in typically informal activities. This chapter analyses these employment trends at the sectoral level and the processes underlying them, and draws conclusions about future prospects.

## A. General Trends

The 1990s saw the persistence of long-term trends towards a decline in employment in the primary sector and an increase in the tertiary sector. The relative expansion of employment in the secondary sector, which was interrupted at the start of the 1980s and reactivated at the end of that decade, apparently ended in the 1990s. The latter development was the main shift in the trends at the sectoral level (see table V.1; the annex provides greater detail on the geographical coverage and periodization used for each country in the table).

Between 1990 and 1997 manufacturing employment grew slightly, at an annual rate of 1.2%. The region's large and medium-sized countries display clear differences in this regard: while manufacturing employment stagnated or even contracted in Argentina, Brazil and Colombia, it expanded significantly in Mexico. Agricultural employment declined in absolute terms in several countries, as well as at the regional level. Construction, which is labour-intensive but very sensitive to economic conditions, provided about 8% of the new jobs at the regional level.

The various categories of the tertiary sector, however, were the most dynamic in terms of job creation. Prominent in this respect were some branches mainly associated with the transformation of the region's economies, especially financial services, insurance, business services, real estate and basic services (electricity, gas and water; transport, storage and communications).

The commerce, restaurants and hotels sector includes some activities that were very dynamic in the 1990s, such as large stores and supermarkets, foreign trade and tourism, as well as typical informal commerce. Community, social and personal services were also very diverse. At the regional level, these two sectors provided about 70% of the jobs created in the 1990s. Naturally, the weight of these branches grew even more in those countries that experienced a net loss of jobs in the primary and secondary sectors.

Employment growth in the 1990s thus accelerated the process, evident in previous decades, whereby the tertiary sector's share of the employment structure expanded. Towards the end of the decade, tertiary activities accounted for more than 50% of employment in 12 of the 14 countries for which information is available, and in three countries it represented more than 60%. For the region as a whole, some 55% of the working population was engaged in tertiary activities in 1997.<sup>76</sup> The decline in agricultural

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76 Includes basic services.

Table V.1  
**LATIN AMERICA AND THE CARIBBEAN: GROWTH, CONTRIBUTION  
 AND COMPOSITION OF EMPLOYMENT BY SECTOR, 1990s<sup>a/</sup>**  
**(Percentage)**

COUNTRY AND PERIOD	AGRICUL- TURE	MANUFAC- TURING	CONSTRUC- TION	COMMERCE <sup>b/</sup> -TION	BASIC	FINANCIAL SERVICES <sup>c/</sup>	SOCIAL SERVICES <sup>d/</sup>	OTHERS SERVICES <sup>e/</sup>	TOTAL
Argentina, 1990-1997	n.a.	-2.2	3.6	0.9	4.9	4.4	2.4	n.a.	1.7
	n.a.	-25.7	16.5	10.8	23.1	22.0	53.3	n.a.	100.0.
	n.a.	16.7	8.1	19.3	8.8	9.2	37.9	n.a.	100.0.
Bolivia, 1990-1997	n.a.	8.8	10.2	9.9	7.2	12.8	-0.3	-7.0	5.4
	n.a.	29.4	14.7	47.5	11.8	9.1	-1.5	-7.4	100.0
	43.2	11.0	5.3	17.7	5.1	2.1	13.7	1.9	100.0
Brazil, 1992-1997	-1.9	0.3	2.6	3.0	3.8	5.4	2.8	-2.7	1.2
	-43.9	3.3	14.2	32.7	12.1	14.5	74.8	-7.7	100.0
	24.2	12.3	6.6	13.3	4.0	3.6	33.1	3.0	100.0
Chile, 1990-1997	-1.6	2.2	17.6	3.2	3.8	8.7	2.2	-1.5	2.5
	-11.1	14.8	19.6	22.5	12.4	19.4	23.7	-1.3	100.0
	14.2	16.3	8.6	18.1	8.4	6.9	25.8	1.8	100.0
Colombia, 1991-1997	-1.2	-1.0	4.2	2.2	3.4	6.9	2.6	0.7	1.5
	-22.1	-10.8	14.6	34.7	14.8	20.9	47.4	0.7	100.0
	23.1	13.0	5.2	21.7	6.3	4.9	24.4	1.3	100.0
Costa Rica, 1990-1997	-0.6	0.6	3.5	5.7	6.1	9.1	3.3	1.6	2.7
	-5.2	3.8	8.6	35.6	12.7	13.6	30.5	0.5	100.0
	20.6	15.6	6.8	19.1	6.5	5.1	25.6	0.8	100.0
Jamaica, 1991-1996	-2.6	1.1	8.5	1.9	6.3	6.3	0.1	-8.7	1.0
	-64.6	11.9	58.9	36.9	31.8	30.3	3.6	-8.7	100.0
	22.7	10.6	8.7	20.0	6.0	5.7	25.6	0.7	100.0
Mexico, 1991-97	1.6	4.3	-1.0	4.5	4.7	8.2	4.2	-6.6	3.4
	12.3	20.3	-1.7	27.8	6.1	8.4	28.8	-2.0	100.0
	24.2	16.6	4.7	21.5	4.6	4.1	23.7	0.7	100.0
Peru, 1990-1997	n.a.	-0.1	7.4	5.7	10.8	12.3	0.2	n.a.	3.8
	n.a.	-0.6	9.9	44.1	16.5	16.5	1.7	n.a.	100.0
	34.2	11.0	4.9	21.1	6.0	3.6	17.8	1.3	100.0
Latin America and the Caribbean, <sup>f/</sup> weighted average	-0.6	1.2	3.0	4.1	4.8	6.7	2.9	-3.4	2.2
	-8.0	8.3	8.5	33.7	11.0	12.8	37.6	-3.8	100.0
	23.6	13.5	6.0	18.1	5.1	4.1	27.7	1.8	100.0
Latin America and the Caribbean, <sup>f/g/</sup> median	-1.2	1.3	4.2	5.7	4.7	8.2	2.8	-2.7	3.4
	-6.0	6.8	8.6	34.2	7.6	11.0	31.8	-0.1	100.0
	23.6	12.7	6.6	19.3	6.0	4.9	25.6	1.3	100.0

**Source:** Author's calculations, on the basis of official national data.

a/ The first line for each country refers to the annual growth of employment during the period indicated. The second line shows the contribution of each sector to total employment generated during the period. The third line represents the composition of employment at the end of the period. The data refer to the national total, except for Argentina (urban areas), Bolivia (departmental capitals and El Alto) and Peru (Metropolitan Lima). In Bolivia and Peru, however, the composition of employment represents the national total. b/ Includes restaurants and hotels. c/ Electricity, gas and water, and transport, storage and communications. d/ Includes insurance, business services and real estate. e/ Includes communal and personal services. f/ 17 countries, except for the agricultural sector (13 countries) and financial services (15). g/ The totals do not necessarily reach 100, since they are based on averages.

employment as a share of total employment picked up speed: in earlier decades it had grown at rates below those for employment as a whole, but in the 1990s it fell in absolute terms at the regional level and in 8 of the 13 countries for which information is available. The share of the region's agricultural sector consequently fell to 23.6%. These two tendencies intensified during the decade, while there was a break in the prevailing trend towards a greater share for manufacturing in employment. At the end of the 1990s, therefore, manufacturing employment accounted for just 13.5% of total employment in the region, while construction represented 6%.

It can thus be concluded that the reforms, especially trade reform, did not generate jobs in the expected sectors. Such jobs, it had been predicted, should have been concentrated in sectors producing tradable goods.<sup>77</sup>

The flip side of the trends in job creation was average labour productivity. Following a sharp fall in the 1980s, productivity grew again in the 1990s, although by 1997 it had still not reached the level of 1980 (see figure V.1).<sup>78</sup> At the sectoral level the following three trends figure prominently:

- (i) The growth of average productivity in the primary sector accelerated as a result of significant modernization and the decline in employment in agriculture and mining.<sup>79</sup> The productivity gap between this sector and the regional average thus narrowed.
- (ii) After declining in the 1980s, the secondary sector's average labour productivity resumed growth at high rates in the 1990s.<sup>80</sup>
- (iii) The tertiary sector, which together with the secondary sector had seen the highest productivity levels up to 1980, could not reverse the decline of the 1980s, and average productivity again fell in the 1990s, albeit slightly.

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77 Similarly, Lora and Olivera (1998, p.1) conclude: "Structural reforms, particularly the 'opening up' of the region's economies, have not had the effect of raising demand for and relative remuneration of unskilled labor as had been hoped in the light of conventional theories of competitive advantages in international trade."

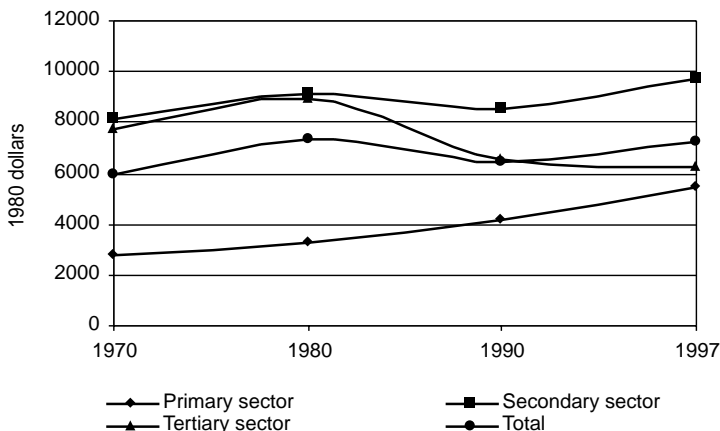
78 Average labour productivity fell again in 1998-1999.

79 Between 1990 and 1997, the output of mining at the regional level grew at an average of 5.1% a year. Regional data are unavailable for the evolution of employment in this branch, but the partial data suggest that it might have declined even more than in agriculture, with the attendant impact on average labour productivity. In Chile (1990-1997) employment in mining fell by an annual rate of 1.8%; in Colombia (1991-1997) by 7.1%; in Mexico (1991-1997) by 1.7%; and in Peru (1994-1997) by 4.3% (author's calculations, on the basis of the research and official national data).

80 This was mainly due to manufacturing, whose growth of average labour productivity was 2.3% a year, as well as construction, where it grew by 1.5% a year.



Figure V.1  
**LATIN AMERICA AND THE CARIBBEAN: TRENDS IN  
 LABOUR PRODUCTIVITY, 1970-1997**



**Source:** Author's update, on the basis of ECLAC data and information from André Hofman, ECLAC economist.

Hence the primary and secondary sectors, which mainly include activities producing tradable goods, experienced an increase in productivity, but only weak growth in employment. In the tertiary sector, which is characterized by non-tradable activities, employment increased but productivity did not. This pattern resulted because the region's greater insertion in global markets did not use factors of production in such a way that reflected the relative abundance of labour vis-à-vis capital. This underscores the weakness of productive job creation, since an examination of productivity reveals that a high proportion of new jobs were in low-productivity activities in the tertiary sector.<sup>81</sup>

81 Note that before 1980, the tertiary sector similarly was the main creator of employment, but in the context of growing labour productivity. On average, the tertiary branches employ a higher share of workers with high educational levels than do the primary and secondary sectors.

## B. Trends in Agricultural Employment

In earlier decades, the agricultural sector's share of employment fell. Although this was a longstanding trend that was linked to urbanization and industrialization, weak job creation in agriculture featured prominently in the criticisms of import substitution industrialization (ISI) strategies. It was thought that reforms to eliminate the distortions wrought by ISI would have a positive effect on agricultural employment: first, by fostering higher sectoral growth; second, by restructuring the sector towards more labour-intensive categories (especially export crops); and third, by substituting labour for capital in agricultural production (see chapter II). It was argued that agriculture would be one of the areas that would benefit most from the reforms.<sup>82</sup>

The expectations of new expansion in agricultural output were also based on the potential of greater external demand.<sup>83</sup> This growth of demand was to stem from the following factors:

- (i) the region's natural conditions, which allow it to supply a wide range of agricultural goods to world markets (for example, tropical products and out-of-season temperate crops);
- (ii) changes in consumption patterns in the main markets of the industrialized countries (including the growing demand for inputs for cattle raising, fresh fruits and vegetables, ornamental plants and "ethnic" products);
- (iii) broader market access in the context of growing trade integration; and
- (iv) technological changes such as transport development and refrigeration chains that facilitate exports of perishable products (including small volume sales).

It was also argued that small farmers (*campesinos*) would derive particular benefit from the reforms, since the urban bias had placed this sector at a great disadvantage with respect to commercial agriculture. In fact, it was said that the latter had previously benefited from various factors, such as preferential access to capital markets, subsidized credit and the customs exemptions granted by trade policy for imports of agricultural machinery. Moreover, the agricultural price policies applied in many countries had allegedly been directly damaging to small farmers, in that the prices of certain products (a large proportion of which were produced by small farmers) had been kept artificially low in order to cut the cost of urban workers' wage goods.

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82 Goldin and van der Mensbrugge (1992) estimate that a complete unilateral trade liberalization in the region would benefit rural incomes more than urban incomes.

83 See Friedland (1992); ECLAC (1993 and 1996).

In the late 1980s, most countries of the region implemented a series of macroeconomic and sectoral reforms to foster agricultural activity in line with the thinking outlined above.<sup>84</sup> As hoped, agricultural exports were highly dynamic, with annual growth of 6.6% between 1990 and 1997. However, trade liberalization had a negative affect on many activities geared towards the domestic market, since agricultural imports grew at an annual rate of 10.3% in the same period (FAO, *Trade Yearbook*, various volumes). This affected sectoral growth, which barely reached 2.4% a year between 1990 and 1998, while the share of agricultural output in regional GDP declined.

In this context, as already shown, agricultural employment at the regional level contracted slightly in absolute terms, while average labour productivity grew significantly.<sup>85</sup> At the country level this pattern was repeated in Brazil, Chile, Costa Rica, the Dominican Republic, Jamaica and Panama (see table V.2). In Colombia and El Salvador, agricultural output stagnated while employment in the sector fell, which translated into a slight increase in average productivity. In a third group of countries, agricultural employment continued to grow and average labour productivity stagnated or grew only slightly, which was the case for Ecuador, Honduras, Mexico, Paraguay and Venezuela.

The weakness of labour demand reflected in these employment trends, together with the general trend in the region's economies of rewarding higher educational levels, seems to have exerted downward pressure on wages in the sector relative to other sectors.<sup>86</sup>

An analysis of the sector's performance in terms of both output and employment cannot overlook its high degree of heterogeneity.<sup>87</sup> A conceptual analysis of the "typical" effects of structural reforms indicates that such effects reflect the sector's diversity, with bright prospects for export activities but negative effects on non-commercial producers. In this view, the reforms prompt greater socio-productive polarization (Martínez and Paz Cafferata, 1993).

The evolution of the region's agriculture has indeed been very heterogeneous. On the one hand, new activities arose in almost all countries (or existing activities were revitalized), thanks to the exploitation of the new macroeconomic conditions and access to new technologies and markets. The sector also enjoyed substantial investment and technological change. These

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84 See the contributions in David (2000) on the reforms effected in seven countries of the region, and the synopsis of the changes in agricultural policies in Dirven (1999).

85 As is well known, the measurement of agricultural employment faces several problems, among them the seasonality of employment and the characteristics of rural households. See Ferreira Irmão and Klein (1988).

86 See table VI.11 on three countries for which information is available.

87 For a conceptual distinction between commercial agriculture and sector encompassing small farmers, see Schejman (1980). This conceptualization is still valid, although mixed forms have developed over time (such as family units that, a priori, devote a significant proportion of their production to the market).

Table V.2  
**LATIN AMERICA AND THE CARIBBEAN: OUTPUT, EMPLOYMENT AND  
 AVERAGE LABOUR PRODUCTIVITY IN AGRICULTURE, 1990s**

COUNTRY	PERIOD	ANNUAL GROWTH RATE		
		AGRICULTURAL OUTPUT	AGRICULTURAL EMPLOYMENT	LABOUR PRODUCTIVITY
Brazil	1992-1997	2.9	-1.9	4.9
Chile	1990-1997	5.0	-1.6	6.7
Colombia	1991-1997	0.9	-1.3	2.2
Costa Rica	1990-1997	2.6	-0.6	3.2
Dominican Republic	1991-1996	4.0	-4.8	9.2
Ecuador	1990-1995	2.9	2.2	0.7
El Salvador	1992-1997	0.2	-2.2	2.5
Honduras	1990-1997	3.4	3.0	0.4
Jamaica	1991-1996	7.0	-2.6	9.9
Mexico	1991-1997	1.5	1.6	-0.1
Panama	1991-1997	1.6	-2.1	3.8
Paraguay	1992-1997	3.6	2.2	1.4
Venezuela	1990-1997	1.5	1.3	0.2
Latin America and the Caribbean				
- Weighted average		2.5	-0.6	3.2
- Median		2.9	-1.3	2.5

**Source:** Author's calculations, on the basis of official national data.

led to significant gains in land productivity and, together with the expansion of land under cultivation, to a marked growth in production and exports in countries like Argentina and Bolivia. The production of certain items thus expanded markedly, such as soya in Argentina and Bolivia; soya and fruits in Brazil; fruits, wine and forestry products in Chile; tropical fruits, flowers and ornamental plants in Costa Rica; flowers in Colombia; and fruits and vegetables in Mexico.

Contrary to the expectations mentioned above, however, producing for export did not always prove to be more labour-intensive than other agricultural activities. Soya production, for example, creates few jobs. But expansion did occur in some export goods which did in fact require more labour, such as flowers, vegetables and certain fruits.

Moreover, and also against expectations, technological change did not lead to a greater use of manpower. Rather, new processes of mechanization often lessened the need for labour.<sup>88</sup> The process was exacerbated by

<sup>88</sup> For example, Wilcox (1993) found that the modernization of export agriculture in the Mexican Bajío led to a decline in labour demand.

appreciation of most of the region's currencies during much of the 1990s, which altered relative factor prices to the detriment of labour.<sup>89</sup>

The transformation of agriculture in the context of commercial liberalization threatened to eliminate less competitive items and producers challenged by imports, especially when trade liberalization coincided with an appreciation of the currency. This had particular negative effects on the large segment of small farmers who produce partly for the market and partly for their own consumption, and whose practices are generally more labour-intensive than commercial agriculture. Notwithstanding the argument that small farmers would benefit from the reforms, in many countries the elimination of certain support programmes was not offset by the market or by producers' associations (Trejos, 1994; ECLAC, 1999b; Dirven, 1999). Many rural properties thus faced serious problems of reconversion and were in danger of being excluded from the market (Kay, 1997). Exclusion tended to intensify with technological change and market integration, which increased the weight of external economies of scale and eroded the competitiveness of small farmers (Johnson and Ruttan, 1994).

Only a few small-scale farmers in the various countries managed to integrate themselves in the new patterns of production and marketing.<sup>90</sup> In several countries, therefore, the number of small farms fell.<sup>91</sup> Many rural households became increasingly dependent on income from non-agricultural activities.

These processes are partly reflected in the more disaggregated data available for some countries on shifts in agricultural employment. In those countries where employment in the sector fell (Brazil, Chile, Costa Rica), the decline was quite widespread across the various segments. Employment contracted or stagnated in the *campesino* economy (as reflected in such indicators as self-employment and unpaid labour) and in commercial agriculture.<sup>92</sup> This implies that labour demand in the most dynamic

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89 For Argentina, see Ghezán, Mateos and Elverdín (2001).

90 See Barham and others (1992); ECLAC (1995). On the *campesinos'* problems and chances of successful insertion in new export activities, see specifically Carter and others (1993); Weller (1992).

91 See Salcedo (1999) for Mexico; Leite da Silva Dias and Amaral (2001) for Brazil. Ghezán, Mateos and Elverdín (2001) observe a sharp fall in the number of farms in the Argentine pampas. Crespo (2000) found a substantial decline in the relative weight of small-scale agriculture in Bolivia. For Colombia, Suárez (1999) records the decreasing capacity for job creation in mixed agriculture (with commercial and *campesino* units) in the face of an increase in eminently commercial agriculture. On the challenges to traditional Chilean farmers, see ILO (1995); Kay (1996).

92 This distinction is not meant to suggest that small farmers do not hire wage labour and that, therefore, all wage earners belong to the commercial segment. However, the distinction is used here because of the nature of the available data.

agricultural activities was not strong enough in the 1990s to offset the loss of jobs in other categories. In fact, the small-farm sector did not even create enough new jobs to keep up with demographic growth. The number of unpaid family workers fell considerably. Finally, the number of agricultural entrepreneurs apparently did not increase greatly (for example, by self-employed heads of families becoming employers), as reflected by the contraction of the “others” category in table V.3.<sup>93</sup>

By contrast, in countries where agricultural employment increased (Mexico and Peru), it did so in all the main categories. This seems to reflect higher employment in commercial and small-scale agriculture. However, the data for the two countries in this group should be qualified. In the case of Mexico, other sources dispute the significant growth of agricultural employment suggested by the national household survey in the period 1991-1997, which provides the basis for table V.3. For example, the estimate by the *Instituto Nacional de Estadística, Geografía e Informática* (INEGI), which is used to prepare the national accounts and which is based on the number of jobs required to produce a given volume with a specific technological level, reveals an annual 0.3% fall in labour demand for the period 1991-1997.<sup>94</sup> As for Peru, the high growth of agricultural employment reflects the return to the countryside of large numbers of rural dwellers who had previously emigrated to the cities because of the violent conflict that had particularly affected some rural areas.<sup>95</sup>

The transformations outlined above explain the marked increase in apparent average labour productivity (see figure V.1). On the one hand, the stagnation (and in some cases contraction) of employment on small farms entailed at least a relative decline in jobs of lower average productivity. On the other, the introduction of new technologies in some countries strongly increased productivity.<sup>96</sup>

The progress of Latin American agriculture has also differed by region. Poles of job creation arose in certain areas where new and dynamic activities are concentrated. The latter had a favourable indirect impact on employment, especially in the countryside, where they fostered non-agricultural activities through forward or backward production linkages, or through the purchasing power of agricultural incomes. One important factor regarding the strength of these linkages is the productive structure of agriculture and the sector's

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93 Except for Costa Rica and Peru, this column only represents employers, or it represents employers plus another (unspecified) category.

94 Author's estimates, on the basis of data from INEGI (<http://dgcnesyp.inegi.gob.mx/cgi-win/bdi.exe>); see also Salcedo (1999).

95 For the period 1985-1994, the data indicate a 22% fall in agricultural employment, concentrated exclusively in the categories of independent and unpaid workers.

96 For example, the data for Argentina, Brazil, Chile and Mexico indicate a marked increase in output per hectare in segments that benefited from the transformation of agriculture; see Ghezán, Mateos and Elverdín (2001), Leite da Silva Dias and Amaral (2001), Portilla Rodríguez (2000), and Salcedo (1999).

Table V.3  
**LATIN AMERICA (FIVE COUNTRIES): ANNUAL GROWTH,  
 CONTRIBUTION AND COMPOSITION OF AGRICULTURAL  
 EMPLOYMENT, BY EMPLOYMENT CATEGORY, 1990s<sup>a/</sup>**  
*(Percentages)*

COUNTRY AND PERIOD	WAGE EARNERS	SELF-EMPLOYED WORKERS	UNPAID WORKERS	OTHERS	TOTAL AGRICULTURAL EMPLOYMENT
Brazil, 1992-1997	-2.6	-0.8	-2.8	-3.9	-1.9
	-36.5	-18.6	-39.0	-5.9	-100.0
	26.4	44.2	26.5	2.8	100.0
Chile, 1990-1996	-0.8	1.3	-8.5	-3.1	-0.8
	-53.7	49.6	-81.8	-14.0	-100.0
	55.6	35.1	6.1	3.6	100.0
Costa Rica, 1990-1996 <sup>b/</sup>	0.1	-1.1	-7.4	n.a.	-1.1
	+4.6	-32.9	-71.7	n.a.	-100.0
	59.3	32.5	8.2	n.a.	100.0
Mexico, 1991-1997	5.7	2.7	3.0	-18.1	1.6
	94.2	56.5	51.9	-102.6	100.0
	30.7	35.3	29.7	4.1	100.0
Peru, 1994-1997 <sup>b</sup>	8.5	8.2	10.5	61.7	9.4
	14.0	36.0	49.2	0.7	100.0
	15.6	40.0	44.6	0.2	100.0

**Source:** Author's calculations, on the basis of the research and information from the Brazilian Institute of Geography and Statistics (IBGE).

a/ The first line for each country refers to the annual growth of employment during the period indicated. The second line shows the contribution of each employment category to employment created in the period. The third line represents the composition of agricultural employment at the end of the period.

b/ Self-employed workers include employers.

corresponding income distribution.<sup>97</sup> By contrast, other regions producing traditional products suffered marginalization.

The transformations of agriculture also increased the composition of agricultural employment by gender and age group (see table V.4). Except in Peru and, to a lesser degree, among rural wage earners in Mexico, the youngest

<sup>97</sup> The expansion of non-agricultural rural employment, in some cases divorced from the dynamics of agriculture, is an increasingly significant trend; in this respect see Klein (1992); Weller (1994); Reardon and Berdegue (1999). A sizeable sector of agricultural workers are of urban origin; see Dirven (1999, p.180) for an estimate of the size.

age group declined substantially. This bears out the findings of earlier research indicating that rural youth would like to live far from agriculture (Dirven, 1995). By contrast, the numbers of older workers vary much less, thus causing an "ageing" of the agricultural sector. The Peruvian exception in the period 1994-1997 reflects the massive return of rural families to their areas of origin. Because of the demographic composition of those families, employment among the younger age groups grew more than that among older workers. This also explains the very sharp increase in women's agricultural employment, especially in unpaid jobs.

Table V.4  
**LATIN AMERICA AND THE CARIBBEAN (SIX COUNTRIES):  
 GROWTH OF AGRICULTURAL EMPLOYMENT, BY SEX  
 AND AGE GROUPS, 1990s**  
*(Annual growth rates)*

COUNTRY AND PERIOD	TOTAL	MEN	WOMEN	UP TO 24	25 TO 54	55 AND OVER
Brazil, 1993-1996 <sup>a/</sup>	-3.0	-1.8	-5.5	-5.9	-2.1	-0.9
Chile, 1990-1996 <sup>b/</sup>	-0.8	-0.1	1.5	-4.6	1.7	2.6
Costa Rica, 1990-1996	-1.1	-1.2	0.9	-4.0	0.1	0.1
Jamaica, 1989-1996	-2.2	-1.2	-5.7	-5.6	-1.0	-2.5
Mexico, 1991-1997 <sup>b/</sup>	1.6	0.6	7.9	1.3	8.9	7.3
Peru, 1994-1997	9.4	5.9	15.1	11.7	9.3	5.8
Median	-1.0	-0.7	1.2	-4.3	0.9	1.4

Source: Author's calculations, on the basis of the research.

a/ The age groups are as follows: up to 24; between 25 and 44; and 45 and above.

b/ The age groups refer to agricultural wage employment.

Female agricultural employment also grew faster than that of men in Chile, Costa Rica (to a lesser degree) and Mexico. Chile recorded female employment growth among wage earners and the self-employed. In Costa Rica the increase was concentrated in wage employment, while in Mexico most growth was in unpaid family work, although the expansion of several export items (namely, fruits and vegetables) also boosted the number of female employees in agriculture. In these countries new agricultural activities generally created new, paid job opportunities for women.<sup>98</sup> They came to

98 See, for example, Guglielmetti (1990); Weller (1996); Appendini, Suárez and Macías (1997).



account for 12.9% of wage agricultural employment in Chile in 1996, 9.0% in Costa Rica (1996) and 14.1% in Mexico (1997). This is in contrast to the traditionally low level of female wage labour in the sector (with some exceptions, such as the coffee harvest).

In sum, the 1990s saw a fall in agricultural employment at the regional level, a trend evident not only in the weighted average of the countries, but also in most of them individually. Agricultural employment was expected to come from dynamic sectoral growth, a restructuring towards crops with higher labour density and the substitution of factors to the benefit of labour, but these expectations were not met. Behind these trends lie, first, the weakness of wage job creation and, second, the contraction of employment in small-scale agriculture. A series of agricultural items and producers are among the main "losers" of the liberalization process, while for others there were new and lucrative opportunities. Overall, these circumstances tended to deepen the sector's heterogeneity.

It can be concluded that the expectations were somewhat unrealistic, since their theoretical bases were inadequate. In agriculture, comparative advantages are not shaped by the relative abundance of capital and labour.<sup>99</sup> It is important, first, to take account of the availability of land and its characteristics. In certain circumstances this can favour the application of technologies that are low in labour intensity, despite the massive availability of rural manpower.

Second, notwithstanding the interpretations of some commentators who see the expansion of agricultural output in open markets as being driven by basic factors of production (Porter, 1990), the competitiveness of agricultural production is also increasingly dependent on (i) its insertion into production networks that guarantee access to the necessary technologies and markets; (ii) flexibility to adapt quickly to changes in demand; and (iii) material, technical, social and institutional infrastructure (Jaffee and Gordon, 1993, pp.11-12).

In concrete terms, rapid market integration is imposing new technological standards that often seem to be marked by a decline in labour intensity in many crops. An important factor in this context is the pressure towards product homogenization and standardization; this pressure demands the use of specific technologies.<sup>100</sup> In such circumstances, natural conditions and poorly skilled

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99 Brown and Goldin (1992, p.152) conclude their review of various analyses of the validity of the theory of comparative advantages in agriculture as follows: "The evidence could be construed as suggesting that comparative advantage theory is not working in agriculture."

100 See Schaeffer (1991). An expression of these trends are the marketing norms established yearly for some horticultural products in the United States market, which fix size, colour and packing requirements (Salcedo, 1999).

labour (the basic factors) remain important in creating competitive advantages, but their significance is tempered by the mounting relevance of other factors. This has several consequences: (i) the technologies used do not necessarily reflect static comparative advantages; (ii) there is less chance of substituting labour for capital; (iii) the region's agricultural production is not necessarily labour-intensive; and (iv) the reforms do not necessarily have the expected effects on employment.

Third, expectations of a net increase in agricultural employment against a background of revived sectoral growth were also unmet, since they did not take into account the segmentation of Latin American agriculture's productive structure or underemployment. While the creation of new jobs is clearly possible when agricultural production diversifies and expands, it tends to be confused with a net increase in employment. In practice, however, the *campesino* sector is the "employer of last resort" (Timmer, 1991) for part of the rural labour force. That part tends to leave the sector in response to push or pull factors. Net job creation thus cannot be a reasonable long-term aim of the reforms.

Finally, assertions about the positive impact of the reforms on agricultural employment overestimated the strength of the urban bias and therefore exaggerated the positive effect of its reduction or elimination. Rather than a general bias against agriculture, what prevailed in many countries was a regime that fostered or discouraged different activities in different ways. Reform of that regime, therefore, also had varying effects, and in some segments the negative effect was not offset by the positive impact of new measures. The net result was therefore less favourable than expected.

### C. Trends in Manufacturing Employment

As discussed above, advocates of the reforms justified the new policies on the grounds that the economic system imposed by earlier policies ran counter to industrial exports and the intensive use of labour. Manufacturing employment thus appeared to be another beneficiary of the reforms, especially trade reform. In light of the region's comparative advantages, such reforms were expected to stimulate dynamic industrial growth led by the export of goods produced with technologies that were intensive in the use of the most abundant factor, namely, labour, especially unskilled labour (see chapter II).

In the 1980s and 1990s, many countries did indeed expand their exports of manufactured products dynamically, and at the regional level the share of manufactured goods in total goods exports increased from 17.9% in 1980 to 33.1% in 1990 and 50.2% in 1997 (ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, 1998, p.103). In the same period, however, the manufacturing sector grew by just 3.5% a year, slightly below the growth of regional output.

The performance of manufacturing employment at the regional level did not meet the expectation that the reforms would have a beneficial impact. Job creation in manufacturing during the 1990s was sluggish, while the sector's average apparent labour productivity resumed and accelerated the upward trend that had been interrupted in the 1980s. A combination of low (and even negative) growth in employment and a sharp increase in labour productivity was evident in many countries, including Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Peru and Uruguay (see table V.5). By contrast, manufacturing employment grew at high rates in Bolivia, Honduras, Mexico, Panama and Paraguay, countries where average labour productivity fell. It should be kept in mind that, except for Mexico, these are countries with relatively small manufacturing sectors, especially as regards medium-sized and large businesses.

What impact did the economic reforms have on this performance? Table V.6 summarizes the results of an econometric exercise on that impact, together with other variables in the performance of formal-sector manufacturing employment. The methodology is the same as that used to analyse the effects of the reforms on employment at the aggregate level (see chapter IV). The data are from ECLAC's Programme for the Analysis of Industrial Dynamics (PADI), whose database covers the evolution of large, medium-sized and, in some cases, small companies. Information was available for six countries (Argentina, Brazil, Chile, Colombia, Mexico and Peru) in the period 1972-1995.

As happened at the aggregate level, output growth (in this case sectoral) was the most important determinant of employment trends, with a semi-elasticity of growth for formal manufacturing employment that was higher than at the aggregate level. This reflects the fact that the aggregate level includes employment in the supply-driven segment of the labour market. The trend variable again proved to be of little significance, and a wage increase slightly curbed job creation. Surprisingly, in this case the real exchange rate was not particularly significant (although it displayed the expected sign), meanwhile trade openness was again seen to have had a negative impact on labour intensity.

If the average reform and trade reform indices are included in the model (excluding the trend and commercial openness variables so as to lessen the problems of collinearity), the negative impact of the reforms is again evident. Unlike the situation with the aggregate analysis, the effect seems to attenuate over the longer term, especially as regards trade reform. This might indicate that the labour-saving defensive measures that companies took to confront liberalization were concentrated in a period immediately after the reform.

Two simultaneous, inter-related processes lay behind the transformation of industrial employment, whose outcome was a lower labour intensity of sectoral growth:

Table V.5  
**LATIN AMERICA AND THE CARIBBEAN: OUTPUT, EMPLOYMENT  
 AND AVERAGE LABOUR PRODUCTIVITY IN MANUFACTURING  
 INDUSTRY, 1990s**  
*(Annual growth rate)*

COUNTRY	PERIOD	ANNUAL GROWTH RATE		
		MANUFACTURING OUTPUT	MANUFACTURING EMPLOYMENT	LABOUR PRODUCTIVITY
Argentina	1990-1997	5.4	-2.2	7.8
Bolivia	1990-1997	4.2	8.8	-4.2
Brazil	1992-1997	4.9	0.3	4.6
Chile	1990-1997	6.2	2.2	3.9
Colombia	1991-1997	1.7	-0.9	2.6
Costa Rica	1990-1997	3.7	0.6	2.8
Dominican Republic	1991-1996	4.0	1.3	2.7
Ecuador	1990-1995	5.6	-0.1	5.7
El Salvador	1992-1997	4.4	2.0	2.4
Honduras	1990-1997	4.0	8.4	-4.1
Jamaica	1991-1996	-0.9	1.1	-1.9
Mexico	1991-1997	3.7	4.3	-0.6
Panama	1991-1997	4.0	5.6	-1.5
Paraguay	1992-1997	1.0	6.2	-4.9
Peru	1990-1997	5.5	-0.1	5.6
Uruguay	1990-1997	0.3	-2.8	3.2
Venezuela	1990-1997	2.5	1.7	0.8
Latin America and the Caribbean				
- Weighted average		3.5	1.2	2.3
- Median		4.0	1.3	2.6

**Source:** Author's calculations, on the basis of ECLAC data, official national data and the International Labour Organization (ILO), *Panorama laboral*, Lima, 1998.

Note: The data refer to the national total, except for Argentina (urban areas), Bolivia (departmental capitals and El Alto), Peru (Metropolitan Lima) and Uruguay (urban areas).

Table V.6  
**LATIN AMERICA (SIX COUNTRIES): DETERMINANTS OF  
 EMPLOYMENT CREATION IN FORMAL-SECTOR MANUFACTURING,  
 1972-1995**  
*Dependent variable: DLOG(L)*

INDEPENDENT VARIABLE	(1)	(2)	(3)	(4)	(5)
GDP	0.56 (9.62)	0.57 (10.27)	0.52 (10.47)	0.57 (9.72)	0.52 (9.91)
Real wages	-0.05 (-2.72)	-0.05 (-2.54)	-0.04 (-2.05)	-0.05 (-2.42)	-0.04 (-1.92)
Real exchange rate index	0.02 (1.01)	0.01 (0.60)	0.04 (1.77)	0.03 (1.15)	0.04 (1.66)
Trend	-0.05 (-1.39)				
Trade openness	-0.10 (-1.85)				
Average reform index		-0.08 (-4.17)			
Average reform index (five-year average)			-0.06 (-2.33)		
Capital account reform index				-0.04 (-2.52)	
Capital account reform index (five-year average)					-0.02 (-0.77)
R <sup>2</sup>	0.64	0.65	0.62	0.63	0.61
Adjusted R <sup>2</sup>	0.61	0.62	0.59	0.60	0.57
N	138	138	132	138	132

**Source:** Author's calculations, on the basis of contributions from Lucas Navarro, ECLAC consultant.

Note: t statistics are in parentheses. The dependent variable (L) is the number of employed persons. The independent variables are the first difference of the logs of GDP, real wages in the formal sector, an index of the real exchange rate and trade openness (the ratio of exports plus imports to GDP), followed by the reform indexes described in the text.

- (i) A recomposition of the manufacturing production structure, wrought by changes in the share of labour-intensive branches in manufacturing output in relation to branches that are intensive in natural resources, technology and capital (this is a matter of change *between* branches).
- (ii) A decline in labour intensity *within* the various branches, combined with substantial increases in labour productivity.

PADI data for six of the countries under study were used to analyse the relative weight of both processes.<sup>101</sup> In the 1970s and 1980s, a prominent feature of the structure of manufacturing output was the increased share of natural resource-based industries.<sup>102</sup> In the 1990s the share of the manufacture of metal products grew, especially the automotive industry, as table V.7 shows.<sup>103</sup>

The industries that grew most in the 1970s and 1980s (those based on natural resources) and the 1990s (the automotive sector) also recorded the highest levels of labour productivity; in 1990 they together accounted for just 20% of manufacturing employment.<sup>104</sup> By contrast, the value added of the categories in sector V of table V.6 (textiles, clothing, leather and footwear) was below the average of the 1980s and particularly the 1990s, when their average value added fell slightly. In 1990 these industries provided about 20% of manufacturing employment. They were labour-intensive, as evidenced by the fact that their average labour productivity was only half the sectoral average. The share of these industries in sectoral output fell in all six countries for which information is available.

While these changes led to a fall in the employment elasticity of output in the manufacturing industry, they were partially offset in the 1990s by the declining share of sectoral output of some industries that were not particularly labour-intensive. This was particularly the case for natural resource-based industries, which on average recorded the second-lowest growth rate of value added. Non-automotive metal products, a relatively labour-intensive sector, posted the second-highest growth rate.

At the regional level, the net result of changes in the composition of the sector's productive structure during the 1990s was unfavourable for job creation. In Brazil, Colombia, Mexico and Peru, manufacturing employment would have been higher if the labour-intensive sectors had not lost share. In Argentina the recomposition was slightly positive for employment. In Chile the favourable and unfavourable factors counterbalanced each other and thus

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101 Because of the exclusion of microenterprises and of non-wage employment categories, and also because of differences between the countries and the periods considered, the growth rates of employment do not coincide with those of other tables in this chapter, which are based on household surveys and which show the evolution of employment as a whole.

102 During the 1970s these industries grew at an average annual rate of 5.2% in Argentina, Brazil, Chile, Colombia, Mexico and Peru, as against a rate of 3.8% for manufacturing industry as a whole; in the 1980s, the figures were 1.3% and 0.7% respectively (author's estimates, on the basis of PADI). See also Benavente and others (1996); Katz (1999).

103 The growth of the automotive industry occurred as a result of the various integration processes and partly as a consequence of the application of protectionist schemes; in Argentina, Brazil, Colombia and Mexico, this was the branch that grew most.

104 In the absence of information on capital use at the branch level, labour productivity is used as an indirect indicator of industries with a high and low intensity of labour use.

Table V.7  
**LATIN AMERICA (SIX COUNTRIES): EVOLUTION OF  
 MANUFACTURING VALUE ADDED, EMPLOYMENT AND LABOUR  
 PRODUCTIVITY BY BRANCH, 1990s**

ARGENTINA					
BRANCH	1990		ANNUAL VARIATION 1990-1996		
	COMPOSITION OF EMPLOYMENT	RELATIVE LABOUR PRODUCTIVITY	VALUE ADDED	LABOUR PRODUCTIVITY	EMPLOYMENT
TOTAL	100.0	100.0	4.9	8.3	-3.2
I	16.4	70.3	4.4	7.7	-3.0
II	9.5	72.6	12.4	15.5	-2.7
III	24.7	79.4	5.6	7.2	-1.5
IV	15.7	238.6	2.8	7.9	-4.7
V	14.8	70.2	2.1	9.1	-6.4
VI	19.0	74.6	6.9	9.4	-2.2

BRAZIL					
	1990		ANNUAL VARIATION 1990-1996		
	COMPOSITION OF EMPLOYMENT	RELATIVE LABOUR PRODUCTIVITY	VALUE ADDED	LABOUR PRODUCTIVITY	EMPLOYMENT
TOTAL	100.0	100.0	2.3	9.3	-6.4
I	21.6	99.2	2.2	10.1	-7.2
II	6.3	103.0	6.2	11.8	-5.0
III	15.6	91.4	3.5	7.3	-3.5
IV	15.1	192.2	3.1	11.2	-7.2
V	18.6	61.4	-3.4	5.8	-8.7
VI	22.6	75.9	1.4	7.8	-6.0

CHILE					
	1990		ANNUAL VARIATION 1990-1995		
	COMPOSITION OF EMPLOYMENT	RELATIVE LABOUR PRODUCTIVITY	VALUE ADDED	LABOUR PRODUCTIVITY	EMPLOYMENT
TOTAL	100.0	100.0	6.4	2.8	3.5
I	12.8	59.5	8.3	6.5	1.7
II	2.9	61.0	4.9	0.2	4.7
III	28.9	87.7	9.3	3.0	6.2
IV	15.3	271.3	3.0	0.0	3.0
V	19.0	39.2	0.7	2.6	-1.8
VI	21.1	78.9	10.5	5.1	5.1

Table V.7 continue

COLOMBIA					
	1990		ANNUAL VARIATION 1990-1995		
	COMPOSITION OF EMPLOYMENT	RELATIVE LABOUR PRODUCTIVITY	VALUE ADDED	LABOUR PRODUCTIVITY	EMPLOYMENT
TOTAL	100.0	100.0	2.4	3.2	-0.8
I	13.6	69.6	3.7	4.5	-0.8
II	3.9	108.0	9.6	10.1	-0.5
III	21.4	142.7	1.9	0.3	1.6
IV	14.6	147.6	2.5	2.5	0.1
V	25.1	60.7	-1.3	3.2	-4.4
VI	21.4	88.8	2.1	2.2	-0.1

MEXICO (excluding <i>maquila</i> industries)					
	1990		ANNUAL VARIATION 1990-1995		
	COMPOSITION OF EMPLOYMENT	RELATIVE LABOUR PRODUCTIVITY	VALUE ADDED	LABOUR PRODUCTIVITY	EMPLOYMENT
TOTAL	100.0	100.0	2.3	2.3	0.0
I	15.9	76.3	5.5	4.3	1.1
II	7.1	132.1	5.7	4.6	1.1
III	24.3	104.8	2.1	3.0	-0.9
IV	14.5	151.2	2.0	1.8	0.3
V	16.5	65.4	-3.0	-2.5	-0.6
VI	21.6	93.5	1.6	1.7	0.0

PERU					
	1990		ANNUAL VARIATION 1990-1995		
	COMPOSITION OF EMPLOYMENT	RELATIVE LABOUR PRODUCTIVITY	VALUE ADDED	LABOUR PRODUCTIVITY	EMPLOYMENT
TOTAL	100.0	100.0	5.1	3.1	2.0
I	9.6	59.9	3.0	1.1	1.9
II	2.3	217.9	-9.4	-0.6	-8.8
III	22.0	133.7	3.3	3.2	0.1
IV	9.4	243.0	4.6	3.7	0.9
V	29.4	10.4	1.5	0.0	1.0
VI	27.3	136.3	9.6	2.4	5.2



Table V.7 continue

	SIMPLE AVERAGE OF THE SIX COUNTRIES					
	1990		ANNUAL VARIATION 1990-1995			
	COMPOSITION OF EMPLOYMENT	RELATIVE WORK PRODUCTIVITY	VALUE ADDED	LABOUR PRODUCTIVITY	EMPLOYMENT	
				SIMPLE AVERAGE	WEIGHTED AVERAGE	
TOTAL	100.0	100.0	3.9	4.8	-0.8	-3.2
I	15.0	72.5	4.5	5.7	-1.1	-4.1
II	5.3	115.7	4.9	6.9	-1.9	-2.7
III	22.8	106.6	4.3	4.0	0.3	-1.3
IV	14.1	207.3	3.0	4.5	-1.3	-3.9
V	20.6	51.2	-0.6	3.0	-3.5	-5.0
VI	22.2	91.3	5.4	4.8	0.3	-2.5

**Source:** Author's estimates on the basis of the Programme for the Analysis of Industrial Dynamics (PADI).

Note: With slight changes, the grouping of the branches follows that proposed by José Miguel Benavente and others, "Changes in the industrial development of Latin America", *CEPAL Review*, No. 60 (LC/G.1943-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), December 1996, and by Jorge M. Katz, "Cambios estructurales y evolución de la productividad laboral en la industria latinoamericana en el período 1970-1996", Economic reforms series No. 14 (LC/L.1171), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), February 1999:

Branch I: Metal products (excluding transport equipment; groupings 381, 382, 383 and 385 of the International Standard Industrial Classification of all economic activities (ISIC)).

Branch II: Transport equipment (grouping 384 of the ISIC).

Branch III: Food, beverages and tobacco (groupings 311, 313 and 314 of the ISIC).

Branch IV: Natural resource-based industries (groupings 341, 351, 354, 355, 356, 371 and 372 of the ISIC).

Branch V: Textiles, clothing, leather and footwear (groupings 321, 322, 323 and 324 of the ISIC).

Branch VI: Other industries.

had no effect on job creation.<sup>105</sup> If the intrasectoral composition of manufacturing output had not changed in the early 1990s, manufacturing employment would only have fallen by 0.4% instead of by 0.8% in the simple average of the six countries. In the weighted average, too, the decline in manufacturing employment would have been slightly less than it actually was (2.6% instead of 3.2%).

This latter circumstance indicates that changes *within* the industrial branches in the 1990s had the greatest bearing on the trends in manufacturing

<sup>105</sup> If there had been no change in the composition of the value added of this branch, manufacturing employment would have fallen by 3.5% annually in Argentina and 5.3% in Brazil. It would have increased 3.5% in Chile, 0.2% in Colombia, 0.6% in Mexico and 2.4% in Peru (author's calculation, on the basis of PADI).

employment. In fact, labour productivity increased moderately in Chile, Colombia, Mexico and Peru, and at a faster pace in Argentina and Brazil. In these latter two countries, moreover, productivity growth was fairly homogeneous in all sectors, while in the other countries it was very diverse.

Among the categories, metal products, particularly the automotive sector, recorded the highest growth rates for value added and labour productivity in four of the six countries. Except for Mexico (and Chile, where the vehicle industry is unimportant), the profound restructuring of the automotive sector gave rise to a net fall in the number of workers, despite the high growth of value added. Nevertheless, the highest redundancy rates were in the natural resource-based industries and in the textiles, clothing, leather and footwear sectors. These two groups accounted for 23% and 28% of the decline in manufacturing employment, respectively, in the six countries. The outcome for sector III (foodstuffs, beverages and tobacco) was relatively positive, this being the only group that recorded an increase in employment in the simple average of the six countries. In Chile and Colombia this group saw the highest growth in employment, and in Argentina and Brazil it was the group in which employment declined the least.

These trends within categories generally confirm the relevance of organizational and technological changes in declining labour intensity. With integration in international markets, these changes were increasingly shaped by global trends (Robbins, 1996; Berman, Bound and Machin, 1998). Such circumstances presented few chances of substituting factors in many of the activities exposed to foreign competition, because of the increasing mobility of capital, technology and skilled labour.<sup>106</sup>

Of the six countries considered here, only in Mexico did labour productivity grow less in the 1990s than in the previous decade.<sup>107</sup> The difference between Mexico and the South American countries draws attention to a significant aspect of employment in manufacturing. Unlike the South American countries, Mexico and most Central American and Caribbean countries are taking part in processes of trade integration with the United States (and, in Mexico's case, with Canada). Together with geographical proximity, this gives them certain advantages in marketing labour-intensive industrial goods.<sup>108</sup> The most important programme is the *maquila* (in-bond) industry. This grew markedly in the 1980s and 1990s, and in the latter decade it was the region's only dynamic source of job creation in manufacturing. In Mexico, employment in *maquiladoras* grew from 114,000 people at the beginning of 1980 to 425,000 ten years later, reaching more than 1,100,000 by mid-1999. In 1996, some 48,000 people were employed in

106 Ramírez and Núñez (2000) find that in Colombia, technological change had a greater bearing on changes in the demand for workers than variations in relative prices.

107 During the 1980s, average labour productivity grew 2.2% a year in Argentina, 0.4% in Brazil, 3.3% in Colombia, and 3.2% in Mexico. It fell 1.1% in Chile and 5.0% in Peru (author's calculation, on the basis of PADI).

108 Table V.7 excludes the *maquila* industry, but integration processes also affected other manufacturing activities.

*maquiladoras* in Costa Rica, 164,000 in the Dominican Republic, 38,000 in El Salvador, 62,000 in Guatemala, 76,000 in Honduras and 11,000 in Nicaragua, providing a significant proportion of those countries' industrial employment (Gitli, 1997, p.38; ECLAC, 1998, p.49). Because of trade integration, the pattern of manufacturing exports in Central America (unlike that of South America) is geared towards technologically mature manufactures that are not based on natural resources, and in Mexico the trend is in technologically new manufactures (ECLAC, 1998, pp.18 to 20).<sup>109</sup>

Between 1990 and 1996, average labour productivity in Mexican *maquiladoras* grew by just 0.5% a year.<sup>110</sup> This confirms speculation about differences between the development of the industrial sector in Mexico and Central America and trends in South America. Obviously, this does not mean that Mexico's labour productivity has not increased; it did so, for example, by 4.6% a year in the automotive industry (see table V.7).

Industrial developments in the countries of the northern subregion have been closer to the expected pattern, since integration processes and geographical location give these countries some advantages over others with even more abundant labour.

Table V.8 concerns manufacturing employment as a whole.<sup>111</sup> It shows that in all countries, larger companies recorded low (or even negative) rates of job creation. The only exception was Mexico, where employment in companies with over 50 employees grew slightly faster than the average for all wage labour, and at the same rate as manufacturing employment as a whole.<sup>112</sup> The more dynamic development of manufacturing employment in these companies again testifies to different patterns of manufacturing employment in the north and south of the region.<sup>113</sup>

It should be noted that the periods in table V.8 do not coincide with those in the previous tables, which can alter the trends observed. For example,

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109 Costa Rica sought to increase its "new" exports by attracting foreign direct investment, mainly in microelectronics; the greatest success has been heavy investment by INTEL, whose products became the country's main export item.

110 Author's calculation, on the basis of information from INEGI (<http://dgcnesyp.inegi.gob.mx/cgi-win/bdi.exe>).

111 Unlike the data in table V.7, the information that follows comes from the household surveys and thus includes informal activities.

112 There is no information on firm size in Colombia. In Argentina there was a sharp decline in the proportion of manufacturing wage earners who provided no information on the size of the companies in which they worked. This substantially influences the data on changes in the groups by size, and such data should therefore be treated with caution.

113 Costa Rica's performance in the 1990s is an apparent contradiction. There, larger companies expanded significantly between 1987 and 1990. The reversal of this trend can be explained by the loss of dynamism of textile and clothing *maquiladoras*, and their transfer to other countries of the region with lower wages. This development led to a significant drop in employment in these activities in 1996 and 1997 (Montiel, 1999, p.25). Toward the end of the decade a new type of *maquila* industry (microelectronics) again created new industrial jobs.

Table V.8  
**LATIN AMERICA (SEVEN COUNTRIES): ANNUAL GROWTH,  
 CONTRIBUTION AND COMPOSITION OF MANUFACTURING  
 EMPLOYMENT, BY EMPLOYMENT CATEGORY  
 AND FIRM SIZE, 1990s<sup>a/</sup>**  
**(Percentages)**

COUNTRY AND PERIOD <sup>b/</sup>	WAGE EARNERS <sup>c/</sup>					TOTAL	OTHERS	TOTAL
	MICROENTER- PRISES	SMALL COMPANIES	MEDIUM AND LARGE	UNSPECIFIED	TOTAL			
Argentina, 1991-1997	0.2	0.6	-1.0	-13.6	-2.0	-2.6	-2.1	
	1.1	8.1	-11.6	-71.4	-73.8	-26.2	-100.0	
	15.4	31.8	25.0	7.1	79.2	20.8	100.0	
Bolivia, 1989-1996	14.3	16.8	5.9	-	9.7	16.8	13.3	
	1.6	13.8	9.6	-	35.0	65.0	100.0	
	11.8	13.0	18.0	-	42.8	57.2	100.0	
Brazil, 1993-1996	8.8	4.5	-2.5	-11.1	-0.9	1.1	-0.7	
	106.1	53.6	-265.0	-17.7	-123.1	23.1	-100.0	
	7.8	7.2	54.4	0.7	70.1	29.9	100.0	
Chile, 1990-1996	3.0	3.7	-1.9	0.3	3.3	2.4	3.1	
	27.6	122.8	-67.8	1.1	83.7	16.3	100.0	
	9.5	34.9	31.2	3.6	79.2	20.8	100.0	
Colombia, 1988-1995	n.a.	n.a.	n.a.	n.a.	3.3	2.5	3.0	
	n.a.	n.a.	n.a.	n.a.	67.4	32.6	100.0	
	n.a.	n.a.	n.a.	n.a.	61.6	38.4	100.0	
Costa Rica, 1990-1996	7.4	7.3	-0.3	23.4	1.1	-1.3	0.5	
	118.0	42.8	-34.4	34.9	161.3	-61.3	100.0	
	10.7	4.0	61.6	1.5	77.8	22.2	100.0	
Mexico, 1991-1997	12.2	1.7	4.3	-16.3	4.1	4.9	4.3	
	26.4	6.7	42.2	-3.7	71.6	28.4	100.0	
	12.6	16.7	44.9	0.5	74.6	25.4	100.0	
Median	8.1	4.1	-0.7	n.a.	3.3	2.4	3.0	
	27.0	28.3	-23.0	n.a.	67.4	23.1	100.0	
	11.3	14.9	38.1	n.a.	74.6	25.4	100.0	

**Source:** Author's calculations, on the basis of the research.

a/ The first line for each country refers to the annual growth of employment during the period indicated. The second line shows the contribution of each employment category to the employment generated in the period. The third line represents the composition of manufacturing employment at the end of the period.

b/ The data refer to the national total, with the exception of Argentina (urban areas) and Bolivia (departmental capitals and El Alto).

c/ Group sizes vary according to the countries: microenterprises employ up to 5 (except for Bolivia, where the limit is 4); a small firm is defined as having a maximum of 9 employees in Costa Rica, 10 in Brazil, 14 in Bolivia, 49 in Chile and 50 in Argentina and Mexico.

manufacturing employment in Colombia grew until 1995, but fell sharply in 1996 and 1997.

The general trend towards a decline in bigger companies' share of manufacturing employment is explained by the fact that the organizational and technological restructuring of manufacturing production was concentrated in medium-sized and large firms. With regard to the high concentration of new manufacturing jobs in small companies, Katz (2000) shows that small and medium-sized enterprises (SMEs) developed relatively favourably in high-growth sectors, attesting to the significance of the business environment in such companies' positive performance. Another study found that industrial SMEs are strong in activities geared to the domestic market; they are labour-intensive and often involve the processing of natural resources. In these categories the liberalization processes did not subject SMEs to greater external competition, and they were able to expand production and employment given the conditions of dynamic internal demand (Peres and Stumpo, 1999).

The participation of women in manufacturing employment conforms to no single pattern. On the one hand, female labour in manufacturing grew disproportionately in those countries where industrial employment increased significantly (Bolivia, Mexico and, to a lesser degree, Peru). On the other hand, women's participation fell in countries where manufacturing employment declined or grew little (see table V.9). This latter trend was apparently caused by the contraction of some categories with a traditionally high proportion of female employment, particularly the textiles and garments industry.

With regard to the composition of wage employment in manufacturing by age group, there was no sharp exclusion of older people, as might be expected to arise from profound technological changes. Only in Mexico did the group aged 55 and above grow more slowly. In Argentina and Costa Rica this group declined in absolute terms, but in both countries another group decreased more. Among the countries where manufacturing wage employment increased, such growth was mostly concentrated among the intermediate age group (as in Chile, Colombia, Costa Rica and Mexico). It is interesting that the manufacturing sector offered few job opportunities to the youngest segment in five countries (Argentina, Brazil, Chile, Colombia and Costa Rica). Although this age group did not display the same fall in the number of workers as in the agricultural sector (see table V.4), the weakness of job creation for youth in manufacturing is undoubtedly a factor in the high levels of youth unemployment.

The evolution of manufacturing employment can be summarized as follows: although the deindustrialization of the productive structure feared by some critics did not materialize (growth of this branch was close to the average), at the regional level manufacturing industry was not a "winning sector" in the 1990s. This constrained job creation in manufacturing, a weakness

Table V.9  
**LATIN AMERICA AND THE CARIBBEAN (NINE COUNTRIES):  
 GROWTH IN MANUFACTURING EMPLOYMENT, BY SEX  
 AND AGE GROUPS, 1990s**  
*(Annual growth rates)*

COUNTRY AND PERIOD	TOTAL MANUFACTURING EMPLOYMENT			MANUFACTURING WAGE EMPLOYMENT			
	TOTAL	MEN	WOMEN	TOTAL	UP TO 24	25 TO 54	55 AND OVER
Argentina, 1991-1997 <sup>a/</sup>	-2.3	-1.4	-5.1	-2.3	-3.2	-2.2	-1.3
Bolivia, 1989-1996 <sup>b/</sup>	13.3	11.6	17.0	9.7	13.9	6.3	17.0
Brazil, 1993-1996 <sup>c/</sup>	-0.7	-0.4	-1.2	-0.9	-1.8	-0.5	0.3
Chile, 1990-1996 <sup>c/</sup>	0.6	0.7	0.2	1.0	0.4	1.3	0.9
Colombia, 1988-1995	3.0	3.0	3.0	3.3	0.5	4.5	3.3
Costa Rica, 1990-1996 <sup>a/</sup>	0.5	1.8	-1.8	0.5	-2.8	2.3	-0.8
Jamaica, 1989-1996 <sup>a/</sup>	-2.8	-3.9	-1.2	-2.8	-4.5	-1.4	-4.4
Mexico, 1991-97	4.3	3.9	4.9	4.4	2.9	5.7	1.4
Peru, 1994-1997 <sup>d/</sup>	1.0	0.6	1.5	7.0	7.1	5.7	25.2
Median	0.6	0.7	0.2	1.0	0.4	2.3	0.9

**Source:** Author's calculations, on the basis of the research.

a/ The age groups refer to manufacturing employees.

b/ The age groups are up to 25; 26 to 50; and 51 and above.

c/ The age groups are up to 24; 25 to 44; and 45 and over.

d/ Wage employment refers exclusively to private employment.

that was exacerbated by the fact that, contrary to expectations, manufacturing production was not redirected towards labour-intensive categories and technologies. In fact, those categories contracted, and technological change was labour-saving. The appreciation of the currencies and trade openness hastened these processes. Hence, during much of the decade, the development of manufacturing industry came close to jobless growth in many cases, although at the regional level growth remained the main determinant of job creation.

This general outcome is partly altered by the differing progress made in the South American countries, on the one hand, and Mexico, Central America and some Caribbean countries, on the other. In the latter group *maquiladora* employment grew, largely in line with the expectations of manufacturing job creation for lower-skilled workers. Apart from geographical location, however, this performance largely stemmed from regional trade agreements that gave those countries preferential treatment.

In most countries, the transformations led to a marked increase in the sector's average labour productivity. Mexico and Central America again performed differently with lower rates of labour productivity growth, which mirrored the high growth of employment.

Why were the reforms so disappointing in creating manufacturing jobs, contrary to expectations? As mentioned earlier, those expectations stemmed from a "two country–two factor" model. The countries of the region, however, are positioned mid-way along a range of countries with a varying relative abundance of labour and capital. Consequently, liberalization did not offer the region comparative advantages in goods with a high labour intensity, particularly in light of the growing integration of Asian countries such as China and Indonesia in world markets (Wood, 1997). Many countries of the region had comparative advantages in natural resource–based manufacturing categories (agricultural or minerals), whose technology is not determined by the relative abundance of capital and labour (Katz, 2000). The assumption that export-oriented manufacturing production would be more labour intensive than production for the domestic market cannot therefore be generalized.<sup>114</sup>

To confront mounting foreign competition, companies producing export goods and producers of import-competing goods had to take steps to boost their competitiveness. Global technological standards that are mandatory for international competition (benchmarks) prevail in many categories. These fix the use of technology, capital and skilled labour, and they limit the possibility of choosing technologies on the basis of the relative abundance of factors (Katz, 2000). Additionally, broad access to international capital markets, especially for large companies, undermines the assumption that factors are not mobile. The steps taken were thus generally sparing in the use of unskilled labour, partly through changes in the internal organization of production and partly through changes in the production technology itself.

In the 1990s the tendency towards currency appreciation intensified this process in most countries of the region. First, it undercut the competitiveness of national production. In some countries with a more complex industrial base, imported intermediate goods became cheaper; together with the effects of trade liberalization, this negatively affected existing industrial linkages (Hernández Laos, 1996). Second, such trends raised the cost of labour relative to capital, thus hastening the substitution of factors mentioned earlier (Amadeo and others, 1997; Lora and Olivera, 1998).

In summary, hopes for the impact of the reforms on manufacturing employment were mistaken because they oversimplified the competitive

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114 Svarzman and Rozemberg (1997) find less labour intensity in Argentina's manufacturing exports. López (1999) finds the same for Mexico.

conditions of the region's manufacturing production. In many countries, macroeconomic policies further hindered job creation in the sector. Increasing factor mobility, technological change and greater global integration in production chains led to variations in the composition of manufacturing output and to a use of factors that fostered labour productivity (necessary in economies that are increasingly integrated in international markets), but that weakened demand for labour.

### **D. Employment Trends in Tertiary Activities**

The expectations of reform-induced job creation centred on activities producing tradable goods, while the evolution of employment in activities producing non-tradable goods and services was viewed as residual, fleeting or theoretically indefinite (see chapter II). In the 1990s, however, the primary and secondary sectors performed modestly in this regard, whereas tertiary activities were fairly dynamic, spawning many of the new jobs.

Historically, employment in tertiary activities has differed, in a positive sense, from employment in the primary and secondary sectors. Until the 1960s it generally recorded the highest average labour productivity of the three main sectors, and in the 1970s average labour productivity in the secondary and tertiary sectors stood at the same level (Weller, 1998a, p.19). Average educational levels are normally higher in tertiary activities (which generally employ many people with secondary education or higher) than in agriculture, manufacturing or construction. That the employment structure was more highly concentrated in tertiary activities is therefore not of itself a symptom of unfavourable trends.

Nevertheless, employment in tertiary activities is very diverse. At the global level such activities are increasingly important in productive structures and economic growth. The Latin American and Caribbean region has not stood apart from that process. In the 1990s various tertiary activities benefited from the reforms and from macroeconomic policies, which had a positive impact on the quantity and quality of employment. At the same time, the secondary sector was more productive than the tertiary sector starting in the 1980s, and the productivity gap continued to widen in the 1990s (see figure V.1). This was due to the sharp growth of the urban informal sector, which features lower productivity levels and a high concentration of tertiary activities.

Because of this heterogeneity, analysis of the development of employment in tertiary activities demands attention to the pattern of job creation in the sector's various branches. In other words, what are the poles of job creation in the tertiary sector? This section addresses that question, following a brief review of the main employment trends in the sector as a whole.

At the regional level, job creation was not an activity-specific phenomenon, as employment grew by about 3% a year in all tertiary branches,



which is clearly higher than the increase in aggregate employment (see table V.1). The branch consisting of financial services, insurance, real estate and business services grew most, followed by basic services (electricity, gas and water, plus transport, storage and communications). Most of the employment, however, arose in commerce, restaurants and hotels and in community, social and personal services. Together, these accounted for about 70% of the new jobs.

In basic services and, to a lesser degree, in commerce, value added grew faster than the regional average of 3.7% in the period 1990-1997, but the other tertiary activities grew at lower rates (see table V.10). Of the four tertiary branches, therefore, only basic services simultaneously increased employment and average labour productivity. The other three performed poorly in the latter respect, which is why the average labour productivity of the tertiary sector as a whole was unfavourable.<sup>115</sup>

As table V.10 shows, the country level data and the medians differ slightly from the weighted averages, which follow a pattern of relatively low sectoral growth, vigorous job creation and low or negative growth in labour productivity. In all four branches there was higher economic growth in the median than in the weighted average, most notably in financial services, insurance, real estate and business services, which grew by 5.4% annually in the median as opposed to 3.5% in the weighted average. Nevertheless, this branch saw the most significant fall in productivity, since employment also grew more in the median than in weighted average. At the country level, Argentina represents one extreme, with increasing average labour productivity in all four branches. At the other extreme are Costa Rica and Mexico, where labour productivity decreased in three branches and was stagnant in basic services.

The following analysis explores more deeply the reasons for this performance in the tertiary sector. Apart from providing information on branches (at the single-digit level of the ISIC) for the nine countries under study, the analysis includes more disaggregated data on each branch in Chile in the 1990-1996 period. Chile is not representative of the region because of its progress on reforms and its economic performance in the 1990s, but the data reveal the poles of tertiary job creation in a context of high economic growth.<sup>116</sup>

As mentioned above, *commerce, restaurants and hotels* provided about a third of the jobs created in the region between 1990 and 1997 (see table V.1). Disaggregation of employment growth in this branch yields a somewhat surprising result (see table V.11): in all countries the number of wage earners

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115 It is questionable, however, whether national accounting systems report services properly, and the data in table V.10 should be treated with caution. For an assessment of job creation in tertiary activities at the global level, together with a critical discussion of the theory on low productivity in these activities, see Wieczorek (1995) and Maclean (1997).

116 Unfortunately, disaggregated information is not available for the other countries.

Table V.10  
**LATIN AMERICA AND THE CARIBBEAN: OUTPUT, EMPLOYMENT  
 AND AVERAGE LABOUR PRODUCTIVITY IN THE TERTIARY  
 SECTOR, 1990s**  
*(Annual growth rate)*

COUNTRY <sup>al</sup>	PERIOD	COMMERCE, RESTAURANTS AND HOTELS			COMMUNITY, SOCIAL AND PERSONAL SERVICES		
		OUTPUT	EMPLOYMENT	PRODUCTIVITY	OUTPUT	EMPLOYMENT	PRODUCTIVITY
Argentina	1990-1997	6.4	0.9	5.1	3.8	2.4	1.4
Bolivia	1990-1997	3.8	9.9	-5.6	2.9	-0.3	3.2
Brazil	1992-1997	5.8	3.0	2.7	1.4	2.8	-1.4
Chile	1990-1997	10.1	3.2	6.7	3.5	2.3	1.2
Colombia	1991-1997	4.7	2.2	2.5	5.5	2.6	2.9
Costa Rica	1990-1997	4.4	5.7	-1.2	2.2	3.3	-1.1
Ecuador	1990-1995	2.9	8.7	-5.3	0.7	3.9	-3.1
El Salvador	1992-1997	6.3	7.2	-0.9	2.8	6.1	-3.1
Honduras	1990-1997	3.8	6.0	-2.1	1.1	5.1	-3.8
Jamaica	1991-1996	3.2	1.9	1.2	-0.2	0.1	-0.3
Mexico	1991-1997	1.5	4.5	-2.9	1.4	4.2	-2.7
Panama	1991-1997	4.8	6.0	-1.1	1.9	3.8	-1.8
Paraguay	1992-1997	2.0	15.5	-11.7	4.1	9.7	-5.1
Peru	1990-1997	5.8	5.7	0.0	2.1	0.2	1.9
Dominican Republic	1991-1996	8.2	3.4	4.7	3.1	2.4	0.7
Uruguay	1990-1997	7.3	2.2	5.0	1.2	0.5	0.7
Venezuela	1990-1997	-0.1	5.8	-5.6	1.3	3.8	-2.4
Latin America and the Caribbean - Weighted average		3.9	4.0	-0.1	1.8	2.9	-1.1
- Median		4.7	5.7	-0.9	2.1	2.8	-1.1

Table V.10 continue

COUNTRY <sup>a/</sup>	PERIOD	FINANCIAL SERVICES, INSURANCE, REAL ESTATE AND BUSINESS SERVICES			BASIC SERVICES <sup>b/</sup>		
		OUTPUT	EMPLOYMENT	PRODUCTIVITY	OUTPUT	EMPLOYMENT	PRODUCTIVITY
Argentina	1990-1997	8.7	4.4	4.1	7.1	4.5	2.5
Bolivia	1990-1997	5.4	12.8	-6.5	6.6	7.2	-0.6
Brazil	1992-1997	-0.8	5.4	-5.9	6.5	3.8	2.6
Chile	1990-1997	7.7	8.7	-0.9	10.9	3.8	6.8
Colombia	1991-1997	6.2	6.9	-0.6	4.7	3.4	1.3
Costa Rica	1990-1997	3.5	9.1	-5.1	6.0	6.1	-0.1
Ecuador	1990-1995	5.4	n.a.	n.a.	4.8	1.9	2.8
El Salvador	1992-1997	4.3	6.3	-1.9	4.6	9.1	-4.1
Honduras	1990-1997	6.6	12.0	-4.8	4.0	2.9	1.1
Jamaica	1991-1996	5.8	6.3	-0.5	6.7	6.3	0.3
Mexico	1991-1997	3.5	8.2	-4.3	4.8	4.7	0.1
Panama	1991-1997	6.0	9.3	-3.0	4.2	3.6	0.6
Paraguay	1992-1997	n.a.	n.a.	n.a.	6.9	8.7	-1.7
Peru	1990-1997	7.8	12.3	-4.0	6.0	9.2	-3.0
Dominican Republic	1991-1996	0.8	10.0	-8.3	9.5	6.8	2.5
Uruguay	1990-1997	1.7	5.1	-3.2	8.3	0.3	8.0
Venezuela	1990-1997	1.2	2.9	-1.7	2.9	4.0	-1.0
Latin America and the Caribbean - Weighted average		3.5	6.6	-2.9	5.6	4.8	0.8
- Median		5.4	8.2	-3.2	6.0	4.5	0.6

**Source:** Author's calculations, on the basis of ECLAC data, official national data and the International Labour Organization (ILO), *Panorama laboral*, Lima, ILO Informa, 1998.

a/ The data refer to the national total, except for Argentina (urban areas), Bolivia (departmental capitals and El Alto), Peru (Metropolitan Lima) and Uruguay (urban areas).

b/ Electricity, gas and water; transport, storage and communications.

grew more than employment as a whole, and, except for Brazil, wage employment increased more in small, medium-sized and large companies than in microenterprises.

Table V.11  
**LATIN AMERICA (SEVEN COUNTRIES): ANNUAL GROWTH OF  
 EMPLOYMENT AND CONTRIBUTION TO NEW JOBS IN THE TERTIARY  
 SECTOR, BY EMPLOYMENT CATEGORY, 1990s**  
*(Percentages)*

COUNTRY, PERIOD AND CATEGORIES <sup>a/</sup>	COMMERCE <sup>b/</sup>		SOCIAL SERVICES <sup>c/</sup>		FINANCIAL SERVICES <sup>d/</sup>		BASIC SERVICES <sup>e/</sup>	
	GROWTH	CONTRIBUTION	GROWTH	CONTRIBUTION	GROWTH	CONTRIBUTION	GROWTH	CONTRIBUTION
Argentina,								
1990-1997								
Total employment	0.1	100	2.4	100	4.9	100	5.5	100
Wage employment	1.7	905	2.6	92	5.2	75	5.7	77
- in microenterprises	0.9	(214)	-1.6	(-10)	9.8	(31)	12.3	(32)
Others	-1.7	-805	1.3	8	4.0	25	5.1	23
Bolivia,								
1989-1996								
Total employment	9.2	100	0.9	100	13.9	100	6.1	100
Wage employment	13.4	28	2.5	161	9.9	47	5.6	62
- in microenterprises	16.5	(14)	n.a.	n.a.	14.1	(13)	6.4	(37)
Others	8.2	72	-1.4	-61	22.5	53	7.0	38
Brazil,								
1993-1996								
Total employment	2.4	100	3.7	100	-2.9	-100	3.8	100
Wage employment	4.2	89	3.8	78	-3.4	-142	2.6	27
- in microenterprises	6.6	(43)	8.8	(20)	7.4	(35)	7.0	(8)
Others	0.5	11	3.4	22	1.6	42	6.7	73
Chile,								
1990-1996								
Total employment	2.8	100	2.7	100	10.5	100	4.7	100
Wage employment	4.0	73	3.8	81	10.3	78	4.3	63
- in microenterprises	2.2	(11)	3.4	(25)	0.2	(0)	n.a.	n.a.
Others	1.6	27	1.2	19	11.3	22	5.3	37
Colombia,								
1988-1995								
Total employment	5.1	100	4.2	100	5.8	100	5.2	100
Wage employment	5.6	44	4.6	65	5.5	73	3.5	47
- in microenterprises	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Others	4.7	56	3.7	35	6.8	27	5.8	53

Table V.11 continue

COUNTRY, PERIOD AND CATEGORIES <sup>a/</sup>	COMMERCE <sup>b/</sup>		SOCIAL SERVICES <sup>c/</sup>		FINANCIAL SERVICES <sup>d/</sup>		BASIC SERVICES <sup>e/</sup>	
	GROWTH	CONTRIBUTION	GROWTH	CONTRIBUTION	GROWTH	CONTRIBUTION	GROWTH	CONTRIBUTION
Costa Rica, 1990-1996								
Total employment	5.9	100	2.2	100	6.8	100	5.1	100
Wage employment	6.9	70	2.0	76	6.1	70	3.6	55
- in microenterprises	6.1	(23)	3.6	(45)	15.1	(29)	18.1	(46)
Others	4.5	30	3.9	24	9.4	30	9.8	45
Mexico, 1991-1997								
Total employment	4.5	100	4.2	100	8.2	100	4.7	100
Wage employment	4.9	47	4.0	73	7.6	72	5.9	97
- in microenterprises	4.6	(15)	4.8	(25)	6.8	(8)	11.8	(58)
Others	4.3	53	4.9	(27)	9.9	28	0.7	3
Group median								
Total employment	4.5	100	2.7	100	6.8	100	5.1	100
Wage employment	4.9	70	3.8	78	6.1	72	4.3	62
- in microenterprises	5.4	(19)	3.6	(25)	8.6	(21)	11.8	(37)
Others	4.3	30	3.4	22	9.4	28	5.8	38

**Source:** Author's calculations, on the basis of the research.

a/ The data refer to the national total, except for Argentina (urban areas) and Bolivia (departmental capitals and El Alto). In Argentina, Brazil and Mexico, domestic employment is included in wage employment; in the other countries it is in "others." Microenterprises are defined as those with up to five employees (except for Bolivia, where the limit is four).

b/ Commerce, restaurants and hotels.

c/ Community, social and personal services.

d/ Financial services, insurance, real estate and business services.

e/ Electricity, gas and water; and transport, storage and communications.

This outcome is partly explained by the expansion of large business establishments (supermarkets, hypermarkets and so on).<sup>117</sup> Tourism was another dynamic source of wage job creation. In three of the four countries for which disaggregated information is available, employment in hotels and restaurants grew more than the branch's average (Argentina, Chile and Costa Rica; not so in Mexico).

<sup>117</sup> Ghezán, Mateos and Elverdín (2001) discuss the restructuring of the retail trade in Argentina.

In five of the seven countries for which information is available (Bolivia, Brazil, Colombia, Costa Rica and Mexico), more than half of the new jobs were created in microenterprises or consisted of non-wage employment, particularly self-employment and unpaid work. This reveals the significance of informal activities as a source of alternative employment. In Argentina and Chile, in contrast, this branch saw only limited employment growth in microenterprises.

Table V.12 on Chile shows that the retail trade was the main pole of job creation in this branch, providing three of every four new jobs. Most of these were wage jobs, given the modernization processes mentioned earlier, but the quantitative importance of the retail trade is also evident in self-employment. This type of employment accounted for over a third of new employment in the branch, and the great bulk was unquestionably informal. Another striking development is the fall in the number of employers and unpaid workers. This apparently reflects the disappearance of small shops or stores, most of which were family-owned; this might be the flip side of the growth of large commercial establishments. While employment in the wholesale trade did not grow much, tourism was another pole of job creation. This is evidenced by the marked increase in employment in restaurants and hotels, whose growth and contribution to job creation were concentrated among private-sector wage earners.

Employment growth in this branch was thus polarized, since the most dynamic growth was in formal retail trade and activities linked to tourism, as well as in informal activities.

*Community, social and personal services* (CSPS) is another very heterogeneous branch, comprising highly skilled jobs, such as those in health and education, and others that require little formal education, such as domestic service. Of the four tertiary branches, this one had the lowest employment growth rate. It nevertheless generated the most jobs, since over a quarter of those working are associated with this sector (see table V.1). Moreover, because of the marked presence of public services in CSPS, wage employment had a substantial share. The public-sector presence also largely explains the low growth of employment. At the regional level, public employment grew only slightly (see table IV.5) while its share of urban employment fell from 15.5% in 1990 to 13.0% in 1998 (ILO, *Panorama laboral*, 1999). The only exceptions were Chile, where employment in such services had contracted sharply in previous decades, and Paraguay (ILO, *Panorama laboral*, 1998 and 1999).

The privatization of public-sector manufacturing companies and basic services was important in this regard. Public administration was also subject to spending controls and reforms that prevented employment from continuing to grow as it had in the preceding decades. Part of the reform was government decentralization, which entailed a restructuring of public employment. Employment in the region's central governments had already contracted

Table V.12  
**CHILE: GROWTH OF EMPLOYMENT IN COMMERCE, RESTAURANTS  
 AND HOTELS, BY EMPLOYMENT CATEGORY, 1990-1996<sup>a/</sup>**

ECONOMIC ACTIVITY	PRIVATE WAGE EARNERS	PUBLIC WAGE EARNERS	SELF- EMPLOYED	UNPAID WORKERS	EMPLOYERS	TOTAL
Wholesale trade	2.0	0.0	-5.9	-25.0	0.8	1.4
	6.0	0.0	-0.8	-0.7	0.1	4.7
Retail trade	4.1	35.8	3.0	-1.6	-3.1	2.8
	48.6	0.2	34.8	-3.8	-4.3	75.6
Restaurants and hotels	5.5	11.6	2.3	-4.2	3.2	4.2
	17.8	0.5	1.6	-1.4	1.2	19.7
Total	4.0	14.7	2.9	-2.1	-1.5	2.8
	72.5	0.7	35.7	-5.9	-3.0	100.0

**Source:** Author's calculations, on the basis of figures from the National Institute of Statistics (INE).

a/ The first line indicates the annual growth rate; the second, the contribution to additional employment in the period.

sharply in the 1980s, though this was partly offset by the increase in employment in the decentralized bodies (Schiavo-Campo, de Tommaso and Mukherjee, 1997).

Despite the decline in public employment in relative terms, wage employment in CSPS grew at higher rates than in the other categories in most of the countries under study, although the average shows that wage job creation was not as dynamic as in trade (see table V.12). Almost half of the new jobs in CSPS were in microenterprises or non-wage categories. It should nevertheless be kept in mind that much of the self-employment in these services consists of occupations that require a high level of skills.

To help identify the poles of job creation in this branch, table V.13 again disaggregates new jobs in Chile in the period 1990-1996. As mentioned earlier, in the 1990s the evolution of public employment in Chile did not follow regional trends. After a sharp contraction, its share of urban employment grew slightly, from 7.0% to 7.2%, between 1990 and 1998 (ILO, *Panorama laboral*, 1999).<sup>118</sup> The table clearly reveals the poles of job creation in such services.

<sup>118</sup> Since much of the growth of public employment was concentrated in community and social services, the Chilean data for this branch can be viewed as even less representative of the region than the information on other tertiary activities.

Table V.13  
**CHILE: EMPLOYMENT GROWTH IN COMMUNITY, SOCIAL AND  
 PERSONAL SERVICES, BY EMPLOYMENT CATEGORY, 1990-1996<sup>a/</sup>**  
*(Percentages)*

ECONOMIC ACTIVITY <sup>b/</sup>	PRIVATE WAGE EARNERS	PUBLIC WAGE EARNERS	SELF- EMPLOYED WORKERS	DOMESTIC SERVICE	UNPAID WORKERS	EMPLOYERS	TOTAL
Public administration	29.0	8.1	-	-	-	-	8.4
	1.9	35.4	0.2	-	-	-	37.5
Education	4.8	1.6	15.2	-	-	10.0	3.3
	16.8	6.3	2.1	-	-	0.4	25.5
Medical services	1.9	0.6	9.7	-	-11.8	4.2	1.9
	3.6	1.4	3.6	-	0.0	0.5	9.0
Recreational services	6.4	-6.1	10.6	-	14.9	-8.2	6.2
	8.0	-0.7	4.3	-	0.2	-0.4	11.4
Personal services	2.2	9.8	3.3	-1.0	0.7	-5.4	0.8
	6.2	0.3	17.7	-8.2	0.1	-1.8	14.2
Total	3.6	3.9	4.4	-1.0	2.5	-2.7	2.7
	38.1	43.3	28.1	-8.3	0.4	-1.5	100.0

**Source:** Author's calculations, on the basis of figures from the National Institute of Statistics (INE).

a/ The first line indicates the annual growth rate; the second, the contribution to additional employment in the period.

b/ At a two-digit disaggregation, the activities are public administration, defence and sanitary and similar services; public education services and scientific research institutes; medical, dental, health and veterinary services; entertainment, recreational and cultural services; personal and domestic services.

Between 1990 and 1996, public administration was a significant pole of job creation within Chile's CSPS, accounting for more than a third of new jobs in the branch. Public wage employment as a whole grew by almost 4% a year, since there was also a slight increase in employment among public-sector teachers. Education was the second most important activity, providing a quarter of the new jobs in the branch. Because of the nature of the Chilean education system, however, most of these jobs were in the private sector, prompting a substantial increase in private-sector wage employment.

Medical services is another area that generally creates work for skilled personnel. This activity provided almost 10% of new jobs in the branch, shared among self-employment, private-sector wage employment and, to a lesser



degree, public-sector wage employment. Recreational services were very dynamic: their employment growth rate was surpassed only by public administration. They accounted for over 10% of new jobs in the branch, which were concentrated in self-employment and private-sector wage jobs. Finally, personal and household services grew little because of the sharp contraction of domestic service, although other personal services grew substantially, especially among the self-employed.<sup>119</sup>

In sum, the growth of employment in Chile's community, social and personal services between 1990 and 1996 was marked by the primacy of higher skilled services. Some activities normally undertaken by less qualified workers also flourished, such as recreational services and personal services among the self-employed.

At the regional level, *financial services, insurance, real estate and business services* recorded the highest growth rate of employment, providing over 10% of the new jobs. In the countries under study, dynamic job creation was fairly widespread, Brazil being the only exception. Wage employment dominates the branch, accounting for over 75% of the new jobs in the 1990s.

Chile is once again useful for analysing the branch's poles of job creation in the 1990-1996 period. As table V.14 shows, most new employment was in real estate and business services. Here, apart from higher skilled jobs, there was also an increase in simpler work such as concierge, cleaning and security services.

Employment growth and new job creation were lower in financial services. In many countries, the expansion of financial services was attended by a skill-intensive modernization that replaced labour with new technical components, such as automatic teller machines and other self-service devices.<sup>120</sup> Insurance grew at a high rate, largely because of the widening of medical insurance and pension coverage. Employment growth in this branch centred on two categories, private-sector wage earners (in the three subsectors) and self-employment (in real estate and business services).

In contrast to developments in commerce, restaurants and hotels, and in community, social and personal services, almost all countries experienced high growth rates in the categories of microenterprise wage labour and non-wage jobs (see table V.11). This can mainly be ascribed to opportunities that stemmed from the establishment of microenterprises, as well as to self-employment in real estate and business services. Thus, in four of the six countries considered here (Argentina, Bolivia, Brazil and Costa Rica), wage earners in microenterprises and non-wage workers account for more than half of the new employment in this branch.

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119 Live-in domestic service contracted sharply, while domestic dayworkers increased slightly.

120 The transformation of the Chilean banking sector was accompanied by a marked increase in workers' qualifications (see Weller, 1998a, p.43).

Table V.14  
**CHILE: GROWTH OF EMPLOYMENT IN FINANCIAL SERVICES,  
 INSURANCE, REAL ESTATE AND BUSINESS SERVICES, BY  
 EMPLOYMENT CATEGORY, 1990-1996<sup>a/</sup>**

ECONOMIC ACTIVITY	PRIVATE WAGE EARNERS	PUBLIC WAGE EARNERS	SELF- EMPLOYED WORKERS	UNPAID WORKERS	EMPLOYERS	TOTAL
Financial services	5.9	-7.7	-	-	-45.8	3.6
	9.4	-2.0	-	-	-0.6	6.8
Insurance	17.1	-	44.5	-	-	17.9
	15.2	-	0.8	-	-	16.4
Real estate and business services	11.4	42.3	17.4	20.7	-2.5	11.5
	54.0	1.1	21.8	1.3	-1.3	76.8
Total	10.8	-2.6	17.7	20.7	-2.9	10.5
	78.6	-0.9	22.6	1.3	-1.7	100.0

**Source:** Author's calculations, on the basis of figures from the National Institute of Statistics (INE).

a/ The first line indicates the annual growth rate; the second, the contribution to additional employment in the period.

Much of the new employment in small firms and microenterprises, as well as self-employment, apparently sprang from the subcontracting of certain activities undertaken by many large companies. It is therefore probably not informal, although it is included in that category on the basis of the criterion normally applied (which is largely based on firm size). On the other hand, it has often been argued that subcontracting makes such activities more insecure and thereby undermines working conditions.<sup>121</sup>

As mentioned earlier, *basic services* is the only tertiary branch in which labour productivity grew (see table V.10). This is in line with two analyses based on other indicators, which reveal the profound changes in the branch's labour productivity, especially in communications and electricity, gas and water (Katz, 2000; Mogueillansky and Bielschowsky, 2000). In terms of job creation, however, other activities were more significant.

In Chile, for example, 75% of new jobs created between 1990 and 1996 in basic services were generated by road transport, both of passengers (almost 50%) and cargo (about 25%). These jobs were more or less equally divided among private-sector wage employment and self-employment (see table V.15).

121 Wilde (1998, pp.12-13) makes this assessment from the union perspective.

Table V.15  
**CHILE: GROWTH OF EMPLOYMENT IN ELECTRICITY, GAS AND WATER AND IN TRANSPORT, STORAGE AND COMMUNICATIONS, BY EMPLOYMENT CATEGORY, 1990-1996<sup>a/</sup>**  
*(Percentages)*

ECONOMIC ACTIVITY <sup>b/</sup>	PRIVATE WAGE EARNERS	PUBLIC WAGE EARNERS	SELF-EMPLOYED WORKERS	UNPAID WORKERS	EMPLOYERS	TOTAL
Electricity	10.8	-	17.7	-	-17.7	10.2
	11.2	-	0.8	-	-0.3	11.4
Water	15.1	4.7	-	-	-	13.7
	7.0	0.4	-	-	-	7.7
Cargo transport	5.6	-15.1	2.3	-0.2	3.1	4.1
	19.9	-0.1	6.0	0.0	1.4	27.2
Passenger transport	3.9	-18.7	11.5	-6.9	-6.6	5.8
	18.6	-1.2	33.6	-0.2	-3.0	47.9
Rail transport	-3.5	-18.5	-4.3	-	7.9	-6.8
	-3.2	-5.1	-0.4	-	0.0	-8.7
Air transport	9.0	-0.3	5.1	-	-	6.5
	2.6	0.0	0.0	-	-	2.6
Related activities	-1.9	11.7	10.7	-	-8.3	-1.8
	-1.9	0.8	0.5	-	-0.7	-2.2
Communications	7.9	5.9	5.5	-	-17.5	7.5
	13.2	1.1	0.1	-	-0.3	14.2
Total	4.9	-5.4	7.1	-8.7	-2.6	4.7
	67.5	-4.5	40.9	-1.1	-2.7	100.0

**Source:** Author's calculations, on the basis of figures from the National Institute of Statistics (INE).  
 Note: Excludes categories in which one of the two years had a value of 0.

a/ The first line indicates the annual growth rate; the second, the contribution to additional employment.

b/ The activities correspond to electricity, gas and steam; waterworks and supply; cargo transport by truck; urban, suburban and intercity transport of passengers by bus and car; rail and water-borne transport; air transport; complementary and auxiliary transport activities; and communications.

Employment fell in rail and water-borne transport; it grew relatively fast in air transport, but without creating many new jobs.

In many countries of the region, the activities mentioned above (electricity, gas and water, as well as communications) were dynamic in terms of

investment and productivity. In the case of Chile they were also dynamic in terms of employment growth, providing 19% and 14%, respectively, of new jobs in basic services, almost exclusively as private-sector wage employment. The poles of job creation in the branch were therefore road transport (as self-employment and wage labour in microenterprises and other companies), electricity, gas and water (as wage employment) and communications (wage employment in large companies).

Given its characteristics, the strong presence of transport also explains why the non-wage categories have grown at slightly higher rates than wage employment in most countries (including Chile) and why in almost all countries they have provided a significant percentage of new employment in this branch (see table V.11). In addition, all cases microenterprises increased their share of new wage employment. Non-wage employment and employment in microenterprises thus accounted for 75% of new jobs in basic services.

Whereas the pattern of female employment was very heterogeneous in agriculture and manufacturing (see tables V.4 and V.9), in the tertiary sector women's participation clearly increased. In all countries but Jamaica, female employment in the sector grew more than that of men (see table V.16). Women thus increased their share of employment in the tertiary activities, where they already accounted for a high proportion of the workforce (ECLAC, *Social Panorama of Latin America*, 1997, p.54; Marinakis, 1999, pp.13 to 16). This process reflects the polarized development of job creation. Indeed, labour demand increased in many tertiary activities with a higher proportion of female workers than is found in other sectors, giving rise to greater female wage employment. Nevertheless, self-employment and unpaid labour in tertiary activities also grew markedly, largely because of the expansion of typically informal activities.

By age group, the growth pattern of wage employment in services was more heterogeneous. In all the countries except Peru, however, most employment growth centred on the intermediate or upper age groups. Even so, the tertiary sector offered the biggest (and in some cases the only) new employment opportunities for the youngest group, compared to the primary and secondary sectors.

In sum, tertiary activities generated most employment in the 1990s, in terms of both employment as a whole and wage labour. The main poles of employment creation were commerce (much of it as wage labour in small, medium-sized and large companies), tourism, education and health services, real estate and business services and transport.

In contrast to manufacturing, tertiary activities in medium and large establishments posted no net job losses. In commerce, for example, many jobs were created in such establishments. Nevertheless, many of the new jobs in tertiary activities were in microenterprises and non-wage categories. The impact of economic growth was very significant in this regard. In Argentina

Table V.16  
**LATIN AMERICA AND THE CARIBBEAN (NINE COUNTRIES):  
 GROWTH OF EMPLOYMENT IN THE TERTIARY SECTOR,  
 BY SEX AND AGE GROUP, 1990s**  
*(Annual growth rates)*

COUNTRY AND PERIOD	TOTAL SECTORAL EMPLOYMENT			WAGE EMPLOYMENT			
	TOTAL	MEN	WOMEN	TOTAL	UP TO 24	25 TO 54	55 AND ABOVE
Argentina, 1991-1997 <sup>a/</sup>	2.3	1.7	3.1	2.3	1.8	1.4	4.2
Bolivia, 1989-1996 <sup>b/</sup>	7.1	6.7	7.8	5.5	5.7	5.2	7.5
Brazil, 1993-1996 <sup>c/</sup>	3.0	2.6	3.5	3.3	2.2	3.4	5.1
Chile, 1990-1996 <sup>c/</sup>	4.2	3.9	4.6	3.7	2.1	3.8	5.0
Colombia, 1988-1995	4.8	3.9	5.8	4.5	2.6	5.3	4.6
Costa Rica, 1990-1996 <sup>a/</sup>	4.1	4.0	4.3	4.1	1.3	4.9	4.8
Jamaica, 1989-1996 <sup>a/</sup>	3.2	4.5	2.3	4.9	4.7	5.4	3.0
Mexico, 1991-1997	4.7	4.5	4.9	4.7	2.1	6.0	5.8
Peru, 1994-1997 <sup>d/</sup>	4.5	3.4	5.8	7.1	10.4	6.7	4.0
Median	4.2	3.9	4.6	4.5	2.2	5.2	4.8

**Source:** Author's calculations, on the basis of the research.

a/ The age groups refer to total employment in the tertiary sector.

b/ The age groups are the following: up to 25, from 26 to 50, and 51 and over.

c/ The age groups are the following: up to 24, from 25 to 44, and 45 and over.

d/ Wage employment refers exclusively to private employment.

and Chile, for example, the growth of tertiary wage employment in small, medium-sized and large companies was generally higher than that of employment in microenterprises and non-wage labour.

What role did the reforms play in tertiary-sector employment trends? While it should be noted that the growing concentration of employment in this sector is a global and longstanding trend, in the 1990s several branches of the sector were particularly stimulated by some of the reforms. The privatization of basic services such as communications and electricity fostered their modernization and increased investment; financial reforms accelerated transformations; and commercial liberalization stimulated growth in areas such as transport and trade.

The reforms also hastened the processes of productive restructuring, which led to the increasing use of mechanisms such as the outsourcing of particular tasks. This created jobs in business services, although it is hard to gauge to what extent this offset job losses in the companies that subcontracted the services. At the same time, the reforms gave rise to proposals for checking

the growth of public-sector employment; these proposals were put into effect in most countries during the 1990s.

Macroeconomic stabilization in a context of robust foreign capital flows revitalized domestic demand and spurred labour demand in areas such as trade and real estate. Macroeconomic and social stabilization, as well as greater insertion in international tourism markets, also favoured job creation in the tertiary sector.

Although job creation was quite dynamic in some tertiary activities, the high proportion of new jobs in microenterprises and non-wage categories reflects the weakness of firms' labour demand, as well as the need to generate labour income, which arose from the growth of the labour supply. Some tertiary activities remain significant in satisfying this latter need, since the barriers to access are lower. Value added is underestimated in some tertiary activities that are undergoing restructuring and modernization, but the fact that the tertiary sector's average labour productivity did not recover in the 1990s is mostly due to the pressure of the labour supply, which led to the creation of many low-productivity jobs.

## **E. Conclusions and Prospects**

Expectations of how employment would evolve at the sectoral level were not realized. In contrast to the anticipated growth of employment in activities producing tradable goods, the pattern was similar to that of industrialized countries with very different factor endowments: weak job creation and quite sharp increases in labour productivity in the primary and secondary sectors; strong job creation and stagnation or slight falls in labour productivity in the tertiary sector.

As was argued in earlier sections of this chapter, such trends are explained, first, by the growing primacy of tertiary activities in all economies; second, by the fact that in many increasingly integrated markets, standards of competitiveness are largely determined by labour-saving technological processes; and third, by the fact that other regions seem to have an advantage over Latin America and the Caribbean in some products whose competitiveness, to use Porter's terminology (1990), is mainly determined by basic factors of production and in which the availability of abundant and relatively low-skilled labour is particularly relevant.

Some of the region's northern countries (Mexico, and parts of Central America and the Caribbean) seem to have at least partly escaped from this pressing circumstance, marked by simultaneous competition from "above" and "below". Although not entirely free of such trends, these countries have been able to exploit their geographical proximity to the United States market, together with special trade conditions, to promote the growth of labour-

intensive activities such as *maquila* and certain types of agricultural production.<sup>122</sup>

Many of the reforms helped to further the insertion of the tradable goods sectors into global markets by encouraging exports. They also helped to intensify competition in local markets, spurring a decline in labour intensity in those sectors and a disintegration of existing production networks. In many countries, overvalued currencies reinforced such processes for much of the decade.

The reforms and macroeconomic trends also fostered job creation in the tertiary sector (as well as in construction, a category that this chapter has not addressed in detail). Many of the new jobs in this sector were created in the context of changes wrought by processes of liberalization and technological change. This boosted labour demand in activities where the presence of female workers was strong, which can be seen as one of the period's positive trends. As the previous chapter showed, however, job creation in these activities was generally insufficient to satisfy household needs, thus spawning a high degree of informal employment in the tertiary sector.

What are the prospects for job creation in the different sectors? Neither the performance of the *agricultural sector* in the 1990s nor international experience would suggest that the negative net balance in job creation will prove to be fleeting. Although new agricultural jobs will arise from the diversification of crops and the expansion of some activities, numbers will be limited by the patterns of factor use in many dynamic activities and by the sector's modest growth. In most countries of the region, much of the rural population is in the poorest strata, and many agricultural workers are characterized as among the visible and invisible underemployed (depending on the season). The push factors driving agricultural labour (especially youth) off the land and towards non-agricultural activities therefore persist, which is in line with longstanding and global trends. In most countries, a reversal of this trend (i.e., a net increase in agricultural employment) would be more an expression of weak growth in non-agricultural sectors and less attractive urban pull factors than of the creation of productive employment in the sector. Even if the typical pitfalls of small-scale agriculture were to be overcome, in terms of both agricultural production itself and related areas, productivity and labour income would increase more than direct employment in the sector. Because of the multiplicity of linkages, however, the transformation of the agricultural sector would have a positive impact on rural employment in other sectors.

As regards the prospects for *manufacturing employment*, there are grounds for hope that the sector will not feature jobless growth in the future. With the end of the restructuring phases, during which many companies closed down and others focused on labour-saving defence measures, the immediate and

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122 On experiences in Central America, see Funkhouser and Pérez Sáinz (1998).

stronger negative impact seems to have ceased in many countries. On the basis of higher productivity and greater competitiveness, many companies will be able to compete more successfully in domestic and foreign markets. If a solution is found to the macroeconomic problems that limit production, therefore, sectoral output could grow at reasonable rates, with positive repercussions for employment. This is equally the case for large companies and for small and medium-sized firms that are more labour-intensive and that perform better in a context of growth.

The manufacturing sector will not become the engine of job creation that it was until the 1970s, however, given that the global context is marked by widespread competition and a trend towards labour-saving technological changes. This global competition increasingly constrains the possibilities of growth in labour-intensive categories; in others, the need to seek optimal solutions will prevail, leaving ever less space for an alternative combination of factors. The rate of job creation will thus be modest, and the share of manufacturing employment in regional employment will continue to fall.<sup>123</sup> This process will be slower in the region's northern countries, because of the opportunities for investment and industrial employment that arose from closer integration with the United States and Canadian markets.

Against this background, it seems clear that most future new jobs must arise in *tertiary activities*. The relative growth of output and employment in this sector is a global, long-term trend. This reflects not only the weakness of job creation in the primary and secondary sectors, but also the transformation of the role of tertiary activities in all economies. The competitiveness of the traditional tradables-producing sectors is also increasingly dependent on an efficient integration with a variety of services, such as technological research and development, an efficient financial system, marketing and after-sales services. Health and education are also relevant for systemic competitiveness, although more indirectly; these tend to grow, creating appreciable numbers of good quality jobs (Wieczorek, 1995). The modernization of the socio-economic structure as a whole thus requires a stronger role for the knowledge-based segments of the tertiary sector, with the attendant job creation for individuals with medium and high levels of education (Altenburg, Qualmann and Weller, 1999, pp.28-33).

The transformations now under way can also create large numbers of tertiary jobs for workers with intermediate and low educational levels, especially in communal (security), personal, commercial and hotel services, but also in certain business services, such as cleaning, food services, transport and garbage handling (Freeman, Soete and Efendioglu, 1995).

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123 This would be in line with the pattern of the industrialized countries and of the Southeast Asian "tigers" (see Rowthorn and Ramaswamy, 1997).



It is worth noting that while these trends will determine the sectoral *composition* of employment in the future, economic growth is what mainly determines the *level* of labour demand and, therefore, the relative weight of the various segments of the labour market that are demand-driven or supply-driven. With inadequate economic growth, a high percentage of tertiary employment will continue to be concentrated in informal activities.

As regards the sectoral composition of employment, the aforementioned transformations complicate the analysis, since many of the measuring instruments traditionally used are unable to capture their effects. In the first place, sectoral analysis must take account of the fact that the distinction between the primary, secondary and tertiary sectors is increasingly blurred. This mars analyses based on the surveys commonly used to examine the labour market. The transformation of economies' production structure, and of firms' organizational structure, have corresponding effects on the employment structure. These processes are especially evident in industrialized countries, but examples can also be found in Latin America and the Caribbean, including the following processes:

- The growth of activities whose classification either as a service or as manufacturing is dubious, such as software production.

- The growing significance in many manufacturing firms of occupations that are not directly linked to production, such as research, internal services and customer services.<sup>124</sup>

- In the opposite sense, the adoption of practices that break down certain activities (i.e., outsourcing), which can alter measurements of those firms' staff numbers and average labour productivity, without there having been productive transformation.

These processes not only affect the measurement of employment and productivity by branch, but they also influence other labour measurement and analysis variables such as firm size and employment category. Subcontracting people or services, for example, can change the composition of employment categories by converting wage workers in large companies into wage workers in small or medium-sized companies or into self-employed persons.

Second, the recomposition of production spawns much more heterogeneous production and labour structures than under the previous system. Specifically, replacing the vertical organization of the productive process in large companies with multi-link networks or chains involving suppliers of all kinds of inputs (goods and services), both at home and,

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124 For example, in the Buenos Aires manufacturing industry, the number of production workers (and also of administrative staff) fell between 1991 and 1998, while the share of those working in marketing, transport, security and others increased (Kulfas and Ramos, 1999, p.206).


increasingly, abroad, affects job creation and its characteristics on a scale and in ways that are still not understood. Technical change is undoubtedly an important factor in this respect. In this context, both the large companies that emerged from the ISI period and small and medium-sized firms aim to significantly boost productivity and competitiveness through organizational changes that do not require large capital investments (Kaplinsky, 1994). The experience of the early 1990s suggests that the biggest firms and business groups (after transnational corporations) have adapted best to the new competition conditions (Peres, 1998). In many cases, however, the subcontracting of certain activities has been a central element, which raises the question of how small and medium-sized firms could exploit these new opportunities for growth and job creation.<sup>125</sup>

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125 According to de la Garza (1997, p.154), up to a third of industrial establishments in Argentina, Colombia and Mexico subcontract part of their production. This percentage would be even higher if account were taken of activities that are not part of the production process itself; it should also be higher in other branches, such as mining.

## CHAPTER VI

# EMPLOYMENT CHARACTERISTICS



Proponents justified the reforms theoretically on the grounds that changes in the production structure and within the sectors would foster demand for unskilled labour, since the countries of the region had a relative abundance of it. This, in turn, would lead to a narrowing of the wage gap between high- and low-skilled workers. It was similarly maintained that a widening of the wage gap in industrialized countries was to be expected, since market integration would accentuate the comparative advantages of production that was intensive in the use of capital, technology or highly skilled workers, while activities that make intensive use of lower-skilled workers would increasingly face foreign competition. The gap did widen in the industrialized countries, although there was no agreement on the extent to which this resulted from trade liberalization, technological change or other factors, such as the arrival of immigrants with low levels of education or changes in the framework of labour institutions, among them the weakening of union power.<sup>126</sup>

In line with such expectations, in the 1980s most Latin American and Caribbean countries saw a narrowing of the average wage gap between people with a university education and those with primary schooling (Psacharopoulos and Ng, 1992, p.15). This was due to an increase in the supply of more educated manpower, a consequence of the education policies applied in previous decades, and of low economic growth, which constrained demand for such labour. Several studies of the Chilean case, however, raised doubts on whether these trends would persist after the reform stage in a context of higher economic

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126 See the discussion in *The Quarterly Journal of Economics* (1992); also see Kuttner (1997), Slaughter and Swagel (1997); Wood (1997).

growth.<sup>127</sup> Such doubts later deepened, since the updated and more general information of the 1990s revealed the wage gap's propensity to widen.<sup>128</sup>

A high complementarity is generally assumed between capital and skilled labour. If this is so, a widening of the wage gap would reflect greater relative demand for qualified personnel and, at the same time, a greater capital intensity (K/L), belying expectations of a decline in this variable. In fact, Morley (2000) does not find that capital intensity increased in the 1990s. The relative demand for qualified workers could have increased without growth in capital intensity, however, both as regards changes in branches of activity ("soft" technological change, without any significant increase in investment) and changes among branches (restructuring toward activities with a high demand for skilled labour that at the same time have a lower K/L ratio).

The data in this chapter show that during the 1990s the wage gap tended to widen between workers with different skill levels. Demand increased for more educated personnel, and it fell for the least educated. The strong demand for the former, which surpassed the significant increase of this group in the labour supply, was mainly due to internal changes in the tertiary sector and the expansion of tertiary activities in the structure of employment, to the detriment of branches that generally use less educated workers. Firms in the tertiary sector generally have less need for unskilled manpower, while the primary and secondary sectors that traditionally use the bulk of such labour reduced their hiring because of their modest growth and the restructuring processes (with the partial exception of construction).

In this sense, the countries of the region underwent a process similar to that of the highly industrialized countries, although with a much more heterogeneous structure. This heterogeneity seems to be widening, as shown by indicators of the quality of wage jobs and transformations at the sectoral and firm levels. Given the prevalent bias towards demand for more educated workers, the growth of the less educated workforce is generally concentrated in non-wage employment. This reinforces the differentiation between the demand-driven and supply-driven segments of the labour force.

The next section of the chapter analyses the recomposition of employment according to educational levels and the development of the wage gap. The subsequent sections present evidence concerning changes to the quality of employment and the heterogeneity of the labour structure among sectors and among firms of different sizes. The final section presents the chapter's main conclusions.

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127 In Chile, Robbins (1994) identified a tendency for the wage gap to widen. Meller and Tokman (1996) found that in Chilean manufacturing, wage differentials increased between clerical workers and labourers in the first phase of liberalization (1970s), but they narrowed in the second phase (from 1984 on).

128 See Robbins (1996). Lora and Olivera (1998) also found that the evolution of labour demand and relative wages had not adapted to the expectations raised by the reforms.

## A. Characteristics of Labour Demand

It is often pointed out that an increase in the labour force's educational level indicates that labour demand is biased towards higher qualification levels. This is unquestionably a rash conclusion, since an increase in the labour force's educational level is largely based on long-term changes in the education system that allow students to stay in school longer and facilitate their access to higher qualifications. At the same time, the older population that retires from the labour market generally has lower levels of formal education. An improvement in skill levels is thus largely due to the evolution of the labour supply, as discussed in the chapter III, which at least in the short term is independent of changes in the nature of demand.

To separate the labour supply trend from demand to the extent possible, this section contrasts the variation in the composition of the working age population and with that of the employed population according to educational level. The justification is as follows: changes in the educational structure raise the labour force's level of education, but this does not mean that demand is inclined towards more educated groups. In this sphere, therefore, it is more important to compare the evolution of employment in a specific educational group with the evolution of that group's working age population. Note, however, that a high or low relative growth of employed individuals in a specific group is not itself a clear expression of the vitality of demand for the corresponding qualifications, since the number of jobs usually increases in all groups during a period of widespread employment growth, and vice versa. It can be concluded that labour demand is biased towards a specific educational group only if employment in that group expands more than the working age population, and does so more than in other groups. Table VI.1 therefore presents, for the different educational groups, the differences between the variation of their participation in the employment structure and the variation in their share of the working age population.<sup>129</sup>

Except for Bolivia and Peru, in all countries the growth of employment relative to the change in the working age population was greater in more educated groups than among those with less education. Only in Argentina did the most educated group record the highest labour demand, while groups with average educational levels generally saw a greater increase in their share. This is explained by the fact that the group with the highest level of education normally has a bigger share of the labour market and the lowest unemployment rates, which hampers a sharp relative increase in its share of

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<sup>129</sup> This indicator is obviously not helpful in the long term, since it is unlikely that the occupation of one educational group can continue to grow much above the growth rate of the same group's share of the working age population.

Table VI.1  
**LATIN AMERICA (EIGHT COUNTRIES): DIFFERENCES BETWEEN THE VARIATION IN THE COMPOSITION OF EMPLOYMENT AND THE VARIATION IN COMPOSITION OF THE WORKING AGE POPULATION BY EDUCATIONAL LEVEL, 1990s<sup>a/</sup>**

COUNTRY AND PERIOD	YEARS OF EDUCATION <sup>b/</sup>					
	0-3	4-6	7-9	10-12	13-15	16 AND ABOVE
Argentina, 1991-1997	-0.10	-0.07	-1.28	0.16	-0.06	1.35
Bolivia, 1989-1996	1.90	4.14	3.38	2.12	0.47	
Brazil, 1993-1996	-0.62	-0.66	0.16	0.68	0.23	0.21
Chile, 1992-1996	-0.35	-0.37	0.24	-0.89	1.08	0.10
Colombia, 1988-1995	-1.87	0.87	-0.52	0.89	0.13	0.45
Costa Rica, 1990-1996	0.03	-0.62	-0.15	-0.26	0.74	0.26
Mexico, 1991-1996	0.09	-0.06	-0.06	-0.39	0.41	
Peru, 1994-1997	2.24	-0.88	-0.36	0.73	-0.42	-1.32

**Source:** Author's calculations, on the basis of the research.

a/ The calculation was made as follows:  $(l_{ie,t+1} - l_{ei,t}) - (wap_{ei,t+1} - wap_{ei,t})$

Where:

$l$  is the share of an educational group in the employment structure

$ei$  is an educational group

$wap$  is the participation of an educational group in the working age population

b/ The classification of the educational groups does not coincide in all countries. In most cases, the last group corresponds exclusively to people who have completed university education; in others the definition is wider. In Mexico it also includes not only complete higher education, but also complete secondary professional training. The categories for Chile are: up to 3 years, from 4 to 7 years, 8 years, from 9 to 11 years, 12 years, 13 years and above.

employment. In these cases, greater relative demand would be more apparent in the evolution of relative wages (see below). The figures indicate that in the 1990s people with a high level of education had greater labour opportunities relative to other groups.<sup>130</sup>

By contrast, the data in table VI.1 reveal a low relative demand for people with less schooling. The main exceptions were again Bolivia and Peru, which

130 Strictly speaking, a disproportionate integration of the more educated labour force does not necessarily indicate a demand bias. First, this segment of the population usually has specific participation rates that are higher than the rest; second, some of these people might be employed in occupations for which they are over-qualified. However, the fact that the occupational groups that require higher qualifications (managers, professionals and technical staff) have increased their share of employment in almost all the countries under study (except for Bolivia and Peru) confirms that there is a relatively strong demand for these characteristics (see table IV.7).

featured significant employment among those with medium-to-low and low educational levels. In Argentina, Costa Rica and Mexico, the group with the lowest educational level retained its share of the employment structure. This, however, did not reflect growth in relative demand, since the number of people in this group fell in absolute terms, both in the working age population and among the employed.

As discussed in chapter II, the characteristics of labour demand and how they changed in the 1990s are of particular interest. Thus the analysis now turns to an examination of job creation for people in three educational levels, differentiated by wage earners (a stricter reflection of labour demand) and non-wage earners. This matrix reveals the manifold forms of participation in the labour market. Table VI.2 shows the composition of the employment created in the period under analysis, distinguishing among these six groups in the labour force.

The table reveals the following trends:

- A restructuring towards the highest levels of education (except for Bolivia and Peru).
- A concentration of the new employment among wage earners in Argentina, Chile, Colombia and Costa Rica, and among non-wage workers in Bolivia, Brazil and Peru.
- A concentration of new jobs in wage employment for those with intermediate and high levels of education, and in non-wage employment for those with low levels of formal education.

This latter point can be taken to confirm firms' labour demand bias for people with a high educational level, either because their organizational or technological characteristics demand it or because the raising of the working population's level of education drives them to choose the most skilled workers even though their skills requirements are not that high. This bias suggests that those with less education find it harder to secure wage employment and concentrate more on non-wage activities. Figure VI.1 shows the difference between the contributions to new employment made by wage earners and non-wage workers in the three educational groups. For the purposes of normalization, it was divided according to the whole educational group's contribution to new employment. This indicator can be interpreted as the firms' relative labour demand for segments of the labour force with different educational levels. A positive value means that wage employment contributed more to the corresponding educational group's new jobs, and a negative value shows that non wage labour did so.

The figure shows that in Bolivia, Brazil, Chile, Colombia and Peru there is a quite strong positive correlation between the level of education and the firms' relative labour demand. The exceptions are Argentina and Costa Rica. In Argentina, the absolute numbers of wage earners and non-wage earners fell among the less educated group, such that the positive value does not

Table VI.2  
**LATIN AMERICA (SEVEN COUNTRIES): COMPOSITION OF  
 ADDITIONAL NET EMPLOYMENT, BY EDUCATIONAL LEVEL AND BY  
 WAGE EARNERS VERSUS NON-WAGE EARNERS, 1990s**

COUNTRY AND PERIOD <sup>a/</sup>	EMPLOYMENT CATEGORY	EDUCATIONAL LEVEL			TOTAL
		UP TO 9 YEARS	10-12 YEARS	13 YEARS AND OVER	
Argentina, 1991-1997	Working population	-37.8	46.1	91.7	100.0
	- Wage earners	-10.4	56.3	57.9	103.8
	- Non-wage earners	-27.4	-10.2	33.8	-3.8
Bolivia, 1989-1996	Working population <sup>b/</sup>	37.9	34.6	18.2	100.0
	- Wage earners	8.8	15.4	10.9	38.2
	- Non-wage earners	29.1	19.2	7.3	62.8
Brazil, 1992-1997	Working population	-39.2	95.8	44.1	100.0
	- Wage earners	-72.1	85.8	30.5	44.2
	- Non-wage earners	32.9	10.0	13.6	55.8
Chile, 1992-1996	Working population <sup>b/</sup>	-29.7	67.9	45.1	100.0
	- Wage earners	-22.9	52.2	34.7	76.9
	- Non-wage earners	-6.9	15.7	10.4	23.1
Colombia, 1988-1995	Working population	32.3	46.7	19.7	100.0
	- Wage earners	16.1	31.8	13.9	62.6
	- Non-wage earners	16.2	14.9	5.8	37.4
Costa Rica, 1990-1996	Working population <sup>b/</sup>	43.4	23.2	35.3	100.0
	- Wage earners	40.9	17.4	21.9	80.2
	- Non-wage earners	2.5	5.8	11.4	19.8
Peru, 1994-1997	Working population	60.8	28.3	10.9	100.0
	- Wage earners	15.7	17.2	7.6	40.5
	- Non-wage earners	45.1	11.2	3.2	59.5
Median	Working population	32.3	46.4	35.3	100.0
	- Wage earners	8.8	31.8	21.9	62.2
	- Non-wage earners	16.2	11.2	10.4	37.4

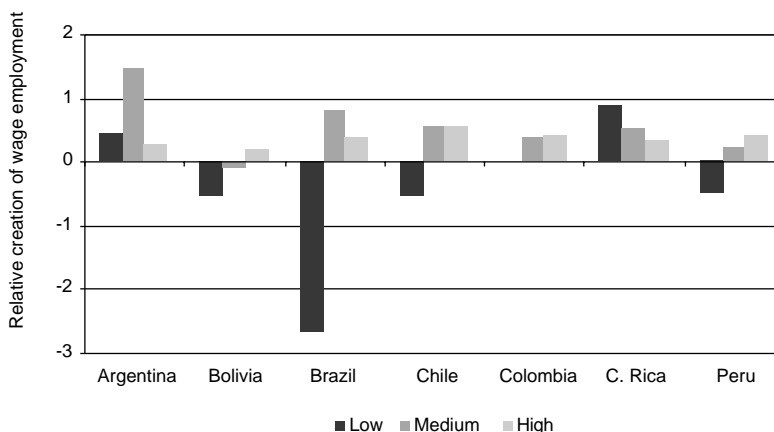
**Source:** Author's calculations, on the basis of the research.

a/ The data refer to the national total, except for Argentina (urban areas), Bolivia (departmental capitals and El Alto) and Brazil (six metropolitan areas).

b/ Does not amount to 100, since those for whom no information is available have been excluded.



Figure VI.1  
**RELATIVE LABOUR DEMAND BY EDUCATIONAL LEVEL**



**Source:** Author's calculations, on the basis of the research.

imply a labour demand bias on the part of firms towards this group of workers. Only in Costa Rica, therefore, was there a strong relative labour demand for individuals with the lowest level of formal education.<sup>131</sup>

Finally, it is worth highlighting that in some countries (mainly Argentina, Brazil, Chile and Costa Rica) highly skilled non-wage workers substantially increased their share in the new jobs. This shows that despite the relative labour demand bias in favour of the most qualified people, qualified workers cannot simply be equated with wage employment and unqualified workers with non-wage employment.<sup>132</sup>

Where was most of the growing demand for workers with a high educational level centred? To identify this trend, the changes in wage employment were disaggregated so as to distinguish, on the one hand, the contribution of changes within branches and, on the other, the contribution of changes between them (see table VI.3). The following calculation was applied to workers with a high level of education level (13 years and more):<sup>133</sup>

131 Table VI.2 and figure VI.1 make a uniform distinction of the educational groups for all countries. This does not correspond well to real circumstances in Costa Rica since, as was seen in chapter III, about two thirds of the country's EAP are in the group with up to nine years of education.

132 Non-wage workers include employers, who have a higher average educational level.

133 Adapted from Berman, Bound and Griliches (1994).

Table VI.3  
**LATIN AMERICA (EIGHT COUNTRIES): CONTRIBUTION OF THE  
 CHANGES WITHIN AND BETWEEN BRANCHES TO THE VARIATION IN  
 THE EDUCATIONAL GROUPS' SHARE OF WAGE EMPLOYMENT, 1990s**  
*(Percentage points, median<sup>a/</sup>)*

(A) WAGE EARNERS WITH A HIGH EDUCATIONAL LEVEL (13 YEARS AND MORE)			
BRANCH	WITHIN BRANCHES	BETWEEN BRANCHES	TOTAL <sup>b/</sup>
Total	1.64	0.63	2.27
Agriculture	0.02	-0.03	-0.01
Manufacturing	0.05	-0.15	-0.10
Electricity, gas, water	0.01	-0.02	-0.01
Construction	0.01	-0.01	0.00
Commerce, restaurants and hotels	0.19	0.13	0.32
Transport and communications	0.04	0.01	0.05
Financial services, insurance, real estate and business services	0.23	0.45	0.68
Community, social and personal services	1.09	0.27	1.36
(B) WAGE EARNERS WITH A LOW EDUCATIONAL LEVEL (UP TO 8/9 YEARS)			
BRANCH	WITHIN BRANCHES	BETWEEN BRANCHES	TOTAL <sup>b/</sup>
Total	-3.45	-0.77	-4.22
Agriculture	-0.01	-0.81	-0.82
Manufacturing	-0.53	-0.71	-1.24
Electricity, gas, water	-0.11	-0.03	-0.14
Construction	-0.19	-0.07	-0.26
Commerce, restaurants and hotels	-0.89	0.40	-0.49
Transport and communications	-0.37	0.07	-0.30
Financial services, insurance, real estate and business services	-0.09	0.20	0.11
Community, social and personal services	-1.25	0.24	-1.01

**Source:** Author's calculations, on the basis of the research.

a/ A positive value represents a contribution equal to the increase of the share of the group in question; a negative value indicates a contribution in the contrary sense.

b/ Sum of the two columns.

$$\Delta S = \sum_{i=1}^n \Delta A_i \bar{S}_i + \sum_{i=1}^n \Delta S_i \bar{A}_i$$

for  $i = 1, \dots, n$  sectors

where:

$S$  = proportion of highly educated workers in total wage employment

$S_i$  = proportion of highly educated workers in branch  $i$

$A_i$  = wage employment in branch  $i$  as a proportion of total wage employment

The bars indicate the average values for the first and final years. The first term on the right side of the equation therefore illustrates the contribution of inter-branch changes (that is, the differences with regard to wage employment growth), while the second term reflects the contribution of intra-branch changes (this is, variations in highly qualified workers' share of wage employment in the branch).

In the group of eight countries, the median share of highly educated workers in wage employment grew by 2.3 percentage points. As shown by panel (a) of table VI.3, changes *within* branches made a greater contribution to this increase.<sup>134</sup> However, changes *between* branches also made a significant contribution to the increase. This reflects the restructuring of employment towards activities using more educated manpower and the smaller share of branches that generally require lower qualifications.

Interesting results emerge from an analysis of the contribution of the different branches to the growth of qualified workers. Because of the decline in manufacturing's share of wage employment, the negative impact of changes between branches is unsurprising; however, changes within manufacturing made no great contribution to the demand for workers with a high level of education. This corroborates the results of other studies, which found that productive transformations in this sector have not (yet) led to a significant net reorientation towards higher qualifications. Although the restructuring frequently prompted a fall in the number of less educated workers, skilled jobs were also lost, such as in research and development departments (see Katz, 2000). The possible increase in demand for qualified workers at a time when new technologies were being introduced was therefore partially offset by the loss of other skilled jobs. Consequently, changes within the branch added very little to the increased share of highly qualified wage earners. Moreover, since the downturn in the branch's share of wage employment gave rise to the loss of job opportunities for workers in this educational group, the transformation of manufacturing had a negative effect on the demand for its members.

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134 The median was chosen rather than the simple average to circumvent the very strong impact of atypical cases in the result.

At the same time, the variation in the composition of manufacturing employment by educational groups reflects differences between South American countries, on the one hand, and Mexico and Central America, on the other. As table VI.4 shows, the share of professionals and technical staff in manufacturing employment increased in the South American countries for which information is available, and with the exception of Brazil.<sup>135</sup> This seems to reflect the aforementioned reorientation towards goods and technologies that are less intensive in low-skilled labour, as well as the organizational and technological changes alluded to in section C of chapter V. By contrast, this group's share fell in Costa Rica and Mexico.

The increased demand for high-skilled individuals was concentrated in tertiary activities. Community, social and personal services alone accounted for two thirds of the growth of employment for highly qualified personnel that is attributable to changes within the branches. The general expansion of employment in this branch, as well as in commerce, restaurants and hotels and, especially, in financial services, insurance, real estate and business services, sharply increased demand for such labour. In short, the concentration of new wage employment in tertiary activities and the acute upgrading in these branches determined the significant growth of demand for the most educated workers.

The same calculation was used to analyse the fall in the share of those with relatively low educational levels (up to 8 or 9 years, according to the available data; see panel (b) of table VI.3). The results show that the decline also stemmed mostly from changes *within* the different branches. In fact, about 80% of the 4.2 percentage point fall in this group's share of wage employment can be ascribed to such changes. This decline largely sprang from changes in the composition of the labour supply, as older people with lower educational levels left the labour market. Some additional findings emerge, however, from a comparison of the behaviour of the various branches. First, most of the decline in low-skilled wage labour caused by changes within branches was concentrated in tertiary activities, which is the flip side of the upgrading mentioned above. Second, changes in manufacturing also made a significant contribution in this regard. Since this branch posted no net growth of high-skilled workers, the restructuring of manufacturing employment in many countries seems to have been strongly concentrated in the decline of workers with lower qualifications during the period under study, with no simultaneous upgrading. This restructuring of the workforce apparently reflects a stage marked by defensive business strategies, designed to improve competitiveness without major investment (Moguillansky and Bielschowsky, 2000). In such a phase firms generally accord little priority to the qualifications of the workforce (Palomares and Mertens, 1993).

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135 According to the PEM survey covering six metropolitan areas, the participation of technical, scientific and other skilled personnel in manufacturing employment fell from 7.2% to 5.1% between 1992 and 1997.

Table VI.4  
**LATIN AMERICA (SEVEN COUNTRIES): SHARE OF PROFESSIONALS  
 AND TECHNICAL STAFF IN MANUFACTURING WAGE  
 EMPLOYMENT, 1990s**

COUNTRY AND PERIOD <sup>a/</sup>	YEAR 1 <sup>b/</sup>	YEAR 2 <sup>b/</sup>
Bolivia, 1993-1996	6.7	7.1
Brazil, 1993-1996	4.0	3.7
Chile, 1992-1996	8.2	11.0
Colombia, 1988-1995	4.2	4.6
Costa Rica, 1990-1996 <sup>c/</sup>	8.7	8.4
Mexico, 1991-1997	6.1	5.2
Peru, 1991-1997	7.6	8.1

**Source:** Author's calculations, on the basis of the research.

a/ The data refer to the national total, except for Bolivia (departmental capitals and El Alto).

b/ Years 1 and 2 refer to the initial and final years of the periods indicated in the first column.

c/ Includes managers.

With regard to changes *between* the branches, the decline in the share of agriculture and manufacturing in total wage employment entailed job losses for workers with a lower educational level, as these two branches have traditionally used a large proportion of low-skilled labour.<sup>136</sup> On the other hand, despite the labour demand bias in the tertiary sector towards highly qualified workers, the growth of some tertiary activities also created new jobs for those with a lower level of education.

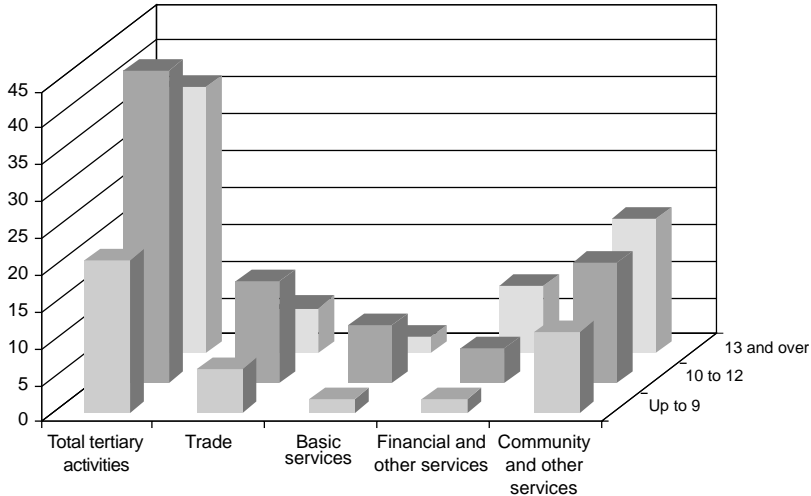
Together, the two main tradable goods branches accounted for almost half of the fall in the share of less educated workers in wage employment, largely because of the decline in their relative weight in wage employment. The other half should be attributed to tertiary activities, which have typically used less of such labour; this decline was mostly the result of internal upgrading processes.

Figure VI.2 summarizes the characteristics of wage employment creation in the tertiary sector, which was concentrated in the intermediate and higher levels of education. The jobs for workers in the highest educational range were concentrated in financial services, insurance, real estate and business services, and in community, social and personal services. Such jobs accounted for almost 28% of the new wage employment in tertiary activities.<sup>137</sup> By

<sup>136</sup> This was not the case for construction, another typical employer of this stratum of the labour force.

<sup>137</sup> A total of 36% of the new wage jobs were held by people with a high educational level.

Figure VI.2  
**COMPOSITION OF NEW WAGE JOBS IN TERTIARY ACTIVITIES,  
 BY EDUCATIONAL LEVEL AND BRANCH, 1990s**



**Source:** Author's calculations, on the basis of the research.

**Note:** Simple averages of eight countries.

contrast, in commerce, restaurants and hotels, as well as in basic services (mainly transport), demand was concentrated on workers with an intermediate level of education. This group accounted for almost 43% of the new employment in tertiary activities. Employment poles for those of a lower educational level were commerce, restaurants and hotels, and community, social and personal services. This group accounted for just 21% of the new wage employment in the tertiary sector.

These latter two branches are thus the most heterogeneous in terms of wage employment, with new jobs for the whole educational spectrum. By contrast, the two branches most closely linked to the modernization processes – namely, basic services and financial services, insurance, real estate and business services – created very few jobs for those with lower levels of education; most jobs were at the intermediate level (basic services) and the higher level (financial services, insurance, real estate and business services).

## B. The Evolution of the Wage Gap

Since labour demand was clearly biased towards the more educated, it is not surprising that the data confirm other authors' findings that the wage gap

widened in most countries. In fact, in six of the eight countries under study, the wage gap between university-educated and lower-skilled workers widened not only in terms of the average wage, but also as regards the group comprising those with about eight years of schooling (see table VI.5). The only exceptions were Brazil and Costa Rica.<sup>138</sup> This finding should be emphasized since, as discussed above, the educational level of the labour force was raised substantially in the same period, which suggests that the differentiated labour demand more than offset the effects of the educational upgrading of supply.

These data are consistent with those in the previous section on the growth of relative demand for more educated workers, caused mainly by the internal restructuring of tertiary activities and, to a lesser degree, by restructuring between sectors which gave rise to a higher participation in employment of such activities. A factor that tended to exacerbate the situation was the minimum wage policy. Weak growth of the minimum wage in most of the countries in the region further widened the gap between the real minimum wage and the average real wage paid in formal-sector companies.<sup>139</sup>

The rise of educational levels in wage employment meant that labour income increased little at the lower levels. Because of the low relative demand for less qualified staff, a competition arose among the various educational groups. To some extent, this was detrimental to those with average or average-to-low education, since their wages did not reward them properly for their extra years of study, relative to less qualified groups. In fact, in most countries, the increase in the average wage was largest in the group with about 10 to 12 years of education (which generally means high school) (see table VI.6).

In periods of significant restructuring within and between sectors, changes in the wage gap between workers with different educational levels cannot precisely reflect shifts in the relative demand for and supply of those groups. The previous data are therefore supplemented with information on the existing wage gap between different types of jobs; this information confirms the previous findings. Figure VI.3, for example, shows that the wage gap between white-collar and blue-collar workers in Mexican manufacturing began to widen at the end of the 1980s.<sup>140</sup> In Chile in the 1990s, the wages of non-agricultural formal-sector professionals increased significantly more than those of blue-collar workers. Nonetheless, it is interesting to note that the wage gap narrowed between skilled and unskilled workers. This can be ascribed to the relatively positive evolution of the minimum wage, which seems to have raised the wages of the unskilled.<sup>141</sup>

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138 In Costa Rica, the gap widened slightly between 1987 and 1990; it was constant in the comparison between 1987 and 1996.

139 On the evolution of average and minimum wages, see ECLAC, *Economic Survey of Latin America and the Caribbean*, various years.

140 There was a similar trend in Colombia's manufacturing industry (Ramírez and Núñez, 2000) and in Peru's formal private sector (Saavedra Chanduvi, 1999).

141 Between 1993 and 1999, the real minimum wage increased by 34.8%, while the average real wage rose by 22.1% (author's calculation, on the basis of ECLAC data).

Table VI.5  
**LATIN AMERICA (EIGHT COUNTRIES): RELATIVE WAGES, 1990s**

COUNTRY AND PERIOD <sup>a/</sup>	UNIVERSITY GRADUATES/ AVERAGE WAGE		UNIVERSITY GRADUATES/ 7 TO 9 YEARS OF EDUCATION <sup>b/</sup>	
	YEAR 1 <sup>c/</sup>	YEAR 2 <sup>c/</sup>	YEAR 1 <sup>c/</sup>	YEAR 2 <sup>c/</sup>
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
Median	226.9	267.4	298.9	365.2

**Source:** Author's calculations, on the basis of the research.

a/ The data refer to the national total, except for Argentina (urban areas), Bolivia (departmental capitals and El Alto) and Brazil (six metropolitan areas).

b/ The comparison group in Argentina is that with complete primary education; in Bolivia, complete intermediate level; and in Mexico, complete secondary education.

c/ Years 1 and 2 refer to the initial and final years of the periods indicated in the first column.

Table VI.6  
**LATIN AMERICA (EIGHT COUNTRIES): RELATIVE WAGES BY  
 EDUCATIONAL LEVEL, 1990s**  
*(Average = 100)*

COUNTRY AND YEAR <sup>a/</sup>	YEARS OF STUDY <sup>b/</sup>					
	0-3	4-6	7-9	10-12	13-15	16 AND ABOVE
Argentina, 1997	62.0	74.4	78.9	104.9	110.2	169.6
Bolivia, 1996	58.8	63.7	62.1	75.1	111.7	276.2
Brazil, 1996	45.9	63.7	80.5	124.5	283.2	433.3
Chile, 1996	54.9	53.0	55.3	82.7	121.9	247.9
Colombia, 1995	60.5	68.9	80.0	100.1	148.6	261.6
Costa Rica, 1996	58.2	70.3	86.3	113.9	167.2	273.2
Mexico, 1997	55.9	66.0	73.7	111.3	222.5	
Peru, 1997	52.4	59.0	68.2	85.4	122.1	275.0

**Source:** Author's calculations, on the basis of the research.

a/ The data refer to the national total, except for Argentina (urban areas) and Bolivia (departmental capitals and El Alto).

b/ The categories for Bolivia are (i) incomplete basic cycle; (ii) complete basic cycle; (iii) incomplete and complete intermediate cycle; (iv) middle and middle technical cycle; (v) incomplete normal school, upper technical and university; and (vi) complete upper technical and university. The categories for Chile are up to 3 years, from 4 to 7 years, 8 years, from 9 to 11 years, 12 years and 13 years and above.



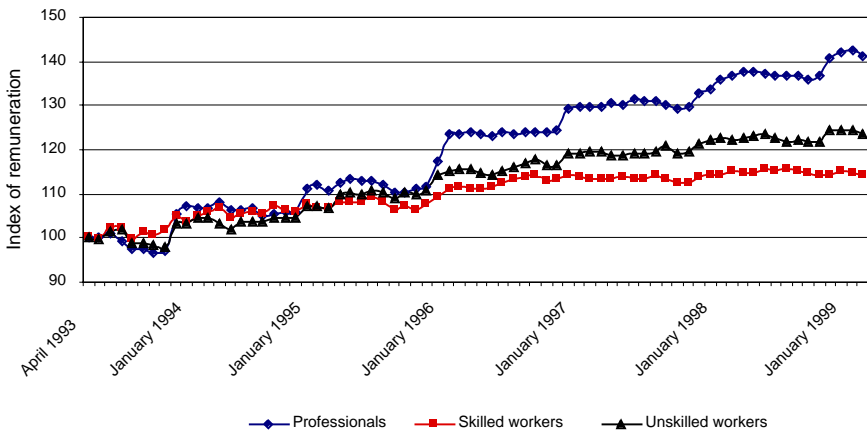
Figure VI.3  
TRENDS IN REAL REMUNERATIONS

(a) Mexico: Real remunerations in manufacturing, 1980-1995  
(January 1980=100)



Source: Author’s calculations, on the base of data from the Instituto Nacional de Estadística, Geografía e Informática (INEGI).

(b) Chile: Hourly remunerations by occupational groups, 1993-1999  
(April 1993=100)



Source: Author’s calculations, on the basis of data from the Instituto Nacional de Estadística (INE).

In countries where the wage gap widened, wage earners with lower educational levels obviously shared less in the increase in the real wage, and they suffered greater losses when the average real wage fell (see table VI.7). The data are not comparable between countries, since they reflect different phases of the economic cycle. In Brazil, for example, real wages began to recover from a sharp fall as of 1992, and in 1996 they again reached the 1990 level (ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, 1998 p.100). By contrast, the fall in Mexican wages largely reflected the impact of the 1994-1995 crisis. The data in the table are interesting, however, in terms of the wage trends of the educational groups within the different countries.

In Bolivia and Peru, the average wages of the lowest educational groups practically stagnated, and wage increases were limited to the upper educational groups (Bolivia) or the middle and upper groups (Peru). In Chile, real wages rose for all groups, but with marked differences between the educational levels. It is notable that in these three countries the group with the least education (0 to 3 years) did better in wage terms than the group or groups immediately following. The reason might lie in wage policy, since in these three countries the minimum wage increased more than the average wage in the corresponding periods.

As shown earlier (table VI.5), the wage gap widened in the corresponding periods not only in Bolivia, Chile and Peru but also in Colombia and Mexico. In these two cases, a fall in the average wage had a more marked effect on groups with low educational levels than on those with more education. In Brazil and Costa Rica the wage gap did not widen. In Brazil the context was a strong and widespread recovery of wages, while in Costa Rica all strata (except for the least educated group) experienced a very slight but similar increase in real wages.

In most of the countries under study, therefore, groups with low and average-to-low levels of education shared only slightly in wage improvements or suffered sharper losses when general wage conditions worsened. In some cases, active wage policy seems to have mitigated this trend for the least educated group.

All the countries under study demonstrate a wage gap between men and women, both at the aggregate level and in all the educational levels. In the 1990s, that gap narrowed in all countries (see table VI.8). In Argentina, Bolivia, Colombia and Mexico, this was, in part, caused by a substantial integration of highly educated women into the labour market, which exceeded the improvement of educational levels among men. This reinforced the trend towards a greater share of highly educated women among wage earners, much more than the increased presence of highly educated men. This difference in the composition of the labour force by educational level is largely explained by the difficulties that many women with less education (who are generally from the lowest economic stratum) face in finding work as wage earners,

Table VI.7  
**LATIN AMERICA (SEVEN COUNTRIES): AVERAGE ANNUAL  
 VARIATION OF THE REAL WAGE, BY EDUCATIONAL LEVEL, 1990s**

COUNTRY AND PERIOD <sup>a/</sup>	YEARS OF STUDY <sup>b/</sup>						TOTAL
	0 TO 3 YEARS	4 TO 6 YEARS	7 TO 9 YEARS	10 TO 12 YEARS	13 TO 15 YEARS	16 YEARS AND ABOVE	
Bolivia, 1989-96	0.6	-0.1	-0.8	1.0	8.0	5.6	3.2
Brazil, 1992-97	5.6	6.2	7.6	6.4	5.4	7.6	7.4
Chile, 1990-96	3.3	1.1	2.0	3.7	4.1	5.5	4.3
Colombia, 1988-95	-5.8	-2.9	-1.3	-0.8	0.1	1.1	-1.3
Costa Rica, 1990-96	-0.7	0.7	1.0	1.0	1.0	0.6	1.3
Mexico, 1991-97	-7.4	-6.4	-10.6	-2.7		-1.3	-5.3
Peru, 1991-97	1.1	-1.3	3.1	2.7	4.3	7.1	3.2

**Source:** Author's calculations, on the basis of the research.

a/ The data refer to the national total, except for Argentina (urban areas), Bolivia (departmental capitals and El Alto) and Brazil (six metropolitan areas).

b/ The categories for Bolivia are (i) incomplete basic cycle; (ii) complete basic cycle; (iii) incomplete and complete intermediate cycle; (iv) middle and middle technical cycle; (v) incomplete normal school, upper technical and university; and (vi) complete upper technical and university. The categories for Chile are up to 3 years, from 4 to 7 years, 8 years, from 9 to 11 years, 12 years and 13 years and above.

especially if they are mothers.<sup>142</sup> The concentration of employment growth in tertiary activities furthered the labour integration of women with a high level of education.<sup>143</sup> With respect to this latter consideration, the following points should be noted:

- in the tertiary sector, female labour participation surpassed the average;
- women further increased their participation in the tertiary sector in many countries during the 1990s; and
- the growth of female employment in these sectors was complemented by a significant rise of women's qualifications.

While the narrowing of the wage gap between men and women was widespread at the aggregate level, the situation was much more heterogeneous in the various educational levels: the gap widened in some and narrowed in others. For example, the wage gap between men and women with about eight years of schooling expanded in Chile, Colombia and Peru, and contracted in Bolivia, Brazil, Costa Rica and Mexico. The difference tended to diminish

<sup>142</sup> Hence the level of labour participation is usually much more polarized between women of high and low educational levels and economic strata than it is for men (see Jiménez and Ruedi, 1998; ECLAC, *Social Panorama of Latin America*, 1997, p.190).

<sup>143</sup> See chapter V and ECLAC, *Social Panorama of Latin America*, 1997.

Table VI.8  
**LATIN AMERICA (EIGHT COUNTRIES): TRANSFORMATION OF  
 WOMEN'S LABOUR INTEGRATION: SKILL LEVELS AND RELATIVE  
 WAGES, 1990s<sup>a/</sup>**

COUNTRY AND PERIOD	SHARE OF UNIVERSITY GRADUATES IN FEMALE WAGE EMPLOYMENT		WAGE GAP: MEN / WOMEN (%)	
	YEAR 1 <sup>b/</sup>	YEAR 2 <sup>b/</sup>	YEAR 1 <sup>b/</sup>	YEAR 2 <sup>b/</sup>
Argentina, 1991-1997	27.6	35.7	n.a.	n.a.
Bolivia, 1989-1996	17.9	23.0	137.3	125.0
Brazil, 1992-1997	16.9	18.1	140.9	128.2
Chile, 1992-1996	34.6	34.7	132.8	127.5
Colombia, 1988-1995	14.8	18.8	167.6	133.1
Costa Rica, 1990-1996	18.3	23.3	121.6	120.8
Mexico, 1991-1997	14.6	19.2	137.5	121.6
Peru, 1991-1997	33.5	32.2	132.3	132.4

**Source:** Author's calculations, on the basis of the research.

a/ The data refer to the national total, except for Argentina (urban areas), Bolivia (departmental capitals and El Alto) and Brazil (six metropolitan areas).

b/ Years 1 and 2 refer to the initial and final years of the periods indicated in the first column.

between men and women wage earners who had completed university, a group in which the wage gap is usually wider. This was the case in Bolivia, Brazil, Chile, Colombia and Costa Rica; the gap widened only in Mexico and Peru.<sup>144</sup>

### C. Changes in the Quality of Wage Employment

It has long been recognized in Latin America and the Caribbean that an assessment of the labour situation calls for more than a quantification of the jobs created. The associated problems of quality must also be taken into account. Such problems arise partly because many jobs are created by the pressure of the labour supply, since many economically active people are forced to accept poor working conditions in order to earn a living. The problems can stem from the nature of demand (low technological levels that spawn low productivity) and from labour market institutions (scant social protection or non-compliance with the existing norms).

144 Information provided by the consultants.

Chapter IV reviewed the trends in formal-sector real wages during the 1990s. Wages are undoubtedly an important –perhaps the most important– indicator of job quality. Other variables, however, are also relevant.<sup>145</sup> The different countries' surveys do not use the same indicators to record changes in the labour market, but the data reveal that the quality of wage employment is tending to deteriorate in terms of labour stability and social security (see table VI.9).<sup>146</sup>

Argentina, Bolivia, Brazil, Chile and Colombia all recorded a fall in indefinite contracts, or even of wage labour with any kind of contract; in Mexico and Peru, the coverage of social security declined. In some cases, labour policies supported these trends.<sup>147</sup>

The deterioration in the quality of wage employment affected men and women equally, sustaining the differences between them in terms of employment quality. The only country with a more positive level of the indicator for women than men was Bolivia (departmental capitals), where wage employment was generally low and the public sector was an important source of wage labour. Contractual conditions in the public sector are usually more stable, and women usually have a larger share than in private-sector wage labour.

The sectoral data bear out the trend towards greater instability and precariousness in working conditions. For example, a surge of seasonal work in agriculture has been evident for some time because technological change has intensified the seasonality of agricultural employment (Gómez and Klein, 1993). This makes it more precarious, since seasonal workers rarely have formal labour relations. Such insecurity is heightened by the limited or zero coverage of social provision programmes for these workers. Table VI.10 illustrates this process in some countries. In Brazil, Guatemala and Mexico, the number of agricultural workers with formal working conditions tended to fall between 1984 and 1997, at a faster rate than the decline in wage agricultural employment apparent in other countries. This process was often facilitated by changes in labour legislation (Kay, 1997, p.10).

The table also indicates, however, that the increased precariousness of social and labour conditions in the sector is avoidable. In Costa Rica, the

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145 The variables used to assess employment quality include labour income, working hours and their intensity, the stability of employment, health risks and the danger of accidents, the environmental conditions, social protection, the nature of the work and its potential contribution to personal development, its social prestige and participation in determining working conditions. For a detailed conceptual and empirical analysis in this respect, see Infante (1999).

146 On the tendencies in various indicators of employment quality, see ECLAC, *Economic Survey of Latin America and the Caribbean*, 1999, pp.94-95.

147 This issue is addressed again in chapter VII.

Table VI.9  
**LATIN AMERICA (EIGHT COUNTRIES): INDICATORS OF THE QUALITY  
 OF WAGE EMPLOYMENT, 1990s**  
*(Percentages)*

COUNTRY AND PERIOD <sup>a/</sup>	INDICATOR	YEAR 1 <sup>b/</sup>	YEAR 2 <sup>b/</sup>
Argentina, 1991 - 1997	Registered contract	63.2	58.8
	- men	68.8	62.7
	- women	55.7	53.1
Bolivia, 1989-1996	Permanent contract	78.8	76.7
	- men	76.0	74.4
	- women	86.5	81.7
Brazil, 1992-1997	With a contract	68.8	64.7
	- men	71.5	67.0
	- women	64.5	62.9
Chile, 1990-1996	With a contract	82.0	76.1
	- men	82.4	77.5
	- women	81.0	73.4
Colombia, 1991-1997 <sup>c/</sup>	Permanent work	81.8	78.9
Costa Rica, 1990-1996 <sup>d/</sup>	High quality	55.6	42.6
	- men	56.0	46.5
	- women	54.7	34.3
Mexico, 1990-1997	With benefits	79.5	75.3
Peru, 1991-1997 <sup>e/</sup>	With social security	51.2	26.9
	- men	52.0	26.7
	- women	49.4	27.4

**Source:** Author's calculations, on the basis of the research and of official national data.

a/ The data refer to the national total, except for Argentina (urban areas), Bolivia (departmental capitals and El Alto), Brazil (six metropolitan areas) and Colombia (seven metropolitan areas).

b/ Years 1 and 2 refer to the initial and final years of the periods indicated in the first column.

c/ All workers.

d/ The quality of employment in Costa Rica was measured using an indicator that incorporated the application of the minimum wage law, the validity of social security and the degree of job stability.

e/ Private-sector wage earners only.

Table VI.10  
**BRAZIL, COSTA RICA, GUATEMALA, MEXICO: EVOLUTION OF  
 FORMAL AGRICULTURAL EMPLOYMENT, 1990s<sup>a/</sup>**  
*(Index 1984=100)*

	1984	1990	1992	1993	1994	1995	1996	1997
Brazil <sup>b/</sup>	100.0	n.a.	93.1	94.5	95.3	93.0	88.3	86.4
Costa Rica <sup>c/</sup>	100.0	120.4	142.2	145.7	141.5	160.9	160.1	161.0
Guatemala <sup>d/</sup>	100.0	119.5	94.7	91.9	88.0	96.0	91.7	91.1
Mexico <sup>e/</sup>	100.0	90.3	80.3	78.2	76.2	74.9	77.8	78.2

**Source:** Author's calculations, on the base of official national figures.

a/ For Brazil and Mexico: December 1984 = 100. In these countries, the following figures refer to December of each year.

b/ Workers with a contract registered with the Ministry of Labour.

c/ Wage earners insured in the *Caja Costarricense del Seguro Social* (CCSS).

d/ Wage earners that subscribe to the *Instituto Guatemalteco de Seguridad Social* (IGSS). The values in the column "1984" correspond to 1985.

e/ Permanently insured in the *Instituto Mexicano del Seguro Social* (IMSS).

number of agricultural workers with social protection increased. This did not occur because of employment growth in the sector (see chapter V, part B), but because of the deliberate policy of generalizing social security.<sup>148</sup> As a dominant trend, however, the marked increase in average agricultural labour productivity mentioned in earlier chapters was not accompanied by an improvement in the sector's working conditions.<sup>149</sup>

Manufacturing underwent similar developments as the labour force became more heterogeneous. Here, the greater flexibility of contractual links tended to segment formal-sector employment into a core with some stability, a range of incentives and increasing real wages, and a peripheral labour force with fixed-term contracts and no social protection. Maintaining a peripheral workforce serves to adjust the number of workers in the event of demand shocks (Martínez, 1996). This labour segmentation *within* formal establishments occurred in two spheres of increasingly important manufacturing employment: the *maquila* industry and subcontracting.

Criticisms of poor quality employment usually focus on *maquiladoras*, where precarious working conditions exist within institutional formality.<sup>150</sup>

148 Coverage for illness and maternity by the *Caja Costarricense del Seguro Social* reached 86% of the population by the mid-1990s (MIDEPLAN, 1997, p.65-66).

149 Another symptom of agricultural workers' marginalization from processes of sectoral modernization is the lack of attention paid to their professional training (Latorre, 1997).

150 See, for example, ILO (1996).

Despite the fact that many workers have a contract and social protection, they are subjected to precariousness in the form of low incomes, long workdays and the lack of worker organization or participation.<sup>151</sup> Nevertheless, it has also been argued that working conditions in the *maquiladoras*, specifically wages, are usually equal to or better than those in the traditional manufacturing industries of the countries where they are located (Altenburg, 1995).<sup>152</sup> Moreover, *maquiladoras* have become increasingly differentiated in recent years, as a result of the growth not only of traditional areas such as the textile industry, but also of activities that require more skills (ECLAC, 1994 and 1998; Hualde, 1994). This tends to encourage the *maquiladoras* to improve labour relations and training, so as to boost productivity and competitiveness (Carrillo and Mortimore, 1997; Alegría, Carrillo and Estrada, 1997). Nevertheless, it has also been found that training and staff advancement have been limited to a specific segment, since most workers perform highly standardized tasks in monotonous, low-paid jobs. This segment serves to adjust production to variations in demand (Aguila, 1998, pp.118-119).

Another manifestation of the more heterogeneous nature of employment in formal-sector manufacturing is the subcontracting of complementary activities, as well as of parts of the production process. The labour relations of workers in the main companies differ markedly from those in the subcontracted firms (Echeverría and Uribe, 1998).

In general, subcontracting leads to a decline in the average size of manufacturing firms and tends to contribute to precarious working conditions. Not all subcontracted production gives rise to poor quality jobs, since the small, specialized entities that carry out subcontracting tasks for bigger firms can create good quality jobs. The methods of subcontracting that have prevailed to date, however, entail less stable work with less social protection (Abramo, 1997; Reinecke, 1997). The end of the subcontracting chain can be work at home, which is traditionally precarious.<sup>153</sup> At the same time, some home-based work occurs in industrial sectors that use advanced technology and in this case represents jobs that are flexible but not precarious (Tomei, 1999).

Finally, subcontracting is also common in tertiary activities, particularly in business services, which is one of the most dynamic branches in employment terms. As in manufacturing production, some highly specialized and skilled activities are subcontracted, including financial and accounting services,

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151 For Central America, see Pérez Sáinz (1994 and 1996).

152 Another argument in favour of such employment is that, as with home-based work and seasonal agricultural activities, the alternative facing workers (especially female workers) is unemployment. Although this argument is to some extent valid, it should be stressed that the specific conditions of the jobs are a reflection of many factors, and in many cases there is room for improvement.

153 For example, home-based work in the garments industry; see among others Selamé and Henríquez (1996).



computer services, public relations, laboratory services and logistical services. So, too, can other, low-skilled jobs, such as cleaning, transport, secretarial work, security and catering; in these areas the contracting firm is usually aiming to cut costs. Because of the growing importance of the former tasks, the ratio of skilled to unskilled jobs in subcontracting is probably higher in tertiary activities than in manufacturing. In the tertiary sector, however, other trends contribute to the increased precariousness of employment, such as the increasingly longer workday in commerce or the privatization of social services, which increases the insecurity of employment.<sup>154</sup>

## D. Heterogeneity of Employment by Sector and Firm Size

Several aspects of the evolution of relative wages between branches reflect the bias of labour demand towards tertiary activities, as well as the transformation of manufacturing. Among the largest tertiary branches (in employment terms), community, social and personal services saw the most positive wage trends, with a relative increase in the average wage in all countries (see table VI.11). In many countries the relative wage worsened in commerce, restaurants and hotels; this indicates that the very large number of new jobs created in this branch were often of low quality, even though hiring was concentrated on those with an intermediate level of education. Some countries saw a fall in relative wages in financial services, insurance, business services and real estate. This might reflect the expansion of business services, as these often involve less favourable labour conditions such as subcontracting, job insecurity and lower wages. Relative wages in agriculture fell in the three countries for which information is available, which seems to reflect the flat labour demand in this sector, as well as the scale of the (partly hidden) supply that continues to prevail in many of the region's rural areas.

In manufacturing the situation is heterogeneous: relative wages increased slightly in three of the seven countries, and they fell in the other four. Of the countries where relative wages in this branch increased, two recorded relatively more favourable trends in formal industrial employment (Chile and Mexico; see table V.7). By contrast, the sharp increase in average industrial labour productivity in Brazil and, to a lesser degree, Colombia was not translated into a corresponding improvement in wages. This supports the idea that manufacturing firms in those countries initially adopted defensive strategies to improve competitiveness, rather than embarking on a widespread process of upgrading. Had the latter course been taken, improvements in the level of human resources would have led to wage increases.

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154 There is also a substantial amount of home-based work in certain tertiary activities, which are generally characterized by greater instability and lower wages than industrial activities (Tomei, 1999).

Table VI.11  
**LATIN AMERICA AND THE CARIBBEAN (SEVEN COUNTRIES):  
 CHANGE IN THE RELATIVE AVERAGE WAGE BY BRANCH,<sup>a/</sup> 1990s**

COUNTRY AND PERIOD <sup>b/</sup>	AGRICULTURE	MANUFACTURING	COMMERCE, RESTAURANTS AND HOTELS	TRANSPORT AND COMMUNICATIONS	FINANCIAL SERVICES AND OTHERS	SOCIAL SERVICES AND OTHERS
Bolivia, 1989-1996	n.a.	-16.0	-4.9	2.3	11.8	3.5
Brazil, 1992-1997	n.a.	-2.5	-2.7	0.0	-14.7	2.6
Chile, 1992-1996	-7.0	3.1	-9.0	-1.1	-1.1	3.1
Colombia, 1990-1997 <sup>c/</sup>	n.a.	-6.4	-9.6	-2.0	1.2	9.3
Costa Rica, 1990-1996	-4.6	1.6	-0.2	0.1	-9.1	0.4
Jamaica, 1990-1996	n.a.	-9.0	-33.6	51.1	-3.2	8.3
Mexico, 1991-1997	-30.3	3.7	5.1	15.3	6.0	21.7

**Source:** Author's calculations, on the basis of the research and official national figures.

a/ Percentage change in the sectoral average with regard to the average of total wage earners.

b/ The data refer to the national total, except for Bolivia (departmental capitals and El Alto), Brazil (six metropolitan areas) and Colombia (seven metropolitan areas).

c/ Labour income of all employed persons.

Finally, table VI.12 presents an overview of the trends in relative wages in microenterprises and larger companies. In the 1980s, the fall in real wages was generally greater in the larger firms than in microenterprises, and the wage gap between the two types of company narrowed. It is not clear, however, whether that was due to the weakening of the oligopolistic structure prevailing in non-labour markets in the pre-reform period. The segmentation of those markets might have persisted or even intensified, in which case the explanation could be that various factors deriving from political institutions, in particular the weakening of unions, worsened the income distribution for workers in the larger firms.

In the 1990s the wage gap between microenterprises and formal-sector firms widened again. These trends appear to stem from a dominant strategy in many larger companies of lowering costs by reducing the workforce. In the context of significant productivity gains, this gave rise to the formal-sector wage increases discussed in chapter III. By contrast, a large proportion of new jobs were created in microenterprises, but these offered little chance of improving labour conditions, particularly wages.

The widening of the gap between formal and informal activities is also reflected in the trends in labour productivity. Figure VI.4 estimates the evolution of average labour productivity in manufacturing at the regional level, distinguishing between sources of formal employment (including small and medium-sized firms) and sources of informal employment (microenterprises and self-employment).

Table VI.12  
**LATIN AMERICA (SEVEN COUNTRIES): WAGE RELATION BETWEEN  
 WORKERS IN COMPANIES OF DIFFERENT SIZES, URBAN AREAS,  
 1980s AND 1990s**

COUNTRY	PERIOD (FIRST YEAR, INTERMEDIATE YEAR AND FINAL YEAR)	RATIO BETWEEN WAGES FOR NON-PROFESSIONAL AND NON-TECHNICAL STAFF IN FIRMS EMPLOYING MORE THAN 5 PEOPLE AND THOSE WITH UP TO 5 PEOPLE		
		1980s	EARLY-1990s	MID-1990s
Argentina <sup>a/</sup>	1980-1990 n.a.	1.3	1.3	n.a.
Bolivia	1989-1992-1997	1.4	1.2	1.4
Brazil <sup>b/</sup>	1979-1990-1996	1.6	1.4	1.6
Chile <sup>a/</sup>	n.a. 1992-1996	n.a.	1.3	1.7
Costa Rica	1981-1990-1997	1.5	1.4	1.5
Mexico <sup>a/c/</sup>	n.a. 1991-1997	n.a.	1.7	2.3
Peru <sup>c/</sup>	1985-1994-1997	2.1	2.0	2.3

**Source:** Author's calculations, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America*, 1998, Santiago, Chile, LC/G.2050.P, April 1999. United Nations Publication, Sale No. S.99.II.G.4, pp.254-255; *Social Panorama of Latin America*, 1997 (LC/G.1982.P), Santiago, Chile, 1998. United Nations Publication, Sale No. S.98.II.G.3, pp.194-195; *Social Panorama of Latin America*, 1993 (LC/G.1768), Santiago, Chile, 1993, pp.132-133.

a/ Includes public-sector wage earners.

b/ Compares the average wages of wage earners with and without a labour contract.

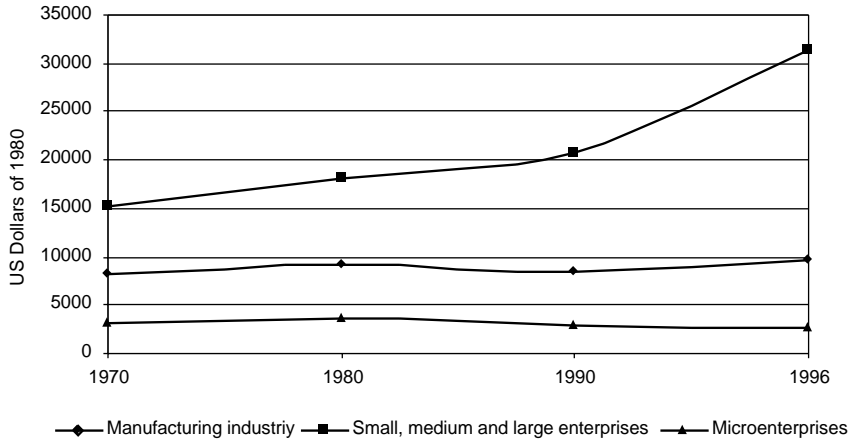
c/ Includes professional and technical staff; national total.

As can be seen, the sharp increase in the average labour productivity of manufacturing in the 1990s was concentrated wholly in larger scale firms (as discussed in chapter V, section B). Average labour productivity in these firms accelerated significantly relative to earlier decades, which in part reflects the decline in formal manufacturing employment. In contrast, average productivity stagnated in manufacturing microenterprises in the 1990s, after falling in the previous decade. The productivity gap between the two segments thus tended to widen.

Nevertheless, the evolution of the productivity gap was less clear-cut between large manufacturing companies and formal SMEs.<sup>155</sup> In 4 out of 10 countries in the region, formal SMEs narrowed the labour productivity gap in the last 5 or 10 years (Peres and Stumpo, 1999, p.13). The same heterogeneity

<sup>155</sup> The academic justification for the reforms was that they would mainly benefit small and medium-sized companies: "The proposed measures will be of especial benefit to small and medium-size businesses, which have particularly suffered the consequences of high protection, the lack of imported inputs, and price control" (Balassa and others, 1986, p.94).

Figure VI.4  
**LATIN AMERICA: AVERAGE LABOUR PRODUCTIVITY IN THE  
 MANUFACTURING INDUSTRY, 1970-1996**



**Source:** Author's update on the basis of ECLAC data and information from André Hofman, ECLAC economist.

is evident in the sectoral comparison: in Chile, formal SMEs narrowed the gap in 12 of 25 industrial branches between 1990 and 1995, while in the other 13 branches the gap held or widened (Katz, 2000).

Despite the sharp widening of the productivity gap between microenterprises and larger companies, smaller firms also saw the development of substantially skilled activities, indicating that the growth of microenterprises was not based solely on the proliferation of survival tactics. Some of the very small establishments that have emerged feature a considerable level of technology and human capital. Table VI.13 shows that the participation of professional and technical staff in microenterprise employment grew in four of the six countries for which information is available (Bolivia, Brazil, Chile, Costa Rica), while it fell in Mexico and Peru. The proportion of skilled personnel in microenterprises remains far below that in larger companies, however.

Additionally, in all the countries for which information is available (except Peru), the share of the highest-skilled occupations also increased among the self employed, although the absolute rates are comparatively low, of course, given the prevalence of informal employment in this category.

Table VI.13  
**LATIN AMERICA (EIGHT COUNTRIES): PARTICIPATION OF  
 PROFESSIONAL AND TECHNICAL STAFF IN SELF-EMPLOYMENT  
 AND MICROENTERPRISES, 1990s**

COUNTRY AND PERIOD <sup>a/</sup>	PARTICIPATION AMONG SELF-EMPLOYED WORKERS		PARTICIPATION AMONG MICROENTERPRISES	
	YEAR 1 <sup>b/</sup>	YEAR 2 <sup>b/</sup>	YEAR 1 <sup>b/</sup>	YEAR 2 <sup>b/</sup>
Argentina, 1991-1997 <sup>c/</sup>	1.7	2.1	n.a.	n.a.
Bolivia, 1993-1996	2.6	4.8	4.9	7.3
Brazil, 1993-1996	4.4	5.2	3.5	3.9
Chile, 1992-1996 <sup>d/</sup>	4.6	5.0	4.8	6.9
Colombia, 1988-1995	5.0	5.9	n.a.	n.a.
Costa Rica, 1990-1996 <sup>e/</sup>	9.5	11.5	5.0	8.4
Mexico, 1991-1997	n.a.	n.a.	2.7	2.3
Peru, 1994-1997	5.1	4.9	6.6	6.2

**Source:** Author's calculations, on the basis of the research and official national figures

a/ The data refer to the national total, except for Argentina (Greater Buenos Aires) and Bolivia (departmental capitals and El Alto).

b/ Years 1 and 2 refer to the initial and final years of the periods indicated in the first column.

c/ Refers to the participation of self-employed professionals in total employment.

d/ The first two columns correspond to 1994 and 1998 respectively.

e/ Includes managers. In the first two columns, includes employers.

## E. Conclusions

Contrary to the expectations raised by the reforms, labour demand was biased towards skilled manpower in the 1990s. Indeed, although the educational level of the population generally increased throughout the period, the educational level of the employed rose more than that of the unemployed because of firms' preference for more qualified staff, a phenomenon that had a particular impact on wage employment. This bias originated in the tertiary sector, since it accounted for the bulk of the intra-branch growth of skilled labour (which represented most of the growth in the proportion of skilled personnel in wage employment), as well as the bulk of the increases caused by changes between the branches. The increased demand for skilled personnel did not translate into greater capital intensity, however, because the capital-labour ratio is usually lower in tertiary activities than in the secondary sector, although this does not preclude a high coefficient in some specific categories, especially in basic services. By contrast, the relative proportion of high-skilled staff increased in manufacturing, reflecting a decline in lower-skilled personnel more than a dynamic demand for the former.

At the other extreme, the number of wage jobs for workers with lower educational levels fell. Restructuring in the primary and secondary sectors reduced the weight of this segment in total wage employment, as did internal changes within the branches of the tertiary sector. The upgrading of the labour structure in tertiary activities led to an increase in the share of highly educated women.

The segmentation of the labour market in the 1990s, with one segment determined by demand and the other by supply, was thus closely correlated with the educational characteristics of supply and demand. In the segment determined mainly by demand, most of the hiring was concentrated on more educated workers, while a large part of the labour force with less schooling was forced into non-wage occupations. This did not preclude an increase in the share of professionals, technical staff and other highly educated workers in self-employment and microenterprises. This trend partly reflects the opportunities that new technologies created for individuals and smaller firms.

In line with the bias of labour demand, the wage gap tended to widen between highly educated wage earners and those with less schooling, as well as between microenterprises and larger companies. This largely reflects the typical imbalance between the characteristics of labour supply and demand during periods of profound change in production methods. This can happen, first, because of the lag between changes in labour demand and the necessary adjustments in supply (educational systems and training), since the curricula of the educational systems do not always readily adapt to the requirements of demand. A second cause might be that changes in the educational system have not yet carried over to the labour market. Because the system can only make adjustments to the labour supply in terms of current students, the effects are only expressed in the newcomers to the labour market, who represent a very small percentage of the labour supply. A third determinant of the nature of the labour supply is acquired experience. Unlike educational levels, accumulated experience can lose its relevance, as when technological change demands new skills that were not acquired under the previous technology.

In sum, in the characterization of Tinbergen,<sup>156</sup> a race is going on between technological change and the continuous renewal of the skills demanded of the workforce, on the one hand, and the creation of the corresponding human capital on the other. In the course of that race, the wage gap can widen or shrink. Other relevant issues in this regard concern the different labour market institutions, such as the weakening of the unions, which generally have a levelling effect on the wage structure, or minimum wage policies, which have been conservative in most countries.

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156 Cited by Psacharopoulos (1988, pp.106-107).

The tendency for the wage gap to widen is likely to gradually lessen in the future, as the labour supply increases in those occupations that currently suffer an imbalance with respect to demand. However, since new production standards make more intensive use of technology and human capital than did the postwar taylorist model, and since the demand for low-skilled labour seems to be limited, the wage gaps probably will not narrow significantly in the near future.

Wage gaps are not in themselves a negative phenomenon, as long as they properly reflect the distinct contribution to firms' productivity, stimulate the improvement of education and training and do not militate against legitimate considerations of social justice. The widening of the wage gap, however, has meant that less educated groups have benefited very little from the improvement in average real wages. In fact, the reward for education was generally low for these groups, and wages have increased significantly only in segments with 10 or more years of schooling. The widening of the wage gap has thus been negative for labour equity and has hampered poverty reduction. In this context, the only trend towards greater equity was the shrinking of the wage gap between men and women, caused largely by the growing integration of highly educated women in the labour market.

This chapter has also shown that wage employment became more heterogeneous. This reflects, on the one hand, the dynamic progress of some activities that benefited from the reforms and modernization and, on the other, growing problems of employment quality. As average labour productivity and real wages grew, the labour force tended to become segmented. This created a relatively stable core with training opportunities and comparatively high pay, and various less stable groups with more precarious working conditions and lower wages. The transformation of many firms in the branches producing tradable and non-tradable goods gave rise to novel methods of subcontracting and outsourcing a vast range of activities. This tended to create new business chains and networks that increasingly include small and medium-sized firms, microenterprises and even home-based work. In such circumstances there was an increase in precarious wage labour, typified by an absence of labour contracts or social security.

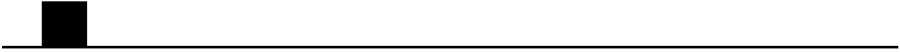
These processes contributed to the polarization of employment, first in terms of *quantity*, because much of the additional employment was created in categories marked by low productivity while at the same time new jobs emerged for medium- and high-skilled workers, mainly in the tertiary sector. Second, two phenomena tended to polarize employment in terms of *quality*. On the one hand, the gap widened between higher- and lower-skilled jobs in formal activities, a process evident in various indicators such as wage gaps and contractual conditions. On the other hand, among microenterprises there was a simultaneous increase in the number of firms using high-skilled labour and, especially, of informal units.





## CHAPTER VII

### CHANGES IN LABOUR MARKET INSTITUTIONS



The region's unsatisfactory labour performance throughout the 1990s led various international organizations to insist on the need to reform the institutions of the labour market. This chapter briefly examines the changes to the institutional framework and their effects on employment, as well as the prospects for future changes.

During the inward-oriented development stage, Latin America and the Caribbean established a labour regime that was similar to that of the industrialized countries.<sup>157</sup> The aim was to create a framework of social integration that responded to the sharp growth of employment in the industrial and tertiary sectors, and that could also satisfy the demands of emerging social strata (Candia, 1994). Thus, as had happened in the industrialized countries, the region's labour market institutions sought to regulate labour relations through direct State intervention and collective agreements between workers and employers. Some features, however, distinguished the region's institutional framework from that of the industrialized countries:

- The labour market institutions were limited to a much smaller sector of the labour force.
- In many countries, the nature of the relations between the main socio-economic agents (i.e., the State, employers, unions) was determined by the presence of populist governments that created social pacts under their

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<sup>157</sup> The two main components of the regime developed in industrialized countries were labour legislation and collective bargaining. In the context of a broad national pact (tacit or explicit) between firms, workers and the public sector, these dispositions (which included increasing real wages; decreasing working hours; protection against unemployment, illness and disability; and regulations on safety and hygiene at work) improved working conditions and helped increase labour productivity (through training and work organization).

leadership. In such circumstances, the unions were highly dependent on certain political forces or the State. Political negotiations to some extent took primacy over labour negotiations, and legal regulation took primacy over that negotiated between firms and unions.

- Sociopolitical instability in many countries gave rise to a cyclical movement, wherein the integration-oriented institutional framework was periodically replaced by authoritarian regulations, which later gave way, in turn, to the re-establishment of the former arrangements.
- In countries with weak production structures and exclusive sociopolitical systems, authoritarian and repressive labour relations prevailed. In many cases, therefore, labour market institutions did not attain the stability that they did in the context of the industrialized countries' social pacts, nor did they secure the desired social cohesion. Despite this (or because of it, depending on the viewpoint of the observer), most analysts agree that in the 1970s and much of the 1980s the region's labour markets worked reasonably well. It was believed that the main causes of weak job creation lay not in the labour markets themselves but in other markets. The first generation reform proposals therefore concentrated on the latter (see chapter II).

However, recent changes throughout the world, particularly growing market integration and the consequent upsurge of competition, have altered the internal and external circumstances within which economies develop. This, in turn, has affected the conditions of social and labour integration. Hence the current need to adapt the labour market's institutional framework (like that of other markets) to the new circumstances. There is a fairly broad consensus that greater flexibility in the production process demands more flexible internal and external labour markets (Jessop, 1994; World Bank, 1995b; ILO, 1999a).

This chapter argues that the labour market's maximum flexibility is not necessarily its optimal flexibility. As described in chapter II, the nature of the labour market is such that the benefits of the institutional framework cannot be judged solely according to one criterion. It is thus particularly hard to create a sustainable institutional framework in the new economic context.

The following section analyses some definitions of labour flexibility, a concept that is usually at the heart of proposals to reform labour's institutional arrangements. The second section summarizes the proposals for making the labour markets more flexible, and the third discusses the main changes to the region's labour market institutions in the 1990s. The fourth section assesses the impact of these changes, and the chapter concludes with some reflections on the prospects for future development.

## A. Flexibility and Labour Market Institutions

The new economic context is marked by growing market integration and technological change that facilitates the increasingly swift adjustment of production to market trends. Institutional arrangements that were created in the context of relatively closed and rigid economies are thus no longer appropriate. They must be adapted to the new conditions and made more flexible. Greater flexibility, however, should not be seen as a goal in itself, but rather as a means of meeting the dual goal of the labour market's institutional framework –that is, to guarantee the efficiency of the labour market and to bolster the position of the structurally weaker actors within it, in order to secure adequate working conditions.

The scheme proposed by Amadeo and Camargo (1993) is useful for analysing labour flexibility. These authors distinguish two basic components: the flexibility of the labour market and the flexibility of the labour input.<sup>158</sup> These, in turn, consist of other elements, as shown in figure VII.1.

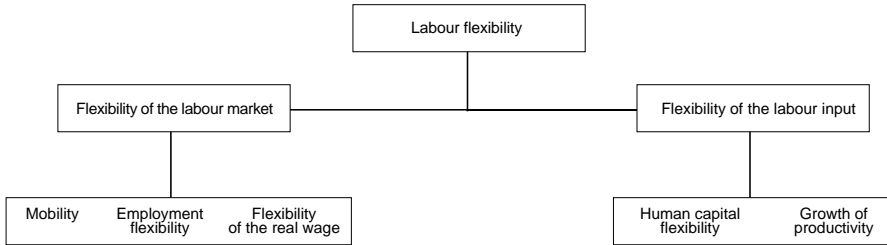
According to these authors, the flexibility of the labour market can be seen, first, in the level of unemployment generated by an external shock; second, in the optimal allocation of the labour force (which entails the absence of factors that limit labour mobility between segments); and third, from a dynamic perspective, in the time required to return to the pre-shock levels of unemployment. In their view, the components that determine labour flexibility are the flexibility of employment (low barriers to hiring and firing employees and, for workers, to moving from one job to another); wage flexibility (a high correlation between changes in the marginal productivity of labour and real wages); and labour mobility (low barriers to workers moving from one job to another in different segments or regions).

The flexibility of the labour input as a production factor concerns its capacity to adapt to changes in the external conditions, which affects its capacity to react to shocks, given real wages and employment levels. Its components are human capital flexibility (the capacity to adapt to new demands arising from changes in a given job or from job transfers) and firms' orientation towards increasing productivity, which increases their chances of responding to a shock with fewer costs in terms of employment and wages.

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158 Lagos (1994) proposes a similar distinction between the flexibility of labour costs, numerical flexibility (external and internal) and functional flexibility.

Figure VII.1  
**COMPONENTS OF LABOUR FLEXIBILITY**



**Source:** Edward Amadeo and José Márcio Camargo, “Flexibilidad laboral, productividad y ajuste”, *Boletín sociográfico*, No. 26, December 1993.

While there might be doubts about some elements of this conceptualization of how the labour market works,<sup>159</sup> the contribution of Amadeo and Camargo prompts three significant conclusions. First, the new economic context requires greater flexibility in the labour market and the labour input. Second, there is a latent contradiction between the two components of labour flexibility, mainly because greater flexibility in the labour market leads to short-term contracts and less job security, while human capital development and the need to increase productivity demand more stability in employment. Third, the labour market’s optimal flexibility is below the maximum level, which would lead to “little investment in human capital, a poorly skilled workforce and few incentives to increase productivity” (Amadeo and Camargo, 1993, p.34).<sup>160</sup>

159 Chapter II of this study argued, for example, that the labour market features a segmentation that does not originate primarily from cultural, institutional or regional factors, as Amadeo and Camargo claim. Moreover, labour market flexibility is not really a general characteristic or uniform condition: a market can react differently to different shocks, showing flexibility in one case and rigidity in another, just as there are different forms of adjustment. In the case of employment, for example, the number of hours worked might be adjusted without changing personnel or altering the number of employees (Bucheli and Furtado, 1998, p.17).

160 The importance of some degree of labour stability is evidenced by the fact that (somewhat incoherently) some business sectors have sought maximum labour flexibility through political channels, but actual firms within the sectors do not aspire to that maximum level in their own practices (de la Garza Toledo and Bouzas, 1998).

It is thus hard to define the right level of labour flexibility, let alone the institutional arrangements that would allow attainment of that level. The task is made more difficult still by the fact that many labour market institutions can negatively affect the market's short-term efficiency, but they can have a positive effect over the longer term. A deregulated labour market could thus facilitate specialization in production based on the abundance of low-skilled, low-paid labour, and it could lead to a race in which labour standards would be lowered ever further. By contrast, labour market institutions that foster better training, increased productivity and higher wages over the longer term help the productive apparatus to continuously incorporate technological change.

Another important consideration in this respect again concerns the specific nature of the labour market. Because work has a central place in human life, both materially and intellectually, its nature transcends the workplace. Without going into this issue in detail, it can be said that workers' perception of their working conditions has a strong influence on social cohesion and coexistence, as well as on the sustainability of any socio-economic programme, since those conditions cover a wide range of issues including working hours, wages, hygiene in the workplace and the organization of work. In this context, workers' organization (which is recognized throughout the world as a basic right) and their involvement in the discussion of these issues is more than an instrument to increase labour productivity. It is also, of course, much more than a mere distortion of the efficient operation of the respective market. From the perspective of the political economy of the labour market, then, the conditions and nature of union organization are important not only for implementing changes to the labour market's institutional framework (Nelson, 1991), but also for securing the basic social consensus required for the sustainability of the reforms.

The conceptual discussion of the impact of labour flexibility on economic growth and job creation prompts no firm conclusions, and it is not surprising that empirical studies on the subject are also far from conclusive. Several empirical analyses of developing countries find no close link between the nature of the institutional framework of the labour market and economic performance. Different systems of regulation can be efficient if they are flexibly adapted to national conditions (Banuri and Amadeo, 1992; Horton, Kanbur and Mazumdar, 1994b).

The Inter-American Development Bank (IDB, 1997, pp.57, 64-65) argues that labour reforms have hereto had no impact on the region's growth because they have been few in number and limited in scope, but that deeper reforms could permanently add another 0.3% to that growth.<sup>161</sup> It is interesting that

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161 The same document (IDB, 1997, p.65) avers that this is a very tentative estimate since no country has made sufficiently profound labour reforms – a surprising statement.

this additional growth is expected to stem from the higher *productivity* induced by labour reforms, not from an increase in *employment*, although the reforms are generally justified on the grounds that job creation is weak because of distortions that impair labour flexibility.

In an empirical study of the impact of labour institutions on growth, total employment, manufacturing employment and labour costs in Latin American manufacturing, Rama (1995) finds that labour market rigidities have a mild negative impact. In particular, high levels of public employment and unionization negatively influenced some of the variables, while other aspects of the institutional framework had a positive effect.<sup>162</sup> In light of the methodological weaknesses of the analysis, however, the author notes that "...the main message of the paper is that labor market reforms should be approached with great humility. The results exhibit a substantial dose of ambiguity, to the extent that neither the distortionist nor the institutionalist views are clearly supported by the data" (Rama, 1995, p.22).

Márquez (1997) presents evidence of the negative impact of labour protection on employment levels and the composition of employment (a decline in formal employment). His results, however, are substantially undermined if other variables are included, especially per capita GDP.<sup>163</sup>

In short, as happens in several other areas of regulation, the changes in many countries' external and internal socioeconomic and technological conditions compel changes to the labour market institutions, by means of a new regulatory framework that places a high priority on greater labour flexibility. The latter is influenced by several components with varied (and sometimes contradictory) consequences, and maximum flexibility does not necessarily equate with an optimal institutional framework. In that light, the reforms cannot be guided by a single criterion which assumes that more deregulation leads to a more efficiency and greater well-being (Freeman, 1993b). The empirical evidence thus shows that the link between labour institutions, on the one hand, and growth and employment trends, on the other, is not entirely clear.<sup>164</sup>

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162 For example, ratification of a large number of ILO agreements and a relatively high minimum wage seem to have a positive effect on total employment (Rama, 1995, p.20).

163 Using the per capita GDP variable halves the impact of protection on employment. There is, in fact, no impact as regards the share of unregulated employment in total employment (Márquez, 1997, p.80). On the enormous significance of economic growth for the composition of employment, especially self-employment in the manufacturing sector, see Pietrobelli and Rabelotti (1998).

164 Extra-regional empirical studies similarly do not reach unequivocal conclusions. Freeman (1993a) finds that different institutional frameworks (developed in sociopolitical processes marked by case-specific idiosyncrasies) have worked fairly well in various countries. An OECD study finds no proof that low labour standards foster participation in export markets (OCDE, 1996b, cited by Lee, 1997, pp.202-203). In contrast, Rodrik (1997, p.46) finds that in some developing countries there is a positive correlation between lower labour norms and revealed comparative advantages in labour-intensive exports. However, and against expectations, his findings suggest that low labour standards have a negative impact on foreign direct investment in manufacturing.

## **B. Labour Reforms and More Flexible Labour Markets**

At the start of the 1990s, international organizations accorded greater importance to labour reforms. Largely in response to the unsatisfactory outcome of earlier reforms in employment terms, such changes were a component of the second-generation reforms (Burki and Edwards, 1995; Burki and Perry, 1997; IDB, 1997). The debate focused on making the labour market more flexible, stressing employment flexibility and mobility.

In particular, it was argued that because of temporary imbalances (workers' limited mobility) and structural rigidities in the labour market, new job creation would not offset the decline in labour demand in the 1990s relative to the 1980s, which allegedly stemmed from a higher capital-labour ratio induced by the reforms (IDB, 1997, p.63). Other analysts ascribed the high capital intensity of investment to distortions in the labour market.<sup>165</sup> It was further argued that protectionist distortions would hamper job creation in terms of both quantity and composition, since higher protection levels would give rise to greater informality (Márquez and Pagés, 1998).

The basic theory maintains that the regulations in force raise the cost of labour above the equilibrium level. They do so both directly (through the minimum wage, for example) and indirectly (such as through firing costs). They also reduce the labour market's adjustment capacity, either as regards the worker (such as when legislation rewards permanence in a specific job and penalizes mobility) or the employer (when firing costs discourage hiring or foster high turnover).

The main outcomes of the constraints on labour market flexibility are a rate of job creation that is below potential capacity; inefficiency in the market's adjustment, especially as regards reduced labour mobility between jobs and sectors; limits on human capital training; and the division of the labour market into a formal sector, which is protected by labour laws and marked by high wages, and an informal sector, characterized by a lack of protection and low wages.

There would thus be a need for labour law reforms that make the labour market more flexible. Above all, such reforms should facilitate firing and reduce the associated costs; eliminate minimum wages or at least apply them very cautiously; reduce non-wage labour costs, converting social security contributions into workers' private savings; introduce more flexible contractual

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165 "When firms perceive that labor is too costly or risky, they will choose investment strategies that are excessively capital-intensive; this is particularly problematic for developing countries, given that they are relatively abundant in labor" (Burki and Perry, 1997, p.38).

links (such as fixed-term and part-time contracts); make the mechanisms for determining wages and working conditions (working hours and so on) more flexible; and concentrate labour negotiations at the firm level.<sup>166</sup>

## C. Recent Changes to Labour Market Institutions

This section briefly reviews changes to the institutional framework of the labour market in the region during the 1990s. It begins with labour legislation and then addresses wage and employment policies, as well as other changes in the labour market institutions.

### 1. Labour Legislation

Within the region, it is often argued that labour legislation has been an area in which countries have implemented few reforms (IDB, 1996). A detailed review, however, reveals that during the 1980s and the first half of the 1990s many did in fact change their legislation, including several of the countries under study. The main features of those reforms are outlined below.<sup>167</sup>

In Argentina, some union rights (collective bargaining) that had been repressed by the military dictatorship were re-established as of 1983. In the 1990s, several measures were taken to reduce non-wage labour costs and to make hiring and firing rules more flexible. A 1991 reform created several kinds of fixed-term contracts and established a procedure to prevent and control mass firings. Unemployment insurance was instituted, although it covers only a very small percentage of the unemployed. From 1994 onwards, employers' contributions to the various social security programmes were cut considerably. Two reforms were effected in 1995. One regulated probationary periods (a maximum of six months), part-time work and fixed-term contracts (the establishment of new types of contracts), all of which entail a further reduction

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166 See, for example, World Bank (1995a), Guasch (1996), IDB (1996). The ILO shares the view that the new economic context demands greater labour flexibility. However, unlike the positions mentioned earlier, the ILO's proposals do not target greater labour market flexibility but stress the decision-making mechanisms related to adjusting labour market institutions (social dialogue) and issues such as basic labour norms, the promotion of non-conflictive labour relations and the harmonization of labour policies in the context of economic integration (ILO, 1999).

167 This summary is based on ILO (1994), Amadeo and Camargo (1995), CEPAL (1996), Baptista, Eróstegeui and Revilla (1996), Bronstein (1997), Feldman (1995), Gobierno de Brazil (1998), Horton (1994), Mizala (1998), Altimir and Beccaria (1999), Montiel (1999), Morgado (1999), Ramírez and Núñez (2000). Jamaica and Mexico have not reformed their labour legislation. Jamaica established a trilateral committee in the mid-1990s to make policy recommendations on employment (World Bank 1996, p.43). Van den Berg (1995) and OECD (1996a, p.91 to 102) propose reforms for Mexico. For a comparative analysis of the debate, see Cook (1998).



of non-wage labour costs. The other reform, which was targeted at firms with fewer than 40 workers, broadened facilities for fixed-term hiring (a collective agreement is not required), limited the notice period to a month for all workers and allowed collective bargaining to loosen some aspects of annual leave, year-end bonuses and the system governing the termination of contracts. In 1998 a law was enacted to reduce severance pay, to eliminate short-term contracts except for those that encourage the hiring of specific groups (including youths, the disabled and veterans of the Malvinas/Falklands conflict), to cut severance pay for those dismissed after little time on the job, and to confirm the union's position in collective bargaining. Other reforms included obligatory insurance for work-related accidents, which enhanced safety and cut companies' potential costs, and unemployment insurance. Finally, the organization of working hours was made more flexible, both throughout the year and as regards the workday.

In Bolivia, as part of the reforms effected from 1985 onwards, the government withdrew from wage negotiations, an area in which it had played an important role. The wage structure was consolidated by eliminating the complex system of bonuses to the basic wage. Labour legislation was reformed to facilitate firing and to make it easier to hire casual labour.

Brazil instituted unemployment insurance in 1986 and substantially broadened its coverage in 1990. The 1988 constitution introduced a 30-day notice period for dismissal and compensation for unjustified dismissal. This placed limits on the highly flexible provisions established in 1966 with the creation of a dismissal fund (*Fundo de Garantia por Tempo de Serviço*). At the same time, maximum weekly working hours were cut, overtime payments were increased and mechanisms to protect workers were introduced. The organization of unions and the right to strike were strengthened. The Real Plan abolished wage indexation in line with past inflation, which had been in effect since the 1960s. In 1998 legislation made it easier to arrange fixed-term contracts and a form of flexitime was introduced to balance out overtime and hours not worked. Both innovations are subject to collective bargaining.

The labour legislation enacted in Chile at the end of the 1970s strove for maximum flexibility in the labour market. Collective bargaining was limited to the firm level; the formation of several unions in each firm was encouraged (within a broader context that hampered unionization); firing was made easier and less costly (for example, by giving the employer the right to dismiss a worker by unilateral decision and without stating a cause); employers gained greater flexibility in fixing working hours; and wage indexation was ended. Following the return to democracy, changes included restrictions on the periods of fixed-term contracts and the redefinition of firing and compensation conditions. The right to organize was strengthened, and inter-firm negotiations were facilitated if all sides agreed. The establishment of unemployment insurance is currently under discussion.

Colombia effected a labour reform in 1990 whose main features included introducing new types of fixed-term contracts; defining the remit of temporary work agencies; ending the mandatory reinstatement of workers with 10 years service in the event of unfair dismissal; regulating collective dismissals; introducing more flexibility in the distribution of weekly working hours; widening the right to maternity leave; and strengthening unions' negotiating capacity. Redundancy funds were established, financed from individual accounts that are managed by specialized companies. This reduced the level of compensation, as well as uncertainty about the real costs of firing. Employers' contributions to health and pensions programmes were increased; despite a fall in firing costs, this led to an increase in non-wage labour costs.

Costa Rica introduced regulations on the hiring of certain groups, women's rights and the protection of union representatives. The system of minimum wages was simplified, and the number of occupations with a specific minimum wage was reduced. A plan is under discussion to transfer contributions for dismissal compensation out of the firms and into individual accounts.

Peru's labour legislation was extensively reformed from 1991 onwards. The main changes covered the creation of individual accounts in the event of dismissal (compensation being paid only in the event of unfair dismissal); the repeal of mandatory reinstatement in the event of unjustified dismissal; greater internal flexibility (the workday and the weekly day of rest were made more flexible); the elimination of the negotiation of internal regulations with the union; the extension of the probationary period; the introduction of various means of fixed-term hiring and training contracts; and the regulation of temporary work and subcontracting agencies. Worker participation in company ownership, management and profits, which had been introduced by the labour legislation of the 1970s, was sharply restricted. Non-wage labour costs were erratic in the 1990s, and in 1996 employers' contributions slightly exceeded the level at the start of the decade, although employees' contributions to social protection and housing programmes increased more.

In addition to the above labour legislation, Argentina, Bolivia, Chile, Colombia, Mexico and Peru reformed their pensions systems. Although the new systems differ from each other, in all of them the contributions of those insured are managed in individual accounts by private firms.<sup>168</sup>

In sum, the reforms of recent years had two basic objectives. The first was to broaden the range of available contracts, supplementing the "typical" indefinite contract with a series of fixed-term contracts, extending the use of the probationary period and making subcontracting easier. The second was to make dismissal

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168 See Mesa-Lago (1998). Brazil established a dual pensions system in the 1970s. In 2000 Costa Rica set up a "four pillar" system.

cheaper, through such measures as a broader definition of fair dismissal and dismissal compensation systems structured in individual accounts.

The reforms were thus mainly geared to increasing the flexibility of employment and, to a lesser degree, labour mobility and wage flexibility. Nevertheless, as noted in an ILO study of labour reforms in the region (ILO, 1994), changes in these areas did not entail widespread flexibility at the regional level, nor the establishment of a single model in the various countries.<sup>169</sup> In the first half of the 1990s, for example, the legislative changes fostered stronger union organization in Brazil, Chile, Colombia and Costa Rica, but they had the opposite effect in Argentina and Peru. In several countries the reforms simultaneously included measures aimed at greater flexibility and others to protect specific groups, such as women, temporary workers and those working at home (ECLAC, *Social Panorama of Latin America*, 1996, p.140). In Chile, for example, some of the deregulating measures of the 1980s were replaced by more protective provisions.

Finally, the processes of regional integration sometimes gave rise to arguments that the member countries should comply with each other's labour norms –as in the case of the North American Free Trade Agreement (NAFTA)– or, very incipiently, that labour norms should be harmonized, as in the Southern Common Market (Mercosur).<sup>170</sup> To date, however, none of these efforts has had a significant impact on labour legislation in the countries of the region.<sup>171</sup>

In short, the region experienced some movement towards making the various elements of the labour market more flexible, although there was no unilateral trend to deregulate and leave labour unprotected.

## 2. *Wage and Employment Policies*

Another trend in labour's institutional regime was the decline in public-sector intervention in employment and wages. As chapter IV showed, the share of public employment fell in practically all the countries of the region, which lessened the impact that working conditions in this sector can have on labour market negotiations in general. Moreover, policy on the minimum wage was conservative; in 1998, real minimum wages in most countries of the region were below the 1980 level (ECLAC, *Economic Survey of Latin America and the Caribbean*, 1999, p.97), while the gap between minimum wages and average wages widened.

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169 Bronstein (1997) distinguishes between three categories in this respect: experiences that fostered more flexible labour relations; others that reinforced "guaranteeism", and yet others that combined elements of both approaches.

170 In the Andean integration process, the Andean Social Charter addresses the labour rights of the subregion's workers.

171 An exception was the widening of union rights in Costa Rica in 1993, which was partly the result of threats by the United States to suspend a series of tariff advantages (Montiel, 1999, p.55).

Beyond the reforms to labour laws, labour policies have changed in the last 15 years to address the weakness of labour demand and the spread of poverty (especially in the 1980s), and to improve the labour force's capacity for adapting to the new needs of the productive system.<sup>172</sup>

To address the first challenge, many countries introduced legal incentives to hire workers in general or specific groups; these mostly entailed fixed-term contracts, with or without reducing direct non-wage labour costs. Furthermore, public employment programmes were set up to give temporary work to the unemployed, generally from the poorer strata. In the 1990s these programmes were mainly carried out through social investment funds, which acted as financial intermediaries whose executors were public or private organizations. Other programmes financed productive projects, often with a local development approach.

Measures to improve the labour force's ability to adapt focused on expanding and restructuring professional training.<sup>173</sup> They included strengthening public training institutes; increasing the availability of training by private bodies; and programmes targeted at specific groups (such as youth, former prisoners, female heads of household, the disabled and the unemployed) and specific types of companies, mainly small firms and microenterprises. It is important to stress that in many cases the traditional training institutes are making efforts to establish a more direct link between training and demand, taking greater account than before of private-sector needs.<sup>174</sup> Another component of these policies consists of measures to boost the competitiveness of small and medium-sized firms (by providing financing, for example), especially where the goal is to create productive employment and to increase labour income. Finally, efforts have been made to improve placement services, allowing the intervention of private agencies in some cases.

### 3. *Other Changes to Labour Market Institutions*

Labour market reforms and other policies undoubtedly affect how the labour market works. Labour relations can vary widely, however, not only between countries but also within a single country.<sup>175</sup> Notwithstanding the

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172 In this regard see Martínez (1996); Iturraspe (1997); Verdera (1998); Rosas (1999).

173 Both objectives are combined in training programmes for specific groups with disadvantages in the labour market (such as youth), as well as in support programmes for small firms and microenterprises.

174 "The general trends [regarding professional training] are emphasis on maintaining the State's leading role in financing and regulating professional training, beyond changes to the ways in which this is undertaken; the decentralization of implementation, freeing the central authorities from the responsibility for conducting the courses and, in many cases, leading them to subcontract the work to private training institutions; defining the target groups for training (companies and workers), with preference for strategic sectors" (Gallart 1998, p.34).

175 For a review of the literature on recent changes in labour relations, see Cook (1999).

arguments of some observers, labour legislation usually gives rise to a broad array of labour relations. It is therefore helpful to analyse how the labour market institutions work at the firm level (Montero, 1996; de la Garza Toledo and Bouzas, 1998; Dombois and Pries, 1998). In this respect, no single means of organizing work and labour relations is best suited to developing efficient and sustainable production processes. Rather, individual firms seek to combine various elements of flexibility in an efficient and sustainable manner. These elements include external numerical flexibility (by means of subcontracting, fixed-term contracts and so on); internal numerical flexibility (the organization of working hours and workdays); and functional flexibility (internal mobility between jobs; strengthening the links between training, productivity and wages; and involving workers in the organization of production). These are the main issues addressed in the corresponding rounds of collective bargaining (de la Garza, 1997; ILO, *Panorama laboral*, 1996, p.26).

While a relatively small group of companies continuously seeks to improve their performance in these areas and to involve workers in the process to a greater or lesser extent, others retain a hierarchical vision of the organization of labour. This vision undervalues the role of the workforce in improving firms' economic performance; these firms see flexibility as a unilateral process of deregulation. Hence the technological and organizational modernization of many companies is not being undertaken with worker collaboration, although such changes entail new needs in terms of workers' capacities and participation.<sup>176</sup>

Another expression of this overly short-term (and still widespread) approach is the little importance accorded to professional training and the meagre use of the corresponding facilities, despite the public-sector efforts mentioned earlier. Among the obstacles to expanding and improving training are, first, firms' perception that it is relatively expensive, because a skilled worker can be hired away by a competitor that did not make the same investment; second, generally low levels of basic education; and third, a business culture that is generally underdeveloped (Hernández Meneses, 1997).<sup>177</sup>

These obstacles clearly require tripartite solutions. A key element in this is the role of the unions, which is also critical for labour relations more generally. Levels of unionization have fallen in many countries.<sup>178</sup> Key reasons include the following:<sup>179</sup>

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176 See Abramo (1997, pp.26-27) for a summary of the results of an ILO study in this area.

177 Awareness of the importance of training is apparently growing; with respect to the Chilean metal products industry, see Herrera and Ruiz-Tagle (1997).

178 Weller (1998b, p.59) shows some countries' level of unionization and the degree to which they have ratified ILO agreements. Saavedra (1999, p.43) discusses the massive decline in unionization in Peru.

179 See Godio (1991); Abramo Cuevas (1992); various articles in ILS (1993).

- the repression of the union movement during periods of military dictatorship and the economic crisis of the 1980s;
- legislative changes that limited unions' field of action;
- some unions' loss of legitimacy because of their close links with political parties and their opaque practices;
- the unions' tendency to make their claims to the State rather than to the firms, which is an increasingly obsolete attitude in the context of the new development model;
- technological changes that tend to diminish the significance of large groups of workers with similar occupations;<sup>180</sup>
- the reorganization of the productive structure, which increases the relevance of small and medium-sized firms; this makes union organization more difficult (especially in many tertiary activities) and strengthens the role of occupations that do not conform to traditional patterns of union affiliation (professional and technical staff, administrative personnel and others); and
- the decline in public employment, where levels of unionization used to be high.

Despite these limitations, it has been argued that the modernization of labour relations in line with the new technological and economic conditions requires, first, strengthening workers' capacity for collective bargaining and, second, moving towards less State intervention in fixing working conditions. Such reforms would thus eliminate State-induced distortions in the labour market and make labour relations more efficient, especially if collective bargaining were to be conducted at the firm level (see, for example, World Bank, 1995b, pp.79-85).<sup>181</sup> There is, however, no consensus about the level at which collective bargaining should take place.<sup>182</sup>

Nevertheless, many people work in firms that are too small to allow the organization of workers and the effective expression of their interests.<sup>183</sup> This is exacerbated by subcontracting, both in complementary activities and in parts of the production process itself, an area where labour relations differ markedly from those of workers in "core" companies (Echeverría and Uribe, 1998).

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180 For example, the growth trend of temporary employment in agriculture hinders the organization of unions (Kay, 1997, p.11).

181 In fact, empirical evidence shows that in several cases unions have managed to influence the way that firms restructure labour relations (Dombois and Pries, 1998).

182 See, for example, van der Hoeven (1997, p.46), who criticizes the World Bank's proposal on restricting collective bargaining to the firm level.

183 Less State intervention in the labour market could intensify labour segmentation by strengthening the bargaining power of a minority group of workers (see, for example, Carneiro and Henley, 1998).

It would appear, then, that many countries could benefit from having unions that are more independent of State structures or party interests, so that they can better fulfil their mission and so that the flexibility of negotiating levels can trigger integrated approaches to improvements in productivity, wages and working conditions. The State must continue to have an important regulatory role, however. At the same time, many countries of the region should further enhance the efficiency of the relevant public institutions (Tokman, 1994).

#### **D. Assessment of the Institutional Framework of the Labour Market and the Impact of the Reforms**

As discussed earlier, until the 1980s, studies of employment trends argued that labour markets worked fairly well in the developing world, and specifically in Latin America and the Caribbean. The behaviour of the region's labour market in the 1980s validated that judgement.<sup>184</sup> The regulations did not hinder the implementation of stabilization policies; real wages fell sharply; and open unemployment, which had grown during the crisis of the early 1980s, fell relatively fast despite low rates of economic growth.<sup>185</sup>

With regard to the behaviour of these variables in the 1990s, it has been argued that the sharp fall in inflation led to greater rigidity in real wages because of limited flexibility due to the fall in nominal wages (Márquez, 1998, p.8). The data in chapter IV, however, indicate that in the 1990s real wages reacted quite flexibly to variations in labour demand (see figure IV.2). Additionally, in many countries wage policy was a function of price stabilization, which tends to increase wage flexibility. Because the minimum wage fell drastically in real terms in many countries during the 1980s, it ceased to be a relevant wage floor. This reduced its "distortionary" effect in the labour market but was not conducive to equity.<sup>186</sup>

Another indication that the labour market was reasonably flexible in the 1990s is the length of time that people were unemployed. Unemployment in the region was marked by a high entry and exit rate and a short duration, which suggests that at the aggregate level there were no great institutional obstacles to reintegration in the market (Márquez, 1998). Various studies of the labour market's institutional arrangements conclude that the institutions

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184 See Horton, Kanbur and Mazumdar (1994b); Plant (1994).

185 As a regional average, in the 1980s urban unemployment peaked in 1984 at 8.2%, but by 1987 it had fallen to 5.8%, which was below the 1980 rate (6.2%). It remained near that level, with slight fluctuations, to the end of the decade.

186 In contrast, wage earners with lower educational levels benefited in those countries where the minimum wage grew more than the average wage, since that obviated a worse fall in their relative wage (see chapter VI).

are not particularly flexible, but several others focusing on the *results* find a high degree of flexibility. The latter include studies on employment and wages in Chile (Mizala and Romaguera, 1996) and on wages in Brazil (Barros and Mendonça, 1997).

In short, the region's labour markets are generally quite flexible. This does not preclude the possibility that specific changes to the labour regime might improve the ways in which those markets work, although it is not certain that this would notably increase their efficiency.

How did the policies and practices implemented in the 1990s affect labour market institutions? Table VII.1 summarizes the main labour market reforms, other employment policies and new practices at the firm level. The table also shows what effect these had on the various elements of labour flexibility, on strengthening the position of disadvantaged groups in the labour market and on stimulating labour demand. Obviously, not all the countries under study took the same measures.

Measures to increase labour market flexibility were prominent among the labour reforms, not only in terms of employment and mobility between segments and sectors, but also with regard to wage flexibility. However, some countries adopted provisions geared to broadening the scope for union organization and for protecting certain vulnerable groups.

Employment policies supported further flexibility in the labour market through wage policies and the decline in public employment, as well as through measures to increase labour mobility, especially improving intermediation and retraining programmes. Efforts were made to stimulate the flexibility of the labour input through training programmes and business development schemes, and to improve the employability of vulnerable groups by means of specific training programmes. Finally, some policies sought to increase labour demand through temporary programmes (emergency plans) and longer-term schemes (business development).

As for business practices, firms increasingly used measures to heighten the flexibility of employment, and they introduced arrangements to link wages more closely to productivity. To improve the flexibility of the labour input, companies took steps to develop internal labour markets (so as to reduce turnover) and improve worker participation in an effort to increase productivity. It should be noted, however, that a "modernization" of labour relations with greater worker involvement has thus far occurred only exceptionally (Cook, 1999).

Changes to labour market institutions simultaneously reflected and strengthened the increasing heterogeneity of the employment structure. They reflected it in the sense that changes in the economic context had a variety of effects on labour institutions, as seen in firms' practices, union organization and the coverage of labour legislation. Various kinds of participatory labour relations now coexist with neotaylorist relations and even with precarious



Table VII.1  
**LATIN AMERICA AND THE CARIBBEAN: SUMMARY OF MEASURES  
 AFFECTING THE OPERATION OF THE LABOUR MARKET, 1990s**

	MEASURES TO INCREASE LABOUR FLEXIBILITY					MEASURES TO IMPROVE THE POSITION OF DISADVANTAGED ACTORS IN THE LABOUR MARKET	MEASURES TO STIMULATE LABOUR DEMAND
	MEASURES TO INCREASE THE FLEXIBILITY OF THE LABOUR MARKET			MEASURES TO INCREASE THE FLEXIBILITY OF THE LABOUR INPUT			
	MOBILITY	EMPLOYMENT FLEXIBILITY	WAGE FLEXIBILITY	HUMAN CAPITAL FLEXIBILITY	INCREASING PRODUCTIVITY		
Reform of labour legislation	Reduction of firing costs, public health reforms	Reduction of hiring and firing costs, fixed-term contracts, unemployment insurance	Fixed-term contracts, end of indexation, reduction of non-wage labour costs	-	-	Broadening of union rights, protection of specific groups	Fixed-term contracts, reduction of non-wage labour costs
Wages and employment policies	Inter-mediation re-training programmes	Reduction of the public sector	"Conservative" wage policy	Training geared to demand	Business development programmes, <sup>a/</sup> training subsidies	Training and wages subsidies for specific groups, minimum wage	Emergency programmes, business development programmes
Company level practices and collective bargaining	-	Subcontracting, fixed-term contracts	Link between productivity and wages	Development of internal labour markets, multifunctionality	New means of worker participation, participative wages	Worker participation schemes, union leaders' training	-

**Source:** Author's compilation, on the basis of the research.

a/ Especially to benefit small and medium-sized companies.

labour conditions, as are frequent in subcontracting and home-based work. These different types of labour relations are sometimes interlinked throughout a production chain.

Changes to the labour market's institutional framework also strengthened the increasing heterogeneity of the employment structure, most notably by making the rules on hiring and firing more flexible. In some cases the institutions were decentralized, by transferring negotiation to the firm level. These changes tended to increase firms' short-term efficiency, since they enabled the companies to use the workforce more flexibly according to their needs. Such changes also benefited certain groups of workers, as when new kinds of contracts facilitated access to paying jobs for those seeking part-time or fixed-term employment, or when new, more participatory labour relations developed. As described earlier, however, labour market institutions serve the dual aim of enhancing the market's efficiency and protecting structurally disadvantaged actors so as to guarantee adequate working conditions, and in this regard such institutions must act as agents of social cohesion. The extreme decentralization of labour market institutions might be useful for firms and

for more productive workers, but in the context of increasing informality, a growing sector of workers remain outside the labour market's institutional arrangements.

In their study of the impact of labour reforms on the creation of wage employment, Martínez and Tokman (1999) conclude that the reforms did indeed speed the creation of new jobs.<sup>187</sup> In contrast to the expectations raised, however, and in line with the general trends analysed above, these authors find that most of the new jobs were precarious. The growth of temporary contracts was to some extent a desired change, since it was assumed that the trend would not only make hiring and firing more flexible for the employer, but also open up new employment opportunities for specific segments of the labour force whose employability had traditionally been low. However, the growth of non-contractual wage employment was an unexpected outcome, since it had been assumed that the fall in hiring and firing costs for "regular" jobs (those with a permanent contract and social protection), together with the expansion of temporary contracts, would stimulate the hiring of such contracted labour. It now seems that these new, non-contractual jobs usually arise in conjunction with the segmentation of employment in formal-sector companies, thus setting a core of stable workers apart from a growing group with extremely flexible working conditions, not only in terms of hiring and firing but also as regards working hours.

A central element in the trend towards more precarious working conditions is the "de-labourizing" of the contract (Morgado, 1999): if the labour market is viewed as simply another market, the contractual relationship is stripped of the specific nature that distinguishes it from other contracts. This view rejects the notion that labour market institutions have a dual objective, and it gears those institutions towards the development of efficiency, to the detriment of their protection function. The clearest example of this (obviously after non-contractual wage employment) is that form of subcontracting whereby a product or service is paid for without the parties establishing a formal relationship as between employer and employee, but rather operating as two ostensibly equal market agents.<sup>188</sup>

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187 They do not establish causal relationships, however, and they do not refer to the role of economic growth.

188 This is not negative per se, since it can mean high incomes for highly qualified workers, in combination with a considerable degree of independence in the (self-)organization of labour (see Carnoy, Castells and Benner, 1997; Tomei, 1999). For the great majority of workers, however, the negative aspects of instability and uncertainty prevail.

## E. Conclusions and Prospects

There is broad awareness that many countries' labour regulations, fashioned in earlier decades, are not tailored to the new external and internal technological and economic contexts, which require more flexible labour market institutions.

This market has specific characteristics, however, and its institutional regulation has to meet a dual goal: to encourage market efficiency and strengthen the position of the structurally weaker agents. Labour flexibility is a means of attaining that dual goal, but it is not the goal in itself. Moreover, it is defined not only by the flexibility of the labour market, but also by the flexibility of the labour input. The two can be contradictory, and the optimal flexibility of the labour market is less than its maximum flexibility.

Labour reforms and other employment policies sought to increase labour flexibility in the 1990s, although in a broader sense than the mere dismantling of the existing regulations. Toward the end of the decade the region's labour market institutions were viewed as unsatisfactory. For some, this was despite the recent changes; for others, it was because of them.

The former argued that the labour reforms were insufficient, in the sense that more extensive deregulation is needed to stimulate growth and job creation; hence labour reform should follow the same logic of any other reform.<sup>189</sup> The latter maintained that labour reforms, as they were applied in the 1990s, contributed to degrading working conditions without fostering the creation of productive employment.

These arguments prompt the following considerations. The dismantling of some aspects of the pre-existing institutional framework might well be a symptom of a transition phase; it does not by itself imply the creation of a sustainable regime that accords with the new technological and socioeconomic conditions, which still remains to be done (Hein, 1995). This seems to be the message of developments in other markets: in response to the critical experiences of inefficient regulations that followed the dismantling of the existing regulatory framework in different markets, the overall discussion at the end of the 1990s focused less on deregulation than on the characteristics of the new regulation and on adapting the latter to the new economic and political circumstances (Stiglitz, 1998; Ffrench-Davis, 1999). The same holds true for the labour market: the task is not deregulation, but the development of appropriate institutional arrangements.<sup>190</sup>

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189 "The challenge for labour policy is not so different from the challenge for commercial policy until a few years ago. 'To reduce distortions and increase the competition'" (Cox Edwards, 1997, p.91).

190 Similarly, Diwan and Walton (1997) analyze the pressures for adjustments to the labour market's institutional framework and conclude: "The answer is not institutional destruction" (p.12).

Most labour norms in future will undoubtedly emerge from direct, more flexible negotiation between firms and union representatives. This does not mean, as has sometimes been argued, that collective bargaining should be limited to the firm level or that public intervention in labour relations should end. Some trends are indeed reducing the weight of State regulation from above and below, but that is not to say that public regulation is superfluous. It is possible to distinguish four levels of labour market institutions that will regulate future labour relations.<sup>191</sup>

- Trade integration has revived discussion of supranational labour norms. In particular, there is a debate about the global legitimacy of some basic labour standards and the link between international trade and labour norms (the debate is partly on the question of social dumping). There is some reluctance to link the labour market's institutional arrangements with trade, since such a link is seen as a means of imposing obstacles to the use of comparative advantages (SELA, 1994). Consensus on this matter remains distant.<sup>192</sup> It seems clear, however, that the supranational level will play an important role in shaping the institutional framework at the national level. This trend has been reinforced by regional integration processes, which have established labour norms and forums for dialogue.<sup>193</sup>
- The State will continue to play a highly prominent role in labour market institutions. It is the locus of the relevant legislation, the supervision of labour, the administration of justice and the level of the minimum wage.<sup>194</sup> Moreover, in discussing whether labour norms should be decentralized from the national and public level to lower levels negotiated between employers and unions, it should be recalled that much of the labour force lacks union representation. This is especially the case in small firms and in the informal sector –segments that are currently growing. Many national-level decisions can emerge from trilateral negotiations, which would give them broad legitimacy.

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191 Crossing-cutting these levels is the dialogue at the local or regional level, since not only are the firms essential for local development, but the reverse is also true: the integration of the firms with their local environment is an increasingly important element of their own competitiveness.

192 On the different aspects of this discussion, see Sengenberger and Campbell (1994); Scherrer (1996); Krueger (1997); Lee (1997); Belser (1998); Frohmann and Romaguera (1998).

193 On the challenge of trade integration processes for the institutional framework of the labour market, see ILO (1995).

194 The impact of wage policy on the two goals of the labour regime (to foster the efficiency of the labour market and to strengthen the market position of the structurally weaker actors in it) largely depends on the wage level. It has been estimated that a negative impact on market efficiency (manifest as higher unemployment and high levels of non-compliance) becomes apparent with a minimum wage that exceeds a level of two thirds the average wage in microenterprises (ILO, *Panorama laboral*, 1997; pp.40-44). Consequently, at least below this level there is room for a wage policy that seeks to comply more fully with the second goal, since an increase in the minimum wage has a positive effect on poverty reduction (Lustig and McLeod, 1996; Morley, 1998, pp.63-65).

- Negotiations at the sectoral level facilitate agreements on issues of common concern, such as the normalization of specific labour competences as bases for training programmes. They also allow the fixing of minimum bases for working conditions. This is important for workers, especially when the degree of organization at the firm level is low; for firms, the advantages consist of a certain sectoral stability and a fall in negotiating costs.
- Because of growing specialization and differentiation, as well as the wide variety of firm sizes, negotiation at the company level is acquiring importance. Labour relations are therefore more diverse at this level.

The labour market's future institutional framework should thus be based on an efficient combination of collective bargaining instruments and public regulation.

As various empirical studies attest, labour market institutions and economic performance are not closely linked. It can be assumed that this will continue to be the case in the future. The wide variety of experiences in this respect within the region's heterogeneous production structure suggests that it will be hard to impose uniform labour practices. Even in increasingly integrated markets, the connection between labour market institutions and competitiveness is not so close as to leave no room for improving working conditions, while simultaneously taking into account the labour market's specific nature and national conditions.<sup>195</sup> As mentioned above, the labour market is distinct from other markets, and its institutions spring from country-specific political and cultural processes. It would hardly be efficient to try to impose a single regulatory framework on very different countries.

Analyses that infer a lineal association between deregulation and labour performance tend to neglect the labour market's specific characteristics and the socioeconomic conditions of each country. They often outline identical proposals for all countries, which are of little help in devising the concrete reforms that a given country should introduce. The same can be said of the suggestion to "carry out a labour reform" without specifying how: as this chapter has argued, labour market institutions are complex; they cannot be reduced to a few variables that should be made more flexible.

Many countries now seem to have reached a dead end in their progress towards new institutions that truly support the stability and sustainability of the new development model. Some of the forces that have long advocated changes in the labour regime focused on the elements of labour market flexibility, applying an overly deregulatory perspective. They emphasized the benefits of unilaterally deregulating an institutional framework whose excessive rigidity prevented labour relations from being adapted to the new

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195 Beccaria and Galín make a similar argument (1998). Gallart (1998) stresses the institutional diversity of successful experiences of professional training.

requirements. Some countries carried out such reforms under authoritarian governments. More flexible contracts made many jobs precarious. Numerous firms retained a hierarchical spirit that was not conducive to participatory relations between workers and employers. The reform of labour market institutions has thus come to be associated with measures that generally degraded working conditions, although it has been argued that they benefited the unemployed. Moreover, there has been resistance to the redefinition of labour relations to include the participation of all relevant actors, as a means of adapting them to the new technological and socioeconomic conditions but without neglecting their specific characteristics. In that context, it is not surprising that unions have often responded to the proposed reforms by defending the status quo. These cases obviously lacked the necessary conditions for a joint effort by all the main actors (businesses, workers, the State and others) to transform the labour market in a way that meets the two-fold aim of the institutional framework in the new economic context.

Nevertheless, the region has also had some encouraging experiences. These include various efforts at social dialogue, new attitudes towards the role of training, the reorientation of many unions, the adaptation of labour relations at the firm level, emphasis on the link between the productivity and wages, and new methods of collective bargaining. Many of these efforts, although incipient, place more stress on the flexibility of the labour input and the construction of a new institutional framework than on deregulating the labour market.

## CHAPTER VIII

# CONCLUSIONS



The economic reforms that were implemented throughout the region in recent decades raised expectations that labour markets would perform better. It was thought that with the elimination of the distortions that characterized the previous development model, higher and more labour-intensive economic growth would hasten job creation (see chapter II). In fact, the region's labour markets underwent profound change in the 1990s as a result of economic restructuring and changes in labour market institutions.

Such changes affected labour demand more than labour supply, which retained the long-term trends prevailing in the postwar period (see chapter III). Those trends largely conform to a series of factors that are exogenous to the labour market, such as demographic change, the growth of educational systems, urbanization and pensions systems. The main characteristics of the labour supply in the 1990s were the decline in the growth rate of the working age population, the increase in women's labour participation and the rise in educational levels. The first of these reflects the impact of the demographic transition, since the prior fall in the birth rate limited the proportion of younger age groups in the labour force and, at the same time, led to an increase in the average age of economically active individuals. Greater and more stable labour participation by women of intermediate age also contributed to this process, which largely explains the substantial growth of female economic participation in almost all of the countries under study. Finally, the growth of educational systems led to a continuous raising of the educational level of newcomers to the labour market. This factor, together with the withdrawal from the market of those with less schooling, led to a marked increase in the average level of education.

Long-term trends in labour participation originate in sociocultural processes and in the policies of earlier periods; they were thus largely unaffected by the change in the economic model. However, labour participation fluctuated substantially in the short term, which reflects households' economic needs as well as changes in the perception of the job opportunities offered by prevailing economic conditions.

Over the long term, employment and the labour supply are closely linked. This explains many of the changes in the labour market during recent decades, and it precludes the interpretation of job creation rates mainly as a reflection of the nature of growth in each phase, although the latter has an influence. Consequently, neither the decline in the rate of job creation in the 1990s relative to the previous decade, nor the fact that the employment elasticity of output in the 1990s surpassed the levels of the 1950s and 1960s, serves as a basis for firm conclusions about the job creation capacity of the region's economies in the last 15 or 20 years—that is, following implementation of the reforms. It can only be concluded that at this level of aggregation, given the long-term trends in the labour supply, there was no fundamental interruption in the intensity of job creation (see chapter IV).

If labour supply largely determines the evolution of employment over the long term, economic growth is the decisive variable in the short term. In the 1990s regional output exceeded that of the 1980s but still grew quite modestly, which was reflected in the weakness of labour demand. Consequently, and in contrast to what happened between the 1950s and 1970s, the share of wage labour in the employment structure did not increase.

The reforms had contradictory effects in this regard. On the one hand, they stimulated economic growth, which aided job creation; on the other hand, they gave rise to a lower labour intensity of growth. The decline in labour intensity was linked to commercial liberalization and, in many countries of the region, to the appreciation of the local currency.

The negative impact of the reforms on labour intensity was offset in some cases by successful stabilization after a deep or protracted economic crisis, in the context of access to external financing that stimulated economic growth. The interaction between the reforms and macroeconomic policies, as well as the sustainability of the economic growth programmes, was therefore crucial for labour performance. The primacy of macroeconomic progress is also clearly evident in other labour variables that are distinct from job creation. At the country level, labour performance is closely linked to economic growth, as are short-term changes in the rate of job creation. Hence, despite the negative impact of the reforms on labour intensity, there was no jobless growth.

Nonetheless, against the background of a continuous growth in the labour supply, the negative impact of the reforms on employment in some countries contributed to the fact that unemployment did not fall significantly in the 1990s, despite higher growth rates in much of the decade. This situation was



exacerbated by the economic crisis at the end of the period, when regional unemployment even surpassed the levels of the so-called lost decade of the 1980s.

The low rate of wage job creation arose from employment trends in the public sector and in medium-sized and large firms, while wage employment in microenterprises and in domestic service grew substantially, as did self-employment. This concentration of employment in segments that normally create lower-quality jobs contrasts with unmistakable signs of an upgrading of the production structure, such as the increased share of high-skilled jobs and the relatively extensive integration of people with high levels of education. Formal-sector wages were very flexible with regard to the fluctuations of economic growth and the impact of those fluctuations on labour demand. At the same time, in the context of some improvement in labour productivity, such wages increased in real terms, recouping the losses of the 1980s in most countries.

Theoretical expectations notwithstanding, the two main sectors producing tradable goods (agriculture and manufacturing) recorded weak employment growth compared to other sectors, as well as relative to the historical trend; the new jobs were mainly in the tertiary sector (see chapter V). The rate of job creation was high in basic services and, especially, in financial services, insurance, real estate and business services. A large number of new jobs were also concentrated in the commerce, restaurants and hotels sectors, as well as in community, social and personal services. In countries where domestic demand grew relatively fast, construction made a substantial contribution to the creation of new jobs.

Average labour productivity increased significantly in the two main tradable goods sectors, while it stagnated in the tertiary sector (in contrast to what happened between the 1950s and 1970s). This partly reflects the weight of informal, low-productivity work in the recent job creation in the sector.

The transformations evident throughout the decade, and specifically the reforms, affected the various economic activities and diverse segments in different ways. There were winners and losers in terms of output and employment. In agriculture the reforms revitalized some categories, especially those geared to export; these underwent intense modernization, improved their productivity and expanded their sales. In contrast, many agricultural activities geared to the domestic market, especially the small-farm economy, faced serious problems in competing with a higher level of imports. As a result of these opposing trends, agricultural production grew modestly and employment fell.

Several basic assumptions about the likely impact of the reforms were mistaken. Production for export was not necessarily more labour-intensive, since agricultural output (especially for foreign markets) must increasingly conform to technological standards that limit the chances of substituting factors according to their relative abundance. Furthermore, the urban bias was neither

as widespread nor as deep as had been claimed. Reform of the sector thus eliminated not only obstacles to sectoral development, but also other elements that had previously given some support to producers, especially those that are at a disadvantage in the sector's specific production conditions (technology, marketing and so on). Additionally, in most countries the behaviour of the exchange rate did not favour agricultural production, or indeed the production of tradable goods in general.

The low growth of employment in manufacturing was closely related to trade liberalization and business reactions. Against expectations, the region generally proved to be lacking in comparative advantages in low-skilled, labour-intensive production. Some such categories contracted sharply, with substantial job losses. As these categories lost weight in the industrial structure, the region's manufacturing output became less labour intensive as a result of the new composition of the sector. Although industrial output grew at a rate close to that of regional GDP, firm restructuring, which generally implied layoffs and substantial increases in labour productivity, also limited job creation in this sector. In general, increased labour productivity was concentrated in medium-sized and large firms, although some smaller companies also improved their relative position given favourable macroeconomic and sectoral conditions.

It is important to distinguish between two subregions: South America, on the one hand, and Mexico, Central America and the Caribbean, on the other. Although the latter's manufacturing industry was also affected by the trends outlined above, their geographical proximity to the United States and their preferential access to the United States market through trade agreements facilitated the expansion of some labour-intensive export industries that were closely integrated with the United States productive apparatus. For that reason, manufacturing employment in many countries of this subregion developed more favourably than in South America.

In the 1990s, new employment was concentrated in tertiary activities, whose share of the region's total employment increased from 49% to 55% between 1990 and 1997. A wide variety of factors contributed to this growth, and the composition of the new jobs was diverse. On the one hand, various tertiary activities benefited from economic changes stimulated by the reforms and by the new macroeconomic conditions. Tertiary activities could thus be modernized, and new services could be introduced. Although these categories sometimes also included labour-saving technologies, such changes had a positive effect on employment, especially for jobs requiring intermediate and high skill levels. This was the case in many tertiary branches, including financial services, insurance, real estate, business services, transport, communications, energy, trade, tourism, recreational services, education and healthcare. On the other hand, some tertiary activities, such as trade and personal services, were concentrated in microenterprises, self-employment and non-wage labour; they thus often served as a haven for those who could not find work in formal activities.

The growth of tertiary activities fostered the productive integration of a large number of women in the labour market. The increase in female employment in the employment structure was one of the main features of the 1990s. It was concentrated in tertiary activities, where it reflected the polarization of new job creation: an increase in the share of female wage earners, often with a high level of education, contrasted with the many cases of greater female integration in typically informal activities.

Various processes of increasing heterogeneity occurred as a result of the structural transformation at the sectoral level (see chapter VI). A key phenomenon in this regard was the growth of certain tertiary activities. Apart from having undergone intense modernization, they became increasingly important in economies in which formal activities are ever more interrelated and where the competitiveness of tradable goods is progressively more dependent on the efficient integration of their production with service activities. Other pertinent trends were the growth of social services, such as education and healthcare, and of tertiary categories geared to household consumption. The growth of some formal tertiary activities and, in particular, changes within this sector thus led to the upgrading of their employment structure and increased demand for more educated staff.

In the main sectors producing tradable goods, “soft” and “hard” technological changes spurred the growth of labour productivity. This was concentrated in large companies and, depending on the growth context, medium-sized firms. However, these sectors still have not developed a dynamic demand for highly qualified staff, which seems to reflect the companies’ defensive reactions to greater competition in the markets.

The demand for less skilled workers declined substantially in response to changes within sectors (especially in the secondary and tertiary sectors) and the reduced share of the primary and secondary sectors in the employment structure as a whole. A large proportion of the lower-skilled labour force was thus obliged to seek employment in non-wage, lower-productivity occupations.

Consequently, one of the main labour markets trends in the 1990s was the differing ease of access to formal employment *depending on the educational level*. The creation of wage employment centred on individuals with average and high levels of education, while those with less education had to look to non-wage activities. Labour markets thus fragmented into two segments, one determined by demand and the other by supply, in a process that was closely linked to the educational characteristics of the labour force. This trend is reflected in the widening of the wage gap between workers with different educational levels and occupation.<sup>196</sup> As a result, in many countries workers with less formal education barely shared in wage increases, or they suffered losses in real terms.

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196 It can be said that in many countries this labour polarization is in line with a broader social polarization that covers many areas, such as urban development, education, health and public safety. Similar trends have been analyzed in the United States; see Reich (1991).

The sectoral restructuring of employment therefore helped launch a multifaceted process of increasing heterogeneity in the labour market. First, significant job creation occurred simultaneously at opposite ends of the employment structure, with upgrading (growing demand for highly qualified people) offset by the concentration of new jobs in the informal sector (which generally offers lower-quality work). At the same time, the average labour productivity gap and the wage gap widened between microenterprises and larger firms. This seems to indicate that the gap between the formal and the informal sectors is widening. Second, the labour conditions of formal employment (in medium-sized and large firms) also became increasingly heterogeneous, in terms of both incomes (increase in the wage gap between workers with different skill levels) and labour relations (the emergence of a stable core of workers distinct from those with unstable employment, more precarious kinds of contracts and less social protection). Third, there was an internal division within microenterprises and self-employment, one segment of which also experienced some degree of upgrading.

The employment structure was thus polarized and the segments became more heterogeneous. This does not, however, mean that the segments are breaking away from each other in productive or labour terms, in the sense of a dual economy. With regard to polarization, new links are being established between formal-sector firms and informal entities, such as microenterprises, independent workers and home-based workers. As for increasing heterogeneity, the working conditions of some formal-sector employees have deteriorated, and a segment of new, good quality jobs is emerging in traditionally precarious spheres. Such processes make it less valid to equate employment in the formal sector with good quality work, and self-employment or employment in microenterprises with poor quality.

The main counter-trend to increasing heterogeneity is the narrowing of the wage gap between men and women. This was largely because of the influx into the market of highly qualified women, especially in tertiary activities, since their relatively high wages positively influenced women's average incomes. On the other hand, there was no generalized narrowing of the wage gap between the sexes, since wage differentials within educational groups evolved in different ways.

The increasing heterogeneity of the production and employment structure affected the institutional framework of the labour market, since there were efforts to make it more flexible through changes at the firm level (see chapter VII). At the same time, and partly as a result of the poor performance of the labour market, the 1990s saw an upsurge of voices insisting on the need for a profound change in that structure. Hence the implementation of labour reforms that sought to make the labour market more flexible, with significant differences between countries. There is quite a broad consensus that some of the labour market institutions designed in earlier decades are not appropriate

to the new economic conditions. There is wide disagreement, however, on the nature of the changes required and the best approach to implementing them. This study has stressed the peculiar nature of the labour market, together with the aims of the institutions that arise from that peculiarity. These are basically to encourage market efficiency and to strengthen the market position of the structurally weaker actors, with a view to securing better working conditions.

Making labour market institutions appropriately flexible does not mean deregulating the market completely, but rather adapting the institutions to the new economic conditions in a way that facilitates their dual goal. This adaptation should be the outcome of country-specific processes, since there is no single model to fit all cases. In a context marked by some common elements, there is room for each country to develop new institutional arrangements according to its own characteristics. In fact, not all the changes made to labour legislation in the 1990s sought to reduce hiring and firing costs; many labour policies put increasing emphasis on making the labour input, not simply the labour market, more flexible.

Labour market institutions must arise from negotiations and practices in more levels than before. The previous institutional framework was mainly defined at the national level, through legal means and centralized collective bargaining, although its coverage was limited. Now, growing trade integration and the heterogeneity of the production structure mean that the new institutional arrangements are defined at more distinct planes, from the supranational sphere to the firm level.

The profound changes in the region's labour markets reflect transformations in the production structure. The most important of these is restructuring at the sectoral and firm levels in response to new economic conditions and to technological change. Tertiary activities are increasingly important in overall growth, and the main sectors are ever more integrated. The distinction between sectors producing tradable and non-tradable goods and services is therefore less clear-cut. At the firm level, the emerging networks comprise much smaller units than those prevailing in the traditional integrated structure. Technological change imposes new production standards, allows significant increases in productivity and flexibility, and tends to be labour-saving. With the growing integration of international markets, these general trends increasingly affect the region's economies. This influences the labour markets, especially as regards the composition and characteristics of employment, which tends to be more heterogeneous and insecure.

Short-term economic growth continues to have a strong influence on job creation, especially the creation of wage employment. While the reforms seem to have had a mildly positive impact in this regard, growth rates in most countries of the region were modest in the 1990s. Labour demand was thus relatively weak in comparison with the period 1950-1980, and it was

insufficient to satisfy the population's need for work and income. The level and stability of economic growth not only affect labour demand, but also firms' willingness to invest in staff training. Relatively stable growth rates are also positive for labour supply, since conjunctural fluctuations in growth lead to a high level of movement into and out of the secondary labour force. Its members thus tend to interrupt their studies or abandon them completely, which limits their chances of finding productive, well-paid work in the future. Macroeconomic policies are obviously crucial for the level and stability of growth.<sup>197</sup>

As the preceding chapters discussed, much of the future labour demand will be concentrated in tertiary activities. In the first place, growth tends to foster labour demand in business services: the competitiveness of firms producing tradable goods increasingly depends on systemic competitiveness, one of whose basic components is efficient integration between the firm and specialized service companies, such as computing, marketing, research, security, or financial services. Second, high and sustained economic growth tends to stimulate labour-intensive personal services, such as tourism, trade and recreational services. It also facilitates the financing of services that are important for reasons of equity and systemic competitiveness, such as healthcare and education.

These considerations do not disregard the possible contribution of the primary and secondary sectors to job creation, since the productive transformation of agriculture and manufacturing can generate direct and indirect productive employment in, for example, the following areas:<sup>198</sup>

- Small and medium-sized firms. Job creation at this level largely occurs through integration in production networks headed by large companies, as well as through complementary specialization and cooperation among the smaller enterprises. Employment also expands as these firms strengthen their export capacity and exploit the growth of business services.
- *Maquiladoras*. This group of firms is undergoing a process of differentiation and technological upgrading that tends to replace competitiveness based on unskilled, low-paid labour with a set of complementary factors, which should lead to measures to improve working conditions.
- Natural resource-based production. Exploiting growth in this area through greater linkages with other sectors would create new jobs in secondary and tertiary activities, especially in the countryside.

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197 See, for example, French-Davis (1999).

198 For a detailed discussion, see Altenburg, Qualmann and Weller (1999).

These examples reflect the growing importance of systemic competitiveness. As said earlier, the competitiveness of a firm or sector increasingly depends on its efficient integration with other activities, such that the distinction between the sectors producing tradables and non-tradables is ever less relevant. This calls for the implementation of development policies with an emphasis on job creation, which would simultaneously counteract the decline in the labour intensity of growth induced by the productive transformation. Many of these development activities should have a geographical focus, to take advantage of potential at the local level and the synergies that arise from the proximity of companies active in the same line of business or in interlinked activities.

Adopting special measures to benefit microenterprises can help boost labour demand in those segments of the labour force that face disadvantages in the new economic context, as these firms are among the region's main users of manpower. Such measures might take the form of specific development programmes or training and wage subsidies.

Quantitative and qualitative improvements are needed in education to address the redefinition of labour demand, which is now increasingly geared to the hiring of more highly educated staff, and to increase the knowledge factor in production as a means of increasing competitiveness.<sup>199</sup> Transforming educational systems and facilitating access for youth from all socioeconomic backgrounds are key elements of a strategy to integrate productive development and equity in a coherent manner.

In recent years, efforts have been made to improve professional training, but in this area, too, much work remains if the new demands are to be met.<sup>200</sup> Just as with progress on education, higher professional skills not only improve people's employability but also extend their functional flexibility, which allows them to take better advantage of the new employment opportunities that arise.

In this context, reducing youth unemployment is critical, as it is usually double or triple the average unemployment rate. Youth unemployment not only represents a lack of current income, but it also places limits on future income, thus perpetuating intergenerational inequity. This is due to the fact that during a period of unemployment, young people are usually remote from the three sources of human capital formation: formal education, professional training, and the experiences and abilities that are acquired at work. It is

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199 It has been noted that a sharp increase in the supply of highly educated workers can lead to the displacement of less educated workers (Gálvez and Pollack, 1998). This is negative for equity and suggests that staff are being underutilized in jobs that do not require their skills. However, this process can lead to the economic and social upgrading of the corresponding employment, as has happened in the industrialized countries.

200 For an analysis of training requirements in a context of technological change and shifts in the organization of production, as well as the attendant policy recommendations, see Labarca (1998) and ILO (1998b).

therefore vital to strengthen measures that delay premature integration in the labour market. Since many families recognize the importance of education for their children's future, subsidies to families with urgent material needs, coupled with a corresponding commitment to encourage children to study, would be a valuable stimulus. Employment prospects for young people might also be improved by refining training schemes that facilitate their entry into the labour market.

Finally, it is fundamental to facilitate the integration of women in the labour market by reducing the burden of their other roles, especially those of housewife and mother. The importance that female labour integration has for poverty reduction (Jiménez and Ruedi, 1998) and the relatively scant participation of less educated women reveal the potential of such measures for bettering the socioeconomic circumstances of many households.



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## **ANNEX**





This table specifies the periodization and geographical coverage of the surveys used in the present study to estimate job creation by occupational category (table IV.4) and branch (table V.1) in the 1990s.

**LATIN AMERICA AND THE CARIBBEAN: PERIODIZATION AND GEOGRAPHICAL COVERAGE OF THE SURVEYS USED TO ESTIMATE JOB CREATION BY OCCUPATIONAL CATEGORY AND SECTOR, 1990s**

COUNTRY	SURVEY COVERAGE	FIRST YEAR	FINAL YEAR
Argentina <sup>a/</sup>	Greater Buenos Aires	1991	1997
	Urban areas	1990	1997
Bolivia	Departmental capitals		
	and the city of El Alto	1990	1997
Brazil	National total	1992	1996
Chile	National total	1990	1997
Colombia	National total	1991	1997
Costa Rica	National total	1990	1997
Dominican Republic	National total	1991	1996
Ecuador	National total	1990	1995
El Salvador	National total	1992	1997
Honduras	National total	1990	1997
Jamaica <sup>a/</sup>	National total	1989	1996
	National total	1991	1996
Mexico	National total	1991	1997
Panama	National total	1991	1997
Paraguay	National total	1992	1997-1998
Peru <sup>a/</sup>	National total	1991	1997
	Metropolitan Lima	1990	1997
Uruguay <sup>a/</sup>	Montevideo	1990	1997
	Urban national	1990	1997
Venezuela	National total	1990	1997

**Source:** Author's compilation, on the basis of the research.

a/ The first line refers to the periodization and geographical coverage used in the estimate of job creation by occupational category; the second line refers to the branch.

