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Wages, employment and workers' rights in Latin America, 1970-98

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The political economy of Latin America in the 1990s was dramatically different from what it was before. Prior to the debt crisis that began in mid-1982 (when Mexico announced the possibility of a moratorium on its debt payments) most governments in the region pursued economic policies that were essentially national, rather than geared to international markets. This was possible because of a range of controls over capital flows and regulations that affected imports and exports.[1] Through the 1980s and 1990s, virtually every government (with the exception of Cuba's) reduced both trade regulations and capital controls.[2] Closely associated with this process of deregulation has been regional integration, most notably under the North American Free Trade Agreement (NAFTA), which came into effect in 1994. In a parallel development, the Governments of Argentina, Brazil, Paraguay and Uruguay formed the "Common Market of the South" (MERCOSUR), with Chile and Bolivia as associate members. The purpose of this article is to consider what has occurred in the labour markets of Latin America[3] during these processes of economic liberalization and regional integration. The economic and social trends coincident with liberalization and regional integration arise from a range of factors that include: (1) recovery from the debt disaster of the 1980s and its associated policies of demand compression (De Piniés, 1989); (2) a shift in economic ideol-

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[1] The usual term, "import substitution", is almost invariably employed loosely to describe an alleged similarity of policy regimes throughout the region. But import substitution proper is an industrial policy, which includes far more than merely import restrictions. As Liang (1992) has demonstrated, import restrictions are quite consistent with discouraging import substitution, for they can occur in a context in which the prevailing incentive is for production of non-traded commodities.

[2] This deregulation was associated with IMF and World Bank conditionalities derived from the so-called Washington Consensus (Weeks, 1989, 1995a and 1995b).

[3] For the purposes of this article, the region will be understood to comprise the following 18 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

ogy from active fiscal policy to the predominance of monetary instruments;[4] and (3) a rise in the economic power of capital relative to that of labour, in part the result of changes in national legislation.

The following review of labour market experiences assesses whether workers in wage employment have gained or lost during the major changes in economic policy that have occurred over the past two decades. Neoclassical economic theory predicts that labour should have gained: trade liberalization and labour market flexibility should increase employment; general deregulation should foster growth; and faster growth should lead to higher wages (see Horton, 1994; Horton, Kanbur and Mazumdar, 1994). According to the Stolper-Samuelson Theorem, to the extent that countries are labour abundant, wages should rise and profits should fall. And if this were the case, it might be used as an argument against legislation to protect workers and their basic right to organize. But outcomes have been contrary to the neoclassical prediction: the outcomes for labour over the past 25 years have been extremely mixed. Furthermore, labour's gains in the 1990s, when economic growth quickened, have been meagre, even negative in some countries.

Labour market conditions, 1970-98

As the twentieth century draws to a close, Latin America's population is overwhelmingly urban. In only three of the 18 countries under consideration does a majority of the population live in rural areas.[5] While rural employment has remained important in most countries,[6] close to 80 per cent of the region's total workforce is urban. The majority of workers in a majority of the countries are employees, not self-employed. These characteristics differentiate Latin America from other underdeveloped regions, like Sub-Saharan Africa, South Asia and Southeast Asia, where labour forces are predominantly rural.[7]

For basic data on the distribution of the labour force in Latin America, see table 1. It shows the importance of wage employment, both public and private, in seven countries of the region (including the four with the largest populations). In 1992 wage employment accounted for well over 60 per cent of the non-agricultural labour force in each country, and for almost 70 per cent of it in the

[4] At the end of the 1990s, active monetary policy was added to the list of policies to be avoided under orthodox adjustment. The "new" monetary policy was implemented in Argentina, which adopted a "currency board". Under this arrangement, the domestic money supply is linked to central bank holdings of reserve currencies (e.g. United States dollars). In practice, this makes monetary policy non-discretionary, since the money supply is required to rise and fall with holdings of foreign exchange.

[5] All are in Central America — namely, El Salvador, Guatemala and Honduras — and in all three the urban population accounts for more than 40 per cent of the total.

[6] But not for all. Rural employment accounted for 15 per cent or less of total employment in Argentina, Chile, Uruguay and Venezuela.

[7] Exceptions include North Africa and the Middle East, and a few countries of East Asia. The countries of central and eastern Europe are also predominantly urban, but their transitional status places them in a category of their own which is obscured if they are included under the general term "less developed".

Table 1. Distribution of the non-agricultural labour force in Latin America, 1980 and 1992

Country	1980			1992		
	Per cent of total labour force	Wage employ-ment (publ. & priv.)	Self-em-ployed	Per cent of total labour force	Wage employ-ment (publ. & priv.	Self-em-ployed
Argentina	87.0	73.7	20.4	92.4	66.3	25.9
Brazil	68.8	76.0	22.9	75.1	68.3	22.5
Chile	83.6	63.9	27.8	86.9	69.4	23.0
Colombia	65.8	54.2	25.3	71.8	68.5	25.4
Costa Rica	69.3	77.6	16.3	75.5	73.3	20.9
Mexico	63.5	75.6	18.0	71.0	64.0	30.5
Venezuela	79.2	74.2	21.2	90.5	72.7	23.6
Latin America	68.2	74.4	19.2	73.4	68.2	22.5

Note: The bottom line averages the whole of Latin America except the non-Spanish-speaking countries of the Caribbean.

Sources: Non-agricultural labour force percentage from Food and Agricultural Organization, AGROSTAT. Division of non-agricultural employment from Thomas (1996, p. 88), based on ILO data. The residual is given as "domestic service" in the original source.

region as a whole. But compared to 1980, the regional share of wage employment had actually *declined* by six percentage points. Thomas (1996) interprets this as a process of "informalization" associated with the liberalization of labour markets (see also Orellana G. and Avila Avila, 1989). Indeed, this notable shift may indicate an increase in underemployment, with "self-employment" including people suffering from various degrees of involuntary part-time work. Argentina and Costa Rica show substantial increases in self-employment (Gindling and Berry, 1994), but the greatest increase occurred in Mexico, where it jumped from 18 to 30 per cent. This increase is so sharp that it suggests a change in definition or a measurement error. The possibility that the regionwide increase in self-employment implies an increase in underemployment, is further supported by trends in officially reported unemployment rates and real wages, as shown below. The former, however, cannot always be taken as an accurate measure of unemployment levels, partly because of conceptual problems and partly because of data collection methods and, in some countries, a possible downward bias for political reasons.

Employment and real wages

Raw data on unemployment and real wages in the region's urban labour markets over the period 1971-98 are provided in tables 2-5.[8] Table 6 summarizes the basic statistics available on those two major indicators. Chile, which

[8] For all the countries analysed here, the data on unemployment or real wages cover only urban areas, and only Ecuador, Uruguay and Venezuela include all urban employees, the others being restricted sectorally or in other ways, so the conclusions cannot be assumed to apply nationally. Details on sources and definitions can be obtained from the author.

Table 2. Urban unemployment rates in the MERCOSUR and Andean Pact countries, 1973-98

Years	MERCOSUR					Andean Pact				
	Argentina	Brazil	Chile	Paraguay	Uruguay	Bolivia	Colombia	Ecuador	Peru	Venezuela
1973	...	...	$\boxed{3.9}$	...	...	...	...	...	...	...
1974	4.2	...	8.2	...	...	...	12.7	...	...	7.6
1975	3.7	...	13.7	...	...	...	11.0	...	...	8.3
1976	4.9	5.5	14.2	6.7	12.7	5.1	10.6	...	5.0	6.8
1977	3.3	6.0	11.1	5.4	11.8	5.2	9.0	...	5.6	5.5
1978	3.3	6.8	11.8	4.1	10.1	$\boxed{3.0}$	9.0	...	6.1	$\boxed{5.1}$
1979	$\boxed{2.5}$	6.4	11.5	5.9	8.3	5.0	8.9	...	6.6	5.8
1980	2.6	6.2	10.0	$\boxed{3.9}$	7.4	5.0	9.7	...	6.4	6.6
1981	4.7	7.9	9.4	2.2	$\boxed{6.7}$	6.4	$\boxed{8.2}$	...	6.1	6.8
1982	5.3	6.3	18.7	5.6	11.9	6.2	9.3	...	6.3	7.8
1983	4.6	6.7	18.9	8.4	15.5	8.5	11.8	6.7	9.0	11.2
1984	4.6	7.1	18.5	7.4	14.0	6.9	13.5	10.6	8.9	14.3
1985	6.1	5.3	17.2	5.2	13.1	5.8	14.1	10.4	10.1	14.3
1986	5.2	3.6	13.1	6.1	10.7	7.0	13.8	10.7	5.4	12.1
1987	5.9	3.7	11.9	5.5	9.3	7.2	11.8	7.2	$\boxed{4.8}$	9.9
1988	6.3	3.8	10.2	4.7	9.1	11.6	11.2	7.4	6.0	7.9
1989	7.8	$\boxed{3.3}$	7.2	6.1	8.6	10.2	9.9	7.9	7.9	9.7
1990	7.5	4.5	6.5	6.6	9.3	9.5	10.3	$\boxed{6.1}$	8.3	11.0
1991	6.5	4.8	9.3	5.1	8.9	8.1	10.2	8.5	5.9	10.1
1992	7.0	5.8	7.0	5.3	9.0	5.4	10.2	8.9	9.4	8.1
1993	9.6	5.4	6.2	5.1	8.4	5.8	8.6	8.9	9.9	6.8
1994	11.5	5.1	8.3	4.4	9.2	3.1	8.9	7.8	8.8	8.9
1995	17.5	4.6	7.4	5.3	10.8	3.6	8.9	7.7	8.8	10.9
1996	17.2	5.7	6.4	8.2	12.6	3.5	11.4	10.4	8.7	11.9
1997	14.9	5.9	6.1	7.1	12.6	4.4	12.7	9.3	9.1	12.4
1998	12.9	7.8	6.1	...	11.1	...	15.1	...	9.0	12.2

Note: Figure in borders is lowest value.
Sources: ECLAC, 1986, 1992, 1996 and 1998.

accounts for about 4 per cent of the region's wage labour,[9] is the only one of the 18 countries to show a long-term improvement in both unemployment and real wages. For 11 countries there was a deterioration, either with both of the indicators showing statistically significant deterioration, or with deterioration in one of them and no significant trend in the other (these 11 countries represent about 30 per cent of the region's wage labour). This result is quite striking: *the deterioration in labour market conditions in 11 of the 18 countries was secular, not cyclical*, since it occurred despite major policy changes. In five of those countries (Argentina, Nicaragua, Panama,[10] Peru and Venezuela), wage labour

[9] The proportion of the wage labour force is approximated by the share of the labour force in urban areas.

[10] For a study of poverty and unemployment in Panama, see Camazón, Garcia-Huidobro and Morgado (1989).

Table 3. Urban real wages in the MERCOSUR and Andean Pact countries, 1971-98 (1982=100)

Years	MERCOSUR					Andean Pact				
	Argentina	Brazil	Chile	Paraguay	Uruguay	Bolivia	Colombia	Ecuador	Peru	Venezuela
1971	100	61	123	$\boxed{113}$	$\boxed{173}$	...	100	...	$\boxed{160}$	...
1972	95	67	111	108	142	...	84	...	157	...
1973	101	67	73	104	138	...	90	...	155	...
1974	114	69	67	100	140	...	85	...	153	...
1975	107	75	64	99	127	...	83	...	130	...
1976	72	78	65	105	120	...	85	...	141	105
1977	71	79	73	100	106	...	80	...	118	97
1978	70	83	78	104	102	...	90	...	103	91
1979	80	85	84	97	94	...	96	...	96	81
1980	72	86	92	97	93	...	96	...	108	$\boxed{133}$
1981	100	91	100	103	100	...	97	$\boxed{113}$	99	115
1982	100	100	100	100	100	100	100	100	100	100
1983	93	91	89	93	79	$\boxed{103}$	105	84	94	98
1984	$\boxed{118}$	91	89	90	68	86	113	83	87	94
1985	100	96	86	88	63	46	109	83	78	84
1986	101	$\boxed{104}$	88	84	67	32	115	80	98	85
1987	95	91	87	94	70	38	114	79	101	75
1988	87	89	93	101	71	39	112	87	76	66
1989	77	88	95	107	71	41	114	77	42	48
1990	73	75	96	101	66	42	111	63	37	46
1991	76	75	101	99	68	39	107	53	39	42
1992	77	76	106	98	70	41	109	45	38	23
1993	76	82	109	98	73	43	114	38	38	20
1994	76	83	115	100	74	47	115	33	44	18
1995	75	87	119	108	72	48	116	32	40	...
1996	75	101	124	111	72	48	119	31	38	...
1997	73	102	127	109	72	...	$\boxed{122}$	24	38	...
1998	72	102	$\boxed{131}$	108	73	...	120	...	37	...

Note: Figure in borders is highest value.
Sources: ECLAC, 1986, 1992, 1996 and 1998.

received a double blow: over time more workers were unemployed, and those employed received lower real wages. In five other countries showing a deterioration (Bolivia, Ecuador, Guatemala, Honduras and Uruguay), unemployment showed no trend (i.e. it moved cyclically), while real wages fell. For Paraguay, the last of the countries in this group, the outcome was the reverse: a significant increase in unemployment, with no trend in real wages. The Dominican Republic is also likely to have experienced an overall deterioration in labour market conditions, though its unemployment data are available only for the 1990s (when unemployment fell). The remaining five countries of the region display mixed outcomes: rising wages, but no significant trend in unemployment (Brazil, Colombia and Costa Rica); or falling unemployment and falling real wages (El Salvador and Mexico).

Table 4. Urban unemployment rates in Central America and Mexico, 1973-98

Years	Costa Rica	Guate-mala	El Salvador	Hon-duras	Nicar-agua	Pan-ama	Dom. Republic	Mexico
1973	...	...	...	...	...	...	...	7.5
1974	...	...	...	...	...	$\boxed{7.5}$	...	7.4
1975	...	...	...	...	...	8.6	...	7.2
1976	5.4	...	...	5.0	...	9.0	...	6.8
1977	5.1	...	...	5.6	...	9.2	...	8.3
1978	5.8	$\boxed{3.6}$	...	5.9	...	9.6	...	6.9
1979	5.3	4.5	...	6.1	...	11.6	...	5.7
1980	6.0	6.4	...	6.3	5.0	9.8	...	4.5
1981	9.1	8.5	...	7.6	5.9	11.8	...	4.2
1982	9.9	9.0	...	8.8	6.2	10.3	...	4.1
1983	8.5	10.0	...	9.5	3.6	11.7	...	6.8
1984	6.6	9.1	...	10.8	$\boxed{2.3}$	12.4	...	5.7
1985	6.7	12.1	...	10.7	3.2	15.6	...	4.4
1986	6.7	14.0	...	11.7	4.7	12.6	...	4.3
1987	5.9	11.4	...	12.1	5.8	14.1	...	3.9
1988	6.3	8.8	9.8	11.4	6.0	21.1	...	3.5
1989	$\boxed{3.7}$	6.2	8.4	8.7	8.4	20.4	...	2.9
1990	5.4	6.5	10.0	7.2	11.1	20.0	...	$\boxed{2.8}$
1991	6.0	6.4	7.9	6.9	14.2	19.3	19.6	3.0
1992	4.3	5.7	8.2	7.6	17.8	17.5	20.3	$\boxed{2.8}$
1993	4.0	5.5	8.1	7.0	21.8	15.6	19.9	3.4
1994	4.3	5.2	$\boxed{7.0}$	$\boxed{4.0}$	20.7	16.0	16.0	3.7
1995	5.7	4.3	7.1	5.6	16.2	16.2	$\boxed{15.8}$	6.3
1996	6.6	4.9	7.5	6.5	14.8	16.4	16.5	5.7
1997	6.1	6.2	...	6.4	13.2	15.5	15.9	4.1
1998	5.6	7.1	...	5.8	...	15.6	...	3.7

Note: Figure in borders is lowest value.
Sources: ECLAC, 1986, 1992, 1996 and 1998.

The long-run patterns indicate that real wages have been rising in only four countries of Latin America. Only in Chile was the long-term rate of increase in real wages above the trend in per-capita income.[11] In other words, labour's relative position in income distribution declined in every country but one.[12] Commentators have pointed out the extreme declines in real wages in the sub-Saharan region during the 1980s and 1990s,[13] yet several Latin American countries can be placed in the same league table. By 1998, real wages in Peru had dropped to 40 per cent of their early-1980s levels. Over roughly the same

[11] This is also the conclusion of UNCTAD: "{T}here was a wide-spread fall in the average share of wages {in manufacturing value added} between 1980-85 and 1985-92" (UNCTAD, 1997, p. 138).

[12] And even in Chile, labour's share towards the end of the 1990s is considerably below what it was at the end of the 1960s.

[13] For a survey see Jamal and Weeks (1993). See also Mazumdar and Basu (1997, pp. 222ff).

Table 5. Urban real wages in Central America, the Dominican Republic and Mexico, 1971-98 (1982=100)

Years	Costa Rica	Guate-mala	El Salvador	Hon-duras	Nicar-agua	Pan-ama	Dom. Republic	Mexico
1971	115	124	112	...	...	...	...	88
1972	112	$\boxed{124}$	...	...	...	...	...	89
1973	109	109	...	...	...	...	...	89
1974	103	95	...	...	...	...	...	92
1975	99	87	...	...	...	...	...	97
1976	112	85	...	...	...	$\boxed{145}$	...	105
1977	123	80	...	...	...	139	...	$\boxed{107}$
1978	134	85	$\boxed{138}$	...	...	133	...	104
1979	140	85	...	...	...	131	...	103
1980	$\boxed{141}$	85	128	96	113	115	$\boxed{118}$	98
1981	124	94	112	$\boxed{101}$	$\boxed{115}$	119	110	99
1982	100	100	100	100	100	100	100	100
1983	111	93	100	92	87	101	95	74
1984	120	84	90	88	82	105	97	69
1985	130	73	87	85	58	106	94	70
1986	138	59	88	82	21	108	101	66
1987	126	64	90	80	14	110	99	66
1988	120	67	90	76	5	101	105	66
1989	121	70	77	70	10	109	89	69
1990	123	58	72	64	15	102	86	72
1991	117	55	71	63	16	101	82	77
1992	122	63	73	64	19	101	100	82
1993	135	67	71	63	18	105	95	89
1994	140	68	72	64	19	110	102	93
1995	137	76	72	64	19	110	108	80
1996	136	84	66	58	19	...	103	71
1997	137	...	63	56	19	...	114	70
1998	...	...	...	...	...	...	...	71

Note: Figure in borders is highest value.
Sources: ECLAC, 1986, 1992, 1996 and 1998.

period, they dropped to a quarter of their initial levels in Ecuador, and to a mere 20 per cent in Nicaragua and Venezuela. Such real wage declines are probably unprecedented in Latin America in the twentieth century.[14]

An inspection of sub-periods (last row of table 6) shows that only during 1971-81 did unemployment fall in as many countries as those in which it rose. Indeed, in the "recovery" decade of the 1990s, unemployment rose or showed no trend in 12 countries, while falling in only six. During this decade, wages also rose in 11 countries, while falling in four. If neoclassical labour market "flexibility" means a tendency for labour markets to "clear" through real-wage adjustment to surpluses and shortages, then one should find rising wages associated with falling unemployment and vice versa. But when one looks across

[14] "Probably", because there are no strictly comparable data for the first half of the century.

Table 6. Urban labour market trends in 18 countries, 1971-98 (percentage change)

	1971-81 (approx.)	1981-90 (approx.)	1990-98 (approx.)	Trend	Overall performance
Argentina					Deteriorating
Unemployment	nst	+	+	1974-98: +	
Real wages	nst	–3.4	nst	1971-98: –0.9	
Bolivia					Deteriorating
Unemployment	nst	+	–	1976-97: nst	
Real wages	...	–13.4	+3.2	1982-96: –4.4	
Brazil					Mixed
Unemployment	+	–	+	1976-98: nst	
Real wages	+3.5	–1.6	+4.8	1971-98: +1.0	
Chile					Improving
Unemployment	nst	nst	nst	1973-98: –	
Real wages	+6.6	nst	+4.0	1971-98: +2.4	
Colombia					Mixed
Unemployment	–	nst	nst	1974-98: nst	
Real wages	+2.4	+1.6	+1.6	1971-98: +1.6	
Costa Rica					Mixed
Unemployment	+	–	+	1976-98: nst	
Real wages	+4.6	nst	+2.2	1971-97: +0.8	
Dominican Republic					Ambiguous
Unemployment	...	...	–	1991-97: –	
Real wages	...	–1.5	+4.1	1980-97: nst	
Ecuador					Deteriorating
Unemployment	...	nst	+	1983-97: nst	
Real wages	...	–4.3	–12.6	1981-97: –9.1	
El Salvador					Mixed
Unemployment	...	...	–	1988-96: –	
Real wages	+1.5*	–3.8	–1.6	1980-97: –3.1	
Guatemala					Deteriorating
Unemployment	...	nst	–	1978-98: nst	
Real wages	nst	–5.8	+5.9	1971-96: –2.0	
Honduras					Deteriorating
Unemployment	+	+	nst	1976-98: nst	
Real wages	...	–4.7	–1.6	1980-97: –3.7	
Mexico					Mixed
Unemployment	–	–	–	1973-98: –	
Real wages	nst	–3.8	nst	1971-98: –1.5	
Nicaragua					Deteriorating
Unemployment	...	+	nst	1980-97: +	
Real wages	...	–33.4	+3.1	1980-97: –11.3	
Panama					Deteriorating
Unemployment	+	+	–	1974-98: +	
Real wages	–4.5	nst	+2.0	1976-95: –1.3	
Paraguay					Deteriorating
Unemployment	–	nst	nst	1976-97: +	
Real wages	nst	nst	+1.7	1971-98: nst	
Peru					Deteriorating
Unemployment	+	nst	nst	1976-98: +	
Real wages	–6.2	–9.4	nst	1971-98: –6.6	
Uruguay					Deteriorating
Unemployment	–	nst	+	1976-98: nst	
Real wages	–5.5	–3.9	+1.2	1971-98: –2.7	
Venezuela					Deteriorating
Unemployment	nst	nst	nst	1974-98: +	
Real wages	nst	–9.7	–26.4	1976-94: –9.2	
Summary (No. of countries)					
Unemployment	*4–/4nst/5+/5...*	*3–/8nst/5+/2...*	*6–/7nst/5+*		
Real wages	3–/5nst/5+*/5...	13–/4nst/1+	4–/3nst/11+		

Notes: nst = no significant trend; – = falling; + = rising. * For El Salvador, only four observations for the first period, 1971, 1978, 1980 and 1981, with a sharp decline from 1980 to 1981; the number given (+1.5) is the compound rate for 1971 to 1980, no judgement can be made about statistical significance.

Sources: ECLAC, 1986, 1992, 1993, 1995, 1996, 1997 and 1998.

countries and time periods, this inverse relationship appears to occur with a frequency that is no more than random. This suggests fragmentation of labour markets, which is not the result of government regulation.[15] In virtually all of the countries under consideration labour market reforms were introduced in the 1980s to create greater flexibility. But the aggregate evidence suggests that there was no more flexibility in the 1990s than there was in the 1980s or 1970s.

In most countries the lack of flexibility cannot be attributed to government-created "distortions" of the labour market.[16] In Brazil, Chile, Colombia, Costa Rica, Nicaragua, Paraguay and Uruguay, real wages rose in the 1990s without a decline in unemployment (indeed, it increased in three of these seven countries, namely, Brazil, Costa Rica and Uruguay). Yet labour institutions and regulations have varied greatly among these countries (Larudee, 1997). The variations in institutions and regulations were, if anything, greater among the four countries which displayed the predicted combination of rising wages and falling unemployment (namely, Bolivia, Dominican Republic, Guatemala and Panama). The mix of trends and non-trends suggests that characteristics of the private sector may have affected outcomes. One possibility is that wages rose in export sectors, while remaining stagnant in others (see Alarcon and McKinley, 1997), but the disaggregated data needed to test this hypothesis are lacking. Overall, one must conclude that labour market outcomes in the 1990s involved processes considerably more complex than output growth leading to falling unemployment and thereby generating upward wage pressure.

The orthodox neoclassical view that unemployment is the result of wages being too high does not stand inspection. The empirical evidence shows that in deregulated labour markets wages behaved in the manner which neoclassical economists would associate with regulated markets dominated by strong unions. And as will be discussed below, the strength of organized labour declined in the 1980s and 1990s.

Estimated causes of labour market outcomes

These mixed labour market outcomes call for a more rigorous analysis of the relationship between the three variables — growth, employment and real wages. This has been done using a labour market model in which unemployment partially adjusts to equilibrium in each period. The rate of change of the unemployment rate is specified as the ratio of an equilibrium rate in the current period to the actual rate in the previous period. An adjustment coefficient is introduced to allow for the likelihood that the unemployment rate in any period

[15] Case-study evidence for labour market fragmentation or segmentation can be found in Jatobá (1989, pp. 50-51).

[16] In Argentina, Chile and Uruguay, perhaps the most developed countries of the region, there has been considerable reduction of worker protection (Marshall, 1997). This has also been the case in Mexico (Moreno-Fontes, 1996). See Plant (1994, pp. 84-90 and Ch. 6), for a review of labour market policy in Latin America in the context of structural adjustment.

does not adjust completely to its equilibrium value.[17] The equilibrium rate of unemployment is determined by the level of real wages and the level of output. Each of these two variables requires brief elaboration.

The wage mechanism is based on the assumption that all firms operate with fixed coefficients (there is no capital-labour substitution). In each sector there are firms with different shares of wages in value added, because of different vintages of technologies being used. Other things being equal, when wages rise firms that use relatively more labour suffer profit declines relative to firms that use less labour. As a result, some firms are driven out of the market, and employment falls. In the case of output, the assumption of fixed coefficients implies unitary elasticity of employment to output if there is no productivity growth. To incorporate productivity change into the model, a proxy for capacity utilization is used for the output variable.[18]

Table 7 presents the results of the estimation. Across the countries, the model accounts for almost 30 per cent of the variation in the unemployment rate over the period 1971-97. The capacity utilization variable (deviation from trend GDP) is of the predicted sign and highly significant. The coefficient suggests that a 1 per cent increase in capacity utilization reduces the rate of change of the unemployment rate by almost 2 per cent. However, the "dummy" variable for the 1990s (D90s) is positive, which implies that during this decade, any given level of real wages and capacity utilization was associated with the unemployment rate increasing by over 5 per cent more than it did in the 1970s or 1980s. This might be interpreted in two ways: (1) as the consequence of public and private sector downsizing, facilitated by labour market reforms; and/or (2) as a result of increased foreign investment introducing standardized,

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[17] The rate of change of the unemployment rate is thus: $U_{(t)} = \{U_{(t)}{}^*/U_{(t-1)}\}^{\phi}$ where $U_{(t)}{}^*$ is the equilibrium rate in the current period, $U_{(t-1)}$ the actual rate in the previous period, and ϕ the adjustment coefficient, greater than zero and less than one. If the unemployment rate is always in equilibrium, then ϕ equals unity. Algebraically, the rate of change of the unemployment rate is $U_{(t)} - 1$. When $U_{(t)}$ is converted to a logarithm, the number is the logarithmic rate of change.

[18] The trend in output for 1971-97 was estimated for each country. The proxy for capacity utilization is the ratio of actual GDP to trend GDP (GDPT). Accordingly:

$$U_{(t)}{}^* = U(W_{(t)}, GDPT_{(t)})$$

$$U_{(t)}{}^* = \{W_{(t)}\}^{\beta_1}\{GDPT_{(t)}\}^{\beta_2}$$

where β_1 is positive and β_2 is negative. Thus rising real wages (W) raise the equilibrium unemployment rate, and increases in capacity utilization reduce it.

$$U_{(t)} = ([\{W_{(t)}\}^{\beta_1}\{GDPT_{(t)}\}^{\beta_2}]/U_{(t-1)})^{\phi}$$

In logarithmic form this gives:

$$\ln\{U_{(t)}\} = \phi\beta_1\ln\{W_{(t)}\} + \phi\beta_2\ln\{GDPT_{(t)}\} - \phi\ln\{U_{(t-1)}\}$$

The model is estimated as:

$$\ln\{U_{(t)}\} = \alpha_0 + \alpha_1\ln\{W_{(t)}\} + \alpha_2\ln\{GDPT_{(t)}\} + \alpha_3\ln\{U_{(t-1)}\} + \alpha_4 D90 + \varepsilon$$

with the predictions that $\alpha_1 > 0$, $\alpha_2 < 0$, and $0 < \alpha_3 < 1$, while the sign of α_4 is not predicted. The variable D90 is binary, assuming a value of unity for each year of the 1990s. It is included to test the hypothesis that labour market deregulation resulted in an downward (negative) shift in unemployment for any rate of output growth and real wage change (i.e. the market became more "flexible" as a result of reforms).

Table 7. Ordinary least squares model of unemployment determination across Latin American countries, 1971-97 (all variables in natural logarithms except "D90s")

Variable	Coefficient	*t*-statistic	Significance
Constant	.121	4.05	.000
DevTrdGDP(t) [deviation from trend GDP]	−1.897	−9.76	.000
RealWage(t)	.031	.79	.429
Unemp(t-1)	−.966	−2.87	.004
D90s	.054	2.23	.027
R^2(adj) = .282			
F stat = 28.08			
Significance of F = .000			
DF = 272			

Notes: Nicaragua omitted due to extreme values. Incomplete observations skipped for all countries.

labour-saving technologies during the 1990s. The first interpretation would imply that labour market deregulation had the obvious effect of increasing unemployment by making it easier to dismiss workers.

The coefficient on the variable for the 1990s can be compared to the trend rate of productivity growth implied by the constant term. If capacity utilization and real wages were unchanged, the unemployment rate would increase by 12 per cent per year. Since the average unemployment rate across all countries for all years was 8.2 per cent, a trend (or autonomous) rate of growth of labour productivity of slightly over 1 per cent is implied.

The coefficient on the real-wage variable shows the predicted sign (positive), but it is non-significant. It would thus appear that real wages, over their actual range of variation for the years and countries considered, were not an important influence in determining the change in the unemployment rate. This could have been predicted from a Keynesian (or structuralist) theoretical perspective: unemployment is determined by effective demand (capacity utilization), and the real wage adjustment follows from the level of unemployment. Finally, the lagged unemployment rate is of the predicted sign and significant. Its coefficient, which, according to the model, is the adjustment-to-equilibrium parameter, is not significantly different from minus one. This implies that in each period (year), the labour market's adjustment to equilibrium was virtually complete. In other words, it implies a "flexible" labour market with persistent, structural unemployment.

By extension, the model casts doubt upon the hypothesis that an export-orientated policy brought benefits to Latin American workers through real wage increases that were larger than would have been the case with other policy strategies. For all the countries included in the model, exports accounted for a larger share of GDP in the 1990s than they did in the 1970s or 1980s. The World Bank asserts that "during the past two decades real wages rose at an average annual rate of 3 per cent in developing countries where the growth of trade (exports as a share of GNP) was above average, but stagnated in countries where trade expanded least" (1995, p. 10). But the model provides no support for this hypothesis. When the variable proposed by the World Bank (exports as a share of GNP) was used to explain real wages, the correlation was near zero and the non-significant coefficient negative. One cannot exclude the possibility that under alternative specifications of the wage relationship, some measure of trade orientation might prove significant; but this remains to be established. On the basis of the measure proposed by the World Bank, the hypothesis that trade brought Latin American workers greater real wage gains than would otherwise have been the case can be rejected.

Economic growth alone — even less export growth — would seem an extremely blunt and limited instrument by which to improve the conditions of labour.[19] This is especially the case in Latin America because the region's economic growth has not been rapid.[20] Growth is by definition a precondition for a general improvement of living standards, but how the aggregate improvement is distributed among social classes is determined by relative bargaining power and influence on policy decisions. If workers are to reap benefits from freer trade and capital flows, purposeful action is required to achieve the appropriate balance between the power of capital and the power of labour.

That growth is not sufficient to improve the living standards of workers and, thus, the vast majority of the Latin American population, has been forcefully stated in a report for the President of the Inter-American Development Bank:

> *It remains a source of amazement to observe ... so little being learned from experience*. ...{E}xperience should have taught us long ago that high rates of economic growth are a necessary but insufficient condition for achieving social objectives such as the creation of higher rates of productive employment, poverty reduction, the provision of high quality education and health services, the maintenance of the quality of life in urban centers, and so on (IDB, 1994, p. 1, emphasis added).

The bargaining power of labour

The foregoing review of labour market conditions in Latin America shows that gains from growth were not passed on to workers in most countries. In order for this to occur, workers require effective bargaining power. The labour market is a complex institution, ruled in part by economic forces and in part by power relationships. The role of trade unions is to redress the power balance between labour and capital. The neoclassical literature, be it in the context of global integration or regional groupings, has an anti-trade-union bias. One of the clearest examples of this is from a World Bank report which poses the

[19] For a similar conclusion, see Berry, Mendez and Tenjo (1997).

[20] As a recent UNCTAD report points out: "Slow output growth {in the 1990s} has translated into growing unemployment and falling or stagnant real wages" (UNCTAD, 1997, p. 13).

following question: "How can policymakers create an environment that minimizes the negative effects of trade unions while encouraging them to contribute to economic growth and equity?" (World Bank, 1995, p. 20).

The phrasing of this question betrays an implicit presumption that in the absence of an appropriate regulatory environment, the effect of trade unions is negative. One suspects that the question would not be found in a World Bank report if it were discussing business enterprises instead of trade unions. Yet the negative effects of private sector profit-seeking are well-known and documented: environmental degradation when social costs do not coincide with private costs; repression of workers' rights if protective legislation is not effective; use of child and forced labour; and discriminatory pricing if market power allows. If the labour market is to be a "level playing field", then protection of the rights of labour must be equivalent to the protection of the rights of capital.

The current bias against trade unions in Latin America reflects the political changes of the past two decades. Throughout Latin America the strength of trade unions has declined dramatically. Conservative commentators tend to view this as a positive development, as a result of their perspective on the collective action of workers. This predisposition against collective action by workers derives from an individualistic view of economic agents. In this, the orthodox approach, all agents are seen as utility maximizers: they are all consumers. The desire of agents to improve their consumption is treated as a *general interest* of society. But as producers, agents work in different sectors and occupations, and their desire to improve their conditions of work is deemed a *special interest*. Accordingly, the economic policy debate is presented in terms of tension between the general interest of society as consumer and the special interest of producers. It is on the basis of this interpretation of society that free trade is viewed as beneficial to all, and any restraint on private trading, domestic or international, as a manifestation of anti-social special interests. In this context, it can then be asserted that "{i}nternational trade brings immediate gains through cheaper imports" (World Bank, 1995, p. 10).

The functioning of society is considerably more complex than this. The free-trade ideology ignores that unequal bargaining power among people as producers reduces the incomes of some and increases the incomes of others. By comparison, gains from consumption (lower prices) may be trivial. Once income gains and losses are included, trade unions become a vehicle by which workers as producers improve their incomes in order to take advantage of the potential benefits of lower prices. Treating all agents primarily as consumers also ignores the welfare effect of working conditions. In the short run, the "working conditions of capital" are improved by a deterioration of the working conditions of labour, because longer hours, more intense work and lower standards of workplace safety and health generally tend to reduce operating costs. [21]

[21] But this does not necessarily apply in the long run. Standing presents empirical evidence that suggests that trade unions can be a source of productivity increase and lower costs, through pressure for improved working conditions (Standing, 1990).

Along with the ideological emphasis on people as consumers — rather than on people as producers — goes the closely related allegation that collective pressure for higher wages and better working conditions is not, in fact, in the interest of workers. This rather startling conclusion is based on two arguments. The first is that if such pressure raises costs and prices, workers lose out as consumers; and the second, that higher labour costs reduce the growth of employment. These arguments imply that in the absence of "distortions" from collective action, competition both among firms and between firms and workers will produce optimal working conditions, wages and prices. But this argument suffers from several analytical flaws. First, it should be obvious that in any sector of the economy, whether gains from lower prices will convey a net benefit to workers depends on the simultaneous behaviour of wages in that sector. Second, it cannot be demonstrated theoretically that lower wage costs will in general result in higher employment levels and faster employment growth.[22] Third, and most relevant, the free market argument ignores the power relationships between labour and capital.

Workers' rights and the exercise of those rights are central to a more equitable distribution of the gains from growth in Latin America. Much of the globalization literature tends — deliberately or not — to misrepresent the extent of trade union rights and bargaining power in Latin America. In its 1995 review of the Latin American labour market, the World Bank suggested that trade union power in the region was considerable; indeed, that the legal rights granted trade unions were disproportionate to those granted capital within the collective bargaining process:

> Most labor legislation in Latin America predates the region's recent market-oriented reforms ... {C}ollective bargaining is too cut off from market forces. ... Unions propose a collective contract, and employers must respond. The state is a part of the negotiations from the start, and the final agreement applies to all workers represented. ...
> In most Latin American cases ... the costs to employees of striking are low compared with those incurred by employers ...
> {I}n some countries legislation requires that workers be paid even when they are on strike — a clear disincentive to compromise (World Bank, 1995, pp. 19-20 and 22).

This description would seem to suggest that unions have the upper hand in negotiations, initiating bargaining with the support of the State, and that workers receive wages while on strike. However, a review of trade union membership and labour legislation in the region suggests quite the contrary.[23] In the mid-1990s there was no country in Latin America in which as much as 35 per cent of the non-agricultural labour force was unionized, and only two in which union members accounted for more than 40 per cent of the wage labour force

[22] For a detailed discussion of this argument see Weeks (1989, chap. 10, and 1991).

[23] On the issue of payment during strikes, a table in the World Bank report shows that this was the case in only two of ten countries (World Bank, 1995, p. 21), and in one of the two (Nicaragua) the law was not enforced. Besides, collective bargaining itself "is ... in limited use as an instrument of social regulation" (ILO, 1997, p. 161).

(see ILO, 1997, table 1.2, p. 237). Across countries, average union density for the non-agricultural labour force was less than 15 per cent. The percentages of non-agricultural wage labour shown in table 1 imply that the rate of unionization of wage labour averaged about 20 per cent across all countries. In several countries, union density was extremely low in the 1990s, with less than 10 per cent of the non-agricultural labour force in seven countries. Furthermore, active membership of trade unions was typically lower than were recorded numbers of members, and in many cases employers controlled unions ("sweetheart unions").[24] While trade unions play an important role in labour markets throughout Latin America, the low level of unionization indicates a need for increased protection of the right to organize and bargain collectively.

Indeed, the circumstances in which Latin American workers seek to exercise their rights would seem to be quite different from the impression given by the World Bank. In many countries of the region restrictions on trade unions are substantial. In addition, the growth of employment in free trade zones — which has been especially significant in the Central American countries — has been associated with limits on worker protection and basic rights (see ILO, 1996).The low level of organization of labour in Latin America can be both a cause and an effect of widespread violation of workers' rights.[25] While the repression of the rights of workers should not be exaggerated, the right to strike is restricted through legislation in most countries, not only in the public sector, but also in the private. When work stoppages occur, strikers can anticipate violent confrontation, either with hired agents of employers or agents of the State. Being a member of a trade union invites discrimination and, in many circumstances, dismissal. Furthermore, in many countries organizing a new union is extremely difficult, if not dangerous.

Concluding remarks

Most workers in most Latin American countries have not shared in the benefits of economic growth, either in terms of reduced unemployment or in terms of rising real wages. The issue is one of symmetry between capital and labour. Throughout the region, capital has been free to organize itself into associations, to employ its resources to influence government policy and, through ownership of the media, to present its views to the public. At the same time, however, the basic rights of workers have been eroded for lack of adequate national-level protection in much of the region. Such rights include the right to establish trade unions, the right not to be subjected to intimidation for joining a trade union, the right to select representatives by democratic process, the

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[24] For example, the ICFTU reports that: "Because Mexican labour law makes little provision for the rights of individual union members, workers can be denied access to their own collective agreements ... and have few remedies ... {S}uch abuses lead to employer-dominated trade unions" (ICFTU, 1997e, p. 2).

[25] For an overview of abridgements and violations of workers' rights in Latin America, see ICFTU (1997a, pp. 38-63, 1997d, 1997e and 1997f), International Metalworkers' Federation (1994), and ILO (1996).

right of representatives to bargain with employers in the private and public sectors alike, and a requirement that employers should enter into the bargaining process in good faith. These basic rights are provided for in ILO Conventions that have been ratified by an overwhelming majority of Latin American States.[26] They are also protected under the American Convention on Human Rights whose supervisory procedures and machinery provide a regional framework for securing their enjoyment in practice. But if the balance of power between capital and labour is to be redressed, the effectiveness of such multilateral guarantees will have to be strengthened to ensure that the provisions of existing international instruments are genuinely applied (for a broad view, see ICFTU, 1997b and 1997c).

Beyond the question of core labour rights, which are essentially the civil and human rights that democracies should guarantee their citizens, measures are required to establish minimum standards in the workplace. The purpose of such standards is twofold. First, since the goal of freer trade is to increase the welfare of the population of countries as a whole, trading systems need rules that discourage a competitive process by which social standards are reduced to the level of the least regulated country.[27] Second, improved workplace conditions have a social benefit not captured by the enterprise through the market. By reducing accidents and illness, workplace standards increase the productivity of workers, and reduce the health costs to society.

Liberalized trading regimes for the countries of Latin America have so far been associated with the reduction of workers' rights and the concentration of wealth. If this is to change in the future, a growing labour movement is required in order to ensure effective collective bargaining.

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[26] Most recently, in February 1999, Chile ratified the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98). As a result, Brazil and El Salvador are now the only States of the region that have yet to ratify Convention No. 87, and Mexico and El Salvador the only ones that have yet to ratify Convention No. 98.

[27] Campbell argues that current NAFTA rules encourage a socially destructive process of competition among governments:

> NAFTA ... intensifies pressure on ... national and sub national governments to compete with each other to maintain and attract investment by increasing subsidies (most of which remain legal under NAFTA) and lowering regulations and standards. There are no common rules governing acceptable and unacceptable subsidies or limiting subsidy wars among governments, and only ineffective protections limiting competitive bidding down of labour and environmental regulations ... Thus, the need to attract investment creates dual stresses: downward pressure on regulations and standards and increased pressure on existing fiscal resources (Campbell, 1997, p. 8).

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