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The Quality of Employment in the Latin American Development Literature: Theory and Evidence

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Statement: The authors hereby state that his manuscript has never been published before in any format, nor has it been submitted for publication elsewhere other than The ILR.

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1. Introduction

This article examines how Latin American development theory has analysed labour markets in the region during the 1950s and following the 1980s debt crises before going on to examine empirical evidence from recent decades, which illustrates the extent to which these theories have played out in practice.

Two themes are recurrent in this review of the literature on employment problems in Latin America. First, the region is seen as beset by all manners of labour abundance, which manifests itself not so much as open unemployment, but as large proportions of informal and marginally productive workers. Second, the literature has traditionally understood the quality of employment as meaning productive employment. The development challenge that the region faced was therefore seen as transforming marginally productive workers into fully productive ones. Not surprisingly, industrialization was initially seen as being key to resolving this challenge.

Before proceeding, we should however note that the quality of employment was not thought of in this literature as a “decent” job, as more modern analysts would, that is, a job with a formal contract; with specific protection in terms of vacations, overtime, severance pay, health and social security benefits, unionization and collective bargaining; and with possibilities of significant learning in line with workers’ capacities. Rather the quality of employment was understood largely in terms of the skill requirements of jobs and their associated wage and productivity levels. It was assumed, tacitly, that if productivity rose, wages would rise and employment conditions improve. In short, if the demand for labour rose faster than the supply of labour, labour would become less abundant leading to increased wages as well as improved working conditions.

Subsequently, the "neoliberal" call for the deregulation of labour markets following the 1980s debt crises in the region also made this assumption: if labour markets were deregulated, employers would be more willing to generate new jobs, which in turn would decrease un- and underemployment rates, thus tightening the labour market and increasing wages. Although this literature practically ignores associated working conditions, such as different types of contracts, job stability or social security contributions, it was again tacitly understood that these would improve as a result of the tightening labour market produced by deregulation, especially in the "informal sector" which was gradually expected to become increasingly formalised.

Thus, both the heterodox and neoliberal theoretical literature tended to assume that a tighter labour market and higher wages served as a proxy for better job quality. To be sure, this is a strong assumption, subject to empirical challenge, which is, of course, what the modern literature on job quality has done. This paper proceeds by reviewing the theoretical literature on Latin American labour markets in section two before reviewing empirical evidence from the region in section three. We conclude by presenting the implications of our research for labour policy in Latin America.
2. The Quality of Employment in the Theoretical Latin American Development Literature

2.1. Industrialisation: High Hopes

In May 1950, in a historic document (ECLAC, 1950), Raul Prebisch of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC, then ECLA) sounded the cry for a program of industrialization in Latin America. This was seen not as an end in itself but as the “principal means at the disposal of those countries of obtaining a share of the benefits of technical progress and of progressively raising the standard of living of the masses”. His argument combined theory and empiricism. The factual base which Prebisch sets out to explain is the secular decline in the region’s terms of trade. Concretely, between 1870 and 1950 the price of commodities, the region’s principal exports, had fallen by some 50% in relation to the price of manufactures, the region’s principal imports. Prebisch’s explanatory hypothesis is elegant and modern. It centres on the impact of technological growth on producers of manufactures as compared to producers of raw materials. He suggests that relative to commodities, manufactures tend to be oligopolistic. Consequently, the increased productivity and lower unit costs arising from improved technology in manufactures, tend to raise margins, rather than being passed on to consumers in the form of lower prices. By contrast, commodities tend to be highly competitive. As a result the lower unit costs arising from improved technology in the production of commodities tend to be passed on to consumers in the form of lower prices. The overall result is that technological growth will tend to lower the price of commodities relative to manufactures and so lead to a secular decline in the terms of trade of raw material producers, as were most Latin American economies.

The implication of this diagnosis is that the comparative advantage of the region in commodities is short lived, more apparent than real. The “spot” terms of trade are a biased indicator of the long term terms of trade. In the long run the region should increasingly shift away from commodities and into manufactures. To quote the above document again: “Formerly before the great depression, development in the Latin American countries was stimulated from abroad by the constant increase of exports. There is no reason to suppose, at least at present, that this will again occur to the same extent, except under very exceptional circumstances. These countries (Latin American) no longer have an alternative between vigorous growth along those lines and internal expansion through industrialization. Industrialization has become the most important means of expansion.” (ECLAC, 1950). Thus was born ECLAC’s modern restatement of the case for tariff protection to favour industrialization, more specifically import-substituting industrialization.

A similar case for industrialization was made a few years later by W. Arthur Lewis in his famous article “Economic development with unlimited supplies of labour” (Lewis, 1954). He argued that there was an abundance of labour in agriculture in most underdeveloped economies (no doubt drawing on what he saw all around him on his

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4 Strictly speaking, it could have been an export oriented industrialization. In practice, however, given that the central economies were in the throes of post war reconstruction, with tight restrictions on imports, an export oriented industrialization seemed out of the question at that time. Thus, emphasis was made on industrializing for the domestic market by means of import-substitution.
very densely populated island of Saint Lucia). As a result of this labour abundance, urban manufactures could draw on a relatively unlimited supply of labour at a wage barely above subsistence.

The expectation, of course, was that industrialization would lead to productive employment, not only absorbing underemployment and oncoming rapid population growth, but raising the productivity of labour. Thus in 1954, at the UN Conference on World Population Prebisch described his views on the relationship between industrialization and employment as follows: “It is essential to achieve an increase in this (labour) productivity through assimilating and adapting the productive techniques of the more developed countries. During this process, there is a decline in the proportion of the active population employed in primary production and other activities of low productivity, while the percentage employed in industry and services continues to rise” (Prebisch, 1955).

Doubts and concerns began emerging in the years that followed. In 1957 ECLAC notes with concern that despite the strong increase in output that industrialization was bringing on, the increase in manufacturing employment was disappointingly slow. “Regardless of the causes – whether these were insufficient capital formation, rapid industrialization, imbalances as between agriculture and industry, or other factors – the increase in services may apparently not have been fully justified in certain Latin American countries at least by increased productivity in agriculture and expansion of agricultural production…. The experience of the U.S. and the more advanced Western European countries indicate that only when an economy has achieved high productivity through technological progress in primary and secondary production can it support at a satisfactory rate of growth the continually increasing proportion of total employment in services” (ECLAC, 1957). This led to the concern that the economic growth taking place in the region was unbalanced and abnormal, leading to the premature expansion of marginally productive, service sector (tertiary) employment.

Moreover, by the mid 50s the region was in the throes of a population “explosion”, population growth having jumped from 1.9% per year in the 1930s to 2.8% per year in the 1950s. Hence, despite the important industrialization which had taken place in Latin America in the post WWII period ECLAC was arguing that industrialization and strong population growth had led to “over” urbanization”, an “under” expansion of secondary employment and an “over” expansion of tertiary employment, and increasing disguised unemployment in the cities.

2.2. Structural heterogeneity: labour market segmentation and the informal sector

The apparent anomaly in sectoral employment shifts led to a more negative assessment by ECLAC of postwar industrialization, leading to the development of its hypothesis of “structural heterogeneity” (Prebisch, 1970 & Pinto, 1970). In a nutshell, and simplifying, this hypothesis argues that there are sharp differences in productivity, capital intensity and employment between activities of the same sector in Latin America arising from their use of “modern” technology as opposed to those using “traditional” technologies. These differences in productivity are of the order of 10 to 1 in Latin America, as compared to the developed economies where productivity levels between firms of the same sector are far more homogeneous, rarely exceeding 3 to 1. According to this view, modern firms are considered to have exclusive access to, and absorb, most
available capital and investment; and because of their capital intensity, employ a small fraction of the sectoral labour force (less than 15%) despite their accounting for some 50% of sectoral output. Conversely, the bulk of labour intensive, traditional technology producing activities within the sector are forced to operate with the scant capital left available to them, in exaggeratedly labour intensive fashion with marginal productivity levels. Thus most employment is generated by capital starved, unduly labour intensive, traditional technology using activities; whereas most output is produced by modern technology, capital abundant and intensive activities. What is worse, there tends to be scant irradiation of productivity from the modern to the traditional technology using activities.

Therefore, according to this hypothesis, the population explosion of the post war period in Latin America took place in the face of a modern technology using, highly capital intensive manufacturing sector, able to absorb only a reduced percentage of the growing urban labour force, driving most into underemployment in marginally productive activities in the tertiary sector. The service sector had become a “sponge” for urban employment. This would explain for ECLAC the scant productive employment generated by industrialization in the postwar period in Latin America and the over expansion of marginally productive activities in the tertiary sector.

This rather negative assessment by ECLAC of the evolution of employment would carry on till the Latin American debt crisis of 1982/83 (Molina & Piñera, 1980). Moreover, this negative assessment has important policy implications. For example, if one truly believes that because of the region’s anomalous growth process insufficient productive employment is being generated, one will tend to minimize the importance of training and human capital formation. Rather, labour quality will tend to be seen as of marginal importance so long as the quantity of employment is insufficient. More than raising one’s productivity, training will be considered a screening device, whereby the trained are hired at the expense of the less trained, even though their productivity be only minimally higher. So training will be seen as being privately useful but socially less necessary so long as large pools of un- and underemployed labour exist.

Similarly, if one has such a negative view of the evolution of the employment situation in Latin America, given the presumed increasing abundance of labour, little encouragement should be given to efforts to raise the region’s low levels of female participation. It would simply worsen the already deteriorated situation of labour. If anything, female labour participation should be discouraged.

There were dissident voices, earlier on, suggesting a far more favourable assessment of the evolution of the employment situation in the post WWI period in Latin America (Ramos, 1970; 1974). Indeed these drew attention to the quality, not just the quantity, of employment generated by industrialization. More specifically, though secondary employment had not increased much, these analysts suggested that the quality of that employment had. Witness to this was the sharp reduction in traditional technology employment in manufacturing; the fall in the proportion of unskilled workers and the rise in white collar occupations; and, to be sure, the increase in the overall education of the labour force and the clear increase in real wages for salaried employment, together

5 Nonetheless, this criticism came largely from employment analysts, and not from experts in training. For, in point of fact, this period saw the creation of many state sponsored national training institutes, oftentimes funded by taxing firms a certain percentage of their payroll.
indicative of skill upgrading and improved labour productivity. Nevertheless, it is not until the 80s that this position comes to command a majority view.

Paradoxically, it is in the aftermath of the debt crisis of the early 80s and in the “lost decade” of the 80s that a far more favourable assessment is made of the evolution of employment in the period 1945-1980. Inasmuch as economic growth in the 80s sharply slowed, from 5.6% per year between 1950-80 to 1.2% per year between 1980-1990, the employment situation clearly worsened. For the slow economic growth of the 80s could not absorb the 3% per year increase in the labour force, leading both to a decline in per capita income and a clear worsening of the employment situation: open unemployment grew 3 percentage points in the decade and underemployment increased sharply.

This unambiguous worsening of the employment situation in Latin America in the 1980s (plus the availability of far more detailed labour force information) led ECLAC to reassess the evolution of employment in the post WWII period up to the debt crisis. In 1981 Filgueira and Geneletti (1981) concluded that the period (1950-70 in their analysis) had witnessed major transformations in the composition of the labour force in the region, leading to significant upward mobility. Not only had there been the already noted sharp decline in primary sector employment, but there had been an important increase in non manual occupations in the secondary and tertiary sectors, especially in occupations of intermediate and superior productivity levels.6

This conclusion was buttressed by Katzman (1984). He found that industrialization in the period 1950-70 had been far more effective in generating productive employment than Prebisch and Pinto had thought. Modern technology using industrial employment had, in fact, grown rapidly, but since much traditional, underemployed, secondary sector employment had declined, overall industrial employment seemed to grow slowly. Similarly, he argued that tertiary sector employment had grown most rapidly in the higher productivity activities – financial services, health and education.

This greater emphasis on within sectoral shifts in employment and the increase in non manual skills led to a sharper focus on the labour market and its operation. Moreover, since industrialization and strong population growth in the post war period in Latin America had led to an increasingly urban labour force, emphasis shifted from rural to urban underemployment. PREALC7 played a prominent role in this new focus on the labour market, drawing attention to the segmentation of the urban labour market, very especially that between the so-called informal and formal sectors.

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6 In this study intermediate productivity occupations are constituted by professionals and technicians, whereas managers, directors and owners make up the superior levels. Low productivity occupations are all of the rest, especially manual labour in agriculture and in the city.

7 PREALC was the regional branch of the ILO’s world employment program, begun in the late 60s. Its acronym in Spanish stands for Programa Regional de Empleo para América Latina y el Caribe (the Regional Employment Program for Latin America and the Caribbean). Its bibliography on this subject is quite extensive. See, for example, P. Souza and V. Tokman, The informal urban sector in Latin America, International Labour Review, November-December, 1976; and V. Tokman, “El sector informal 15 años después”, Trimestre Económico, July-September 1987.
Labour markets are said to be segmented when important wage differentials exist for workers of (apparently) similar skill levels. Models of labour market segmentation contrast with traditional models of a single integrated and undifferentiated labour market, where workers with the same skill and experience are paid the same wage regardless of sector or firm size and where wage differentials between different skill levels correspond to the cost of acquiring said skills.

PREALC as well as others claimed that even after controlling for age, sex and education, wage differentials of up to 50% could be found between workers employed in large, capital intensive, modern technology using firms (the formal sector) and workers employed in small firms or as self employed in more traditional technology using, labour intensive activities of the so called “informal” sector. The formal sector is seen to offer not only more attractive wages but better conditions of employment generally than the informal sector. Thus, “ceteris paribus” workers prefer formal sector employment. Though the greater productivity of formal sector firms permits them to offer better pay, it is less clear why firms pay up to 50% higher wages for workers of comparable skills rather than simply paying the opportunity cost of labour (that is, wages in the informal sector). We shall return to this point shortly, for there are various alternative explanations on offer.

The “informal sector” was first popularized in modern times by the ILO mission to Kenya in 1972. Its report drew attention to the myriad of occupations found in any city in the developing world and typically performed by rural migrants on arrival in the city: domestic service, street vendors, petty retailers, truck, taxi and bus drivers, all forms of repair work, hairdressers, tailors, seamstresses, casual day labour in construction, the docks, etc. These are all easy entry, low skill occupations, largely made up of the self-employed or of workers in micro enterprises, operating with few capital requirements, using fairly rudimentary technologies, in typically unregulated and highly competitive markets.

The existence of such relatively free entry employment opportunities in the informal sector is thought to explain why rates of open unemployment in developing countries, even those with a huge abundance of labour, are no higher than those in developed countries and often are lower. But since many of these activities are a simple form of work-sharing (100 apples a day per block are now sold, not by one worker but by 2 or by 3 as need be), these are forms of underemployment, for the marginal product of labour is zero. Open unemployment is not higher, because people can’t afford to be unemployed, but their “employment”, though it provides them with income by virtue of this work-sharing, in fact does not increase output. Hence it is a form of disguised unemployment or underemployment.

To be sure, it is possible for the informal sector to harbor less extreme forms of underemployment. For example, Harberger (1971) suggests the case where labour has a marginal product below its wage (his average product). He points to the classic example of fishermen on a lake. The more fishermen there are on a lake, the larger the overall catch is likely to be. Yet the overall catch does not increase proportionately to the increased number of fishermen. Nevertheless, the expected catch for each fisherman is the same, the overall catch divided by the number of fishermen. Hence, each fisherman earns his average product, which is, necessarily, greater than his marginal product. Since this implies too many fishermen in the lake, there is underemployment.
As the concept of the informal sector was developed it came to incorporate other characteristics. Emphasis began to be placed on its relatively unregulated nature. Informal sector employment not only earned less, but it was less protected than formal sector employment. Oftentimes workers were hired without any form of contract, thus putting them beyond the pale of labour code regulations concerning hiring, wages, overtime, vacations, sick leave, severance pay, layoffs, pension or health benefits, etc. Informal sector employment was thus seen as precarious and un-protected as well as lower paying.

While this negative assessment of the informal sector was the dominant one in the region, and would continue to be to the present, a more positive variant was formulated by Hernando De Soto (1989). On the basis of his experience in Peru, he argued that much of the informal sector was constituted by energetic, potential entrepreneurs, hamstrung by lack of credit and the absence of property rights over their land or homes. Efforts should be made to provide millions of people with clear titles to their land and homes, which could then be used as collateral to gain access to the financial system. In this case, far from being a sump of underemployment, the informal sector was seen as a beehive of potential entrepreneurship, awaiting to be harnessed and mobilized. While undoubtedly this may characterize some people in the informal sector, it stretches credulity to believe that this could extend to all but a small fraction of the 50% of the urban labour force typically characterized by informality. Indeed, how else interpret – but as a form of underemployment, the increases in informality every time recessions set in. For it is hard to believe that recessions induce increased entrepreneurship of the Schumpeterian kind! Thus the prevailing view is that alluded to by PREALC.

Whatever the explanation(s) of the wage differentials between formal and informal sector employment, the fact remains that, relatively speaking, employment in the formal sector is full and productive employment. By contrast employment in the informal sector can be less than fully productive, it being a sump for (potential) underemployment. Up to half of the non agricultural labour force of Latin America in 1990-2005 was estimated to work in the informal sector (Tokman, 2007), somewhat more than half of these as self employed, another third in micro-enterprises and the remainder as household servants, small employers and unremunerated family members. Hence, if it is a sump for disguised underemployment, it is without a doubt of paramount importance in understanding Latin American labour markets.

Though PREALC concurs that the informal sector is a sump for underemployment, nevertheless it concluded that the evolution of the employment situation between 1950-80 in Latin America was largely positive (Tokman & García, 1981, 1984: García, 1982). For despite the population explosion of the post war period, it found that formal or modern sector employment in the region rose from 53% to 61% of the labour force, whereas informal or traditional sector employment fell from 47% to 39%. In absolute terms, formal sector employment grew by 4.1% per year in that 30 year period of the region’s industrialization. Thus the formal sector proved to be, indeed, the strong generator of productive employment that advocates for the region’s industrialization had hoped for.

As might be expected informal sector employment increased sharply in the “lost decade” of the 80s. Given that the region’s output grew but by 12% in the 1980s whereas the labour force increased by 33%, informal sector employment shot up from 29% of the non agricultural labour force in 1980 to 48% in 1990. The informal sector
was clearly being used as a form of disguised unemployment as the theory would suggest. It would not be till the resumption of strong growth in the region after 2003 that this tendency would be clearly reverted.

2.3. Labour Market Flexibility

The debt crisis of the early 80s, the subsequent explosion in inflation and the macroeconomic roller coaster of the later 80s overturned the strategy of import substitution industrialization. Much as the Great Depression of the 30s had called into question the laissez faire orthodoxy of the times and ushered in a more active strategy of import substitution, the crisis of the 1980s called into question the then prevailing strategy of import substitution. Development strategy shifted outward, to export markets, rather than to domestic markets; markets came to be largely free and unregulated; and the private sector, rather than the state, came to be the key agent of development. This was the neo-liberal resurgence, often dubbed the “Washington consensus” after 50 years of state-led, import substituting industrialization.

Though the labour market did not attract much attention initially, as major neo-liberal reforms took hold – privatization, trade opening up, and financial liberalization – emphasis was increasingly placed on the nature and performance of Latin American labour markets, and very especially on adverse regulations and rigidities in these. To quote John Williamson (not the most extreme example of neo-liberalism) in an Inter-American Development (IDB) conference in 1996: “The deregulation that has been undertaken so far has in most cases bypassed the labour market. This trend may be politically understandable, because the beneficiaries of labour market regulations tend to be the most politically active element of those who think of themselves as underprivileged, but the trend is also unfortunate, since the beneficiaries are far from being the most underprivileged element of society and their gains come primarily at the expense of those even worse off. For instance restrictions on firing generally cost more jobs than they save, but the jobs saved are those of people who have jobs that they know are worth saving, whereas as those who do not get the jobs that are not created because of the restrictions are the politically impotent unemployed. Although there may exist a case for a modest minimum wage, since a higher wage for those on low pay may be worth the risking of a limited number of jobs, most other labour restrictions should probably go” (Williamson, 1997).

Williamson’s comments profoundly influenced the development literature of the time as it relates to labour markets. Although the call for deregulation exerted pressure on Latin American governments to make employment relationships more flexible, governments in the region generally did not undertake fundamental reforms of their labour market regulation as these were politically unfeasible (Murillo, 2001, Cook, 2007, Sehnbruch, 2012). However, while de jure legislation did not change substantially, some mechanisms were introduced that allowed employers to hire workers on a short-term or

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8 The term Washington consensus was first used by John Williamson in a conference in 1989 convened to analyze 10 policy area reforms being undertaken at the time in Latin America. In the public parlance it came to stand for the policy prescriptions being made at the major international organizations in Washington, the IMF and the World Bank, and behind those, the US government and US business interests generally.
subcontracted basis. Even in countries where these changes were not introduced specifically into the labour legislation, *de facto* hiring practices changed along these lines. The proportion of non-standard forms of contracts such as temporary, project-based, freelance, or short-term contracts in the region increased, as did outsourcing and subcontracting arrangements.

Unfortunately, Latin American governments did not measure or monitor these developments in any systematic way, so that it is difficult to ascertain the true extent of labour market flexibilisation, or to analyse how the process of flexibilisation has affected other variables such as the generation of employment, the formalisation of labour markets or other employment conditions. In the following section we therefore attempt to examine these relationships more closely.

4. The Quality of Employment in Latin America: Empirical Evidence that Challenges Theoretical Assumptions

This section explores the interrelationships between quality of employment variables and their relationship with the economic context. Table 1 presents the correlations between variables associated with the quality of employment for salaried workers. The analysis presented is an exploratory exercise that must be interpreted with caution since not all countries in the group analysed produce data on all variables so that some of the relationships discussed are based on a limited number of observations.

Also, the following analysis has not been undertaken with microdata that would allow us to examine associations between indicators of the quality of employment at the level of individual jobs, but instead compares the characteristics of quality of employment indicators at the macro level in an attempt to research common characteristics among them in an exploratory manner.

Table 1. Correlation coefficients between indicators of the quality of employment and salaried work

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9 The self-employed have been excluded from this statistical exercise as several of the variables used are not applicable to the self-employed, who do not receive statutory annual paid leave or bonuses, are not obliged to contribute to health and pension insurance in Latin America, and are not subject to regulated working hours.

10 The data used has been pooled and is based on the following number of observations: income below the poverty line: 51; annual bonus: 21; paid leave: 15; contract: 16; temporary employment relationships: 18; affiliation to pension system: 24; health insurance: 18; excessive working week: 40; unionisation: 18; received vocational training: 12.
<table>
<thead>
<tr>
<th>Income under the poverty line</th>
<th>1</th>
<th>-0.13</th>
<th>-0.26</th>
<th>-0.43</th>
<th>-0.35</th>
<th>-0.07</th>
<th>0.14</th>
<th>-0.66</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual bonus</td>
<td>1</td>
<td>-0.80</td>
<td>0.67</td>
<td>0.63</td>
<td>-0.63</td>
<td>0.11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid annual leave</td>
<td>-0.89</td>
<td>0.47</td>
<td>-0.01</td>
<td>-0.54</td>
<td>0.19</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal contract</td>
<td>0.06</td>
<td>0.86</td>
<td>0.88</td>
<td>-0.70</td>
<td>-0.47</td>
<td>0.45</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary employment relationship</td>
<td>1</td>
<td>-0.23</td>
<td>-0.38</td>
<td>0.04</td>
<td>0.55</td>
<td>0.52</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affiliated to pension system</td>
<td>1</td>
<td>0.94</td>
<td>-0.43</td>
<td>-0.36</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affiliated to health insurance</td>
<td>1</td>
<td>-0.68</td>
<td>-0.68</td>
<td>0.25</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excessive working hours</td>
<td>1</td>
<td>-0.16</td>
<td>-0.32</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Participates in a union</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Received vocational training</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** author’s own calculation with data from ...

The formal written employment contract turns out to be the variable with the highest correlations, which ties in with the fact that employment conditions that are considered to constitute a good quality job tend to be mandated by labour legislation. In fact, almost all correlation coefficients of this variable move between a range of -0.5 and +0.5. In general, the correlations present results we would expect: we observe positive correlations between contracts and paid annual leave and bonuses, pension and health insurance, and vocational training. Conversely, the relationships between contracts and income levels below the poverty line and excessive working hours are negative. The highest coefficients are those that relate to affiliation with social insurance systems (health and pensions) and to the payment of annual bonuses. The exceptions are unionisation and temporary employment relationships whose coefficients are negative and lower than -0.5. As a result, the employment contract stands out as a key variable that gives workers access to other benefits which are associated with the quality of employment (Basaladi, del Grossi y Brandao, 2010: 81; Echeñique, 2010:202).
The variable unionisation has a negative correlation coefficient not only with regard to the variable contract, but also with almost all other variables. In addition, its correlation coefficient with income under the poverty line is positive, although low. This would indicate that unionisation by this itself is as not a sufficient condition to promote better levels of quality of employment in the labour market on the whole. In the Latin American region unionisation – at least as far as it is registered by household surveys – is higher in countries with a relatively low level of development. In any case, the levels of unionisation in the region are generally low and the region is not making use of the potential that unions and collective bargaining structures have to help produce win-win mechanisms which improve productivity and the quality of employment.

The variable income below the poverty line is, as would be expected, negatively correlated with other quality of employment indicators, with the exception of unionisation as discussed. It is noteworthy that vocational training shows the highest coefficient, which indicates a vicious circle as countries with lower levels of income invest less in training, which in turn limits their potential to increase productivity and income levels. The relatively high levels of correlation between the variables income and contract as well as, to a lesser extent, those relating to affiliations to the pension and health insurance systems are also to be expected.

It is also unsurprising that temporary employment relationships are highly negatively correlated with annual bonuses and paid annual leave. Finally, excessive working hours are more strongly negatively correlated with having a contract, which emphasises the fact that this indicator also improves as a result of institutional mechanisms especially having a formal written contract.

To sum up, we can observe a group of indicators that are typically related to the formality of the employment relationship which shows high levels of correlation with variables such as contributions to social insurance programs, annual bonuses and paid annual leave. The employment contract appears to play a key role in ensuring the access of workers to these benefits.

The analysis above prompts the question of what role these indicators play in relationship to economic growth rates. As would be expected, there is a fairly clear negative relationship between GDP per capita and the proportion of workers with income levels below the poverty line, as can be observed in Figure 1, which shows this relationship for the 1990s. The two outliers with the relatively high portions of the population underneath the poverty line despite a relatively high GDP level are the two petrol economies Mexico and Venezuela, whose GDP is based largely on the exploitation of natural resources, an activity which does not generate a large quantity of productive jobs.

**Figure 1:**

GDP and quality of employment indicators
Source: Authors’ own calculations based on household survey
However, the crisis at the end of this decade and at the beginning of the 2000s impacted this relationship and made it less clear (estrecho) (Figure 1b). This can be explained by the fact that episodes of high inflation – frequently a component of past crises – reduce real incomes even in those cases where employment is maintained. As such, this indicator of quality can deteriorate markedly, while GDP per capita tends to drop sharply. For example between 1998 and 2000 to the GDP per capita in Argentina dropped by approximately 22%, while the proportion of employed workers with incomes below the poverty line almost quadrupled to levels comparable to other countries in the region with a GDP per capita that is between 20 and 25% lower than the Argentinian GDP.

Until 2007, the relationship again became closer (más estrecha), without returning to levels observed in 1996 (Figure 1c). In summary, the pooled data reflect a negative correlation between GDP per capita and the proportion of workers with low income levels, but with a relatively high level of dispersion. This reflects the fact that higher levels of material wealth in an economy do not automatically translate into higher levels of well-being for workers at the lower end of the income scale (Figure 1d).

A brief review of the relationship between quality of employment variables and GDP per capita is summarised in Figure 2.

**Figure 2:**

*Selected Latin American countries: GDP per capita and the proportion of workers with income levels under the poverty line as a percentage of the total employed*
As figure 2 shows, highly positive correlations can be observed between GDP and social insurance systems (health and pension), formal written contracts, and, to a lesser extent, annual bonuses and paid leave. This confirms the results presented above, according to which these variables form a nucleus of indicators related to the generation of formal employment (i.e. jobs with a formal written contract and contributions to social insurance systems). This does not imply an automatic relationship, but does indicate that an improvement in the economic context generates the possibility of improving the quality of employment, with possible positive feedback effects.

By contrast, temporary employment relationships are negatively correlated with GDP per capita, which indicates a greater level of employment stability in the context of economies with higher income levels, which also tend this to be more formalised. However as we saw before, a higher level of growth does not necessarily reduce the incidence of temporary employment relationships, which would indicate the presence of structural factors in labour markets.

Source: Authors’ own calculations based on household survey data from Latin American countries compiled in BADEHOG and ECLAC data. Note that income data refers only to salaried workers.
Other indicators such as unionisation, excessive working hours and vocational training register a high level of dispersion, which indicates the importance of other factors that go beyond GDP per capita and include average productivity. As was already mentioned, unionisation and vocational training, in contrast with other indicators, do not only represent specific aspects of the quality of employment but constitute institutions and labour policies that themselves determine the quality of employment. As such, institutional factors play an important role in improving job quality, which leads us to the conclusion that there is a role for public policy in this space beyond the mere stimulation of economic growth and the improvement of productivity levels.

To conclude, we can observe that having a job (whether formal or informal), not necessarily means that this job fulfils the satisfaction of the multiple economic, social and cultural needs of human beings. While this is true everywhere, it is an even more prominent conclusion in developing countries such as Latin America which do not have widespread unemployment insurance systems that would cover basic needs at least on a temporary basis (Sehnbruch, 2006). As a result, many jobs exist in the region that reflect tendencies of social exclusion rather than inclusion in the productive processes and labour market institutions that would allow more people to benefit from higher levels of development (Rodgers, 2007; Weller, 2011).

More importantly, in regions such as Latin America, problems with low productivity, high levels of structural heterogeneity, the unequal distribution of assets and the low quality of education are reflected in the structure of the labour market. As a result, the quality of employment is an indispensable concept that complements labour market participation and open unemployment as indicators for the analysis of the development of the labour market. Similarly, it is indispensable to analyse not only aggregate values, but also gaps between productive sectors, gender, or geographical areas.

Two factors largely determine the quality of employment: first the economic and productive environment that reflect above all labour productivity and its heterogeneity, and, second, labour market institutions.

While the development of the productive environment facilitates improvements in the quality of employment through inclusion mechanisms into productive employment, an adequate institutional environment can regulate the distribution of the benefits of development among workers, and can stimulate the creation of a virtuous circle between productivity and the quality of employment. Improving the characteristics of the labour force through education and vocational training strengthens these processes.

However, while these factors favour a better quality of employment, we have to differentiate between variables of context (such as labour productivity in general, being part of an economic sector with low productivity, or low educational levels among the labour force), and those variables that are inherent to the quality of employment and result from labour relations or legislation. Those variables that represent contexts or instruments designed to improve the quality of employment at best can serve as proxy indicators.

The measurement of the quality of employment has to confront various problems, among them data limitations, the fact that several key variables are not applicable to all categories of employment (for example, self-employed workers do not have contracts or contribute to social security), and the challenge of adequately incorporating subjective aspects of the quality of employment.
The revision of available indicators of the quality employment indicates in general a worsening of the quality of employment between 1996 and 2002, characterised by low average levels of economic growth and its high levels of volatility (Weller and Rothliesberger, 2010). By contrast, in the subsequent period all indicators improve, except us that the stability of employment, probably as a consequence of higher volatility in labour markets facilitated by legislative changes relating to the types of contracts introduced during the prior period. On the other hand some policies, such as those that incentivise the formalisation of companies and jobs as well is the strengthening of labour inspectorates, have contributed to some improvements in the quality of employment in any case, the improvements in the majority of these indicators have been modest, which indicates that even though a favourable economic and productive context may have favoured promoted an improvement in the quality of employment, additional measures are needed to make progress in this area. In addition, the data presented reflects the situation of heterogeneity which characterises the region since large gaps of quality are observed between the salaried and non-salaried workers.

Both the economic and productive context (relative wealth, average productivity, and productivity gaps) as well as the institutional context impact the differences that the quality of employment variables present in terms of their development. The improvements between the first and second phase distinguished in the graphs above underline the importance of economic context, as does the correlation between GDP per capita and some quality of employment variables. However, this correlation is not high in all cases, which indicates the need for policy options that improve the quality of employment.

5. Public policy implications

As noted above, early analyses were correct in drawing attention to the fact that the region’s labour abundance manifests itself not so much in open unemployment as in underemployment, especially, though not exclusively, among the self employed. Thus, unlike developed countries, open unemployment was merely the “tip of the iceberg” of the employment situation in Latin America. However, especially in the period 1950-1980, ECLAC confused the existence of heavy underemployment with a worsening of underemployment. In fact, the available data suggest that underemployment was reduced in the period 1950-80, that is to say that productive employment or the quality of employment increased faster than the overall labour force. But un- and underemployment did increase, as might be expected, in the 80s, when output grew much less than the labour force.

Both the brief review of the literature and the empirical evidence presented in this article suggests a role for public policy in tackling under-employment in Latin America. Governments can significantly influence labour market outcomes through their public policy initiatives. One of the most important conclusions of the empirical research presented in the articles of this volume is that the occupational status of workers is extremely important. By occupational status we mean the type of contract that a wage-earner is employed under (open ended, short-term, temporary, or no contract), or the status of independent workers (nonprofessional self-employed workers, professional

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self-employed, or employers). As section 4 showed, many other variables are simply correlated with the occupational status: these include social security provisions, job tenure, investment in vocational training, income levels, and rights to everything from unionisation to job protection mechanisms.

This conclusion is particularly important in the context of Latin America’s public policies, which on the whole have tended to neglect labour market policy, or limited it to emergency employment programs that can absorb the surplus labour force in times of economic crisis. However, across the region very few specific policies have focused on improving the occupational status and associated employment conditions of workers.

In recent years many countries in the region have made efforts to improve the quality of employment above all through the formalisation of employment relationships, but also through the stimulation of vocational training and unionisation. In fact, to stimulate the quality of employment through institutions, the employment contract is a key instrument given that this is highly correlated with almost all other indicators. Other areas with room for improvement regarding the quality of employment through public policy event interventions are excessive working weeks, unionisation and vocational training, but also others that this paper has not measured, such as the safety procedures and hygiene at work.

This issue is now becoming particularly problematic as countries across the region are moving towards implementing minimal social protection floors or even more comprehensive and integrated social protection systems (Ferreira & Robalino (2014)).

Whether workers contribute to social protection systems depends to a large extent on whether they have formal written contracts. If hiring mechanisms become more flexible, (for instance, through short-term hiring, subcontracting, freelance work, or hiring without a formal written contract), this affects social protection systems both through the continuity of contributions and through the levels of savings accumulated. In Chile, which was the forerunner of privatised social security reform based on individual contributions to health and pension systems, experts are finding that the initial levels of individual savings that were projected by the reformers in the 1980s were widely overestimated due to the simultaneous processes of labour market flexibilisation and relatively undiminished levels of informality. As a result, more recent reforms have had to commit significant public funding to providing basic health and pension plans for all workers, regardless of their levels of individual savings. In effect, the government has had to establish minimum protection floors, which basically constitute a subsidy to employers who cut their labour costs through mechanisms of excessive flexibilisation.

12 Following the recommendations of many Washington-based development institutions, Latin American governments have also devoted some effort to improving active labour market policies, such as employment programmes that incorporate elements of vocational training, labour market intermediation services, employment subsidies, and conditional cash transfer programmes that attempt to help beneficiaries participate in the labour force. Unfortunately, the literature that evaluates such programmes indicates that they have had very little positive impact (Larrañaga commission (2011), Crespo (2014) Ruiz-Tagle on Chile Solidario, Marshall (2004)).

13 Contreras and Sehnbruch, 2013.
The combination of low savings levels, social protection floors that are only minimal, and high levels of inequality in the provision of public services that result from the low levels of general risk sharing constitute a potentially explosive policy mix in Latin America that leaves many workers from the middle classes highly unsatisfied with the services they are receiving.

There are three possible solutions to this dilemma: first, governments can increase fiscal spending on existing social protection systems to make up for low contribution levels, thus continuing to subsidise labour market informality and precariousness. Second, they can reverse or partially reverse those reforms that established social protection systems based on individual contributions and re-introduce more extensive forms of risk sharing, for example by establishing “solidarity funds” to which all workers contribute regardless of the level of their contributions. A third option is to implement public policies that specifically aim to improve employment conditions, in particular those that relate to the level and continuity of contributions as well as to the incorporation of more contributors.

So far, most Latin American countries have focused on the first solution, which produces immediate (although limited) results as well as political support if compared to active labour market policies, and furthermore, tends to be politically less sensitive than labour reform. However, such policies also constitute an indefinite subsidy for employers and flexible labour market conditions. In the long run, they can also exceed the fiscal capacities of a government, especially in times of economic crisis, particularly if tax bases (or tax collection levels) are low. Ultimately, this produces underfunded social protection systems with only minimal guaranteed levels of support for low-income individuals and their families, which replicate the inequalities of the labour market.

Policies that redistribute risk sharing are a more viable long-term solution than merely increasing fiscal resources for social programmes, but can be more difficult to implement at the political level. They should, however, form part of any public policy strategy to implement effective and sustainable social protection systems.

The third option that focuses on improving employment conditions in the long-term has multiple additional advantages: it would save fiscal resources currently needed to support minimal social protection floors, ensure a greater continuity of contributions as well as the incorporation of more contributors. In addition, it could encourage investment in human capital and improve productivity if such policies are linked to effective and certified vocational training activities.

However, to make this work, governments have to become more imaginative in terms of how such policies are to be structured. For example, contributions to social security systems, in particular unemployment insurance, can be staggered over time, so that it becomes more expensive to hire people on a short-term or subcontracted basis or to rotate workers frequently. One hypothetical example is that unemployment insurance contributions currently fixed at 4% of wage costs could be increased to 8% for the first year of hiring, and then gradually reduced to 2 or 3% over a period of time. To ensure that such a mechanism does not create disincentives to hiring workers, the increased initial cost of contributions could be offset through tax credits for certified vocational training programmes.

Another policy option along these lines is the establishment of a system of earned income tax credits that pay low income workers an additional salary instead of
establishing short-term employment subsidies. Earned income tax credits also have the added virtue that they can easily be linked to vocational training and lifelong learning programmes, and can be used as a tool to motivate workers to formalise their employment relationships since they would receive a personal cash benefit if they have a contract.

Finally, evidence from more developed countries in Latin America shows that self-employed workers (in what has traditionally been described as the "informal sector") are earning incomes that are at least as high as the average income of formal workers with similar levels of education. Given this situation, it would make sense for governments to make social security and health insurance contributions obligatory for the self-employed, and encourage workers' contributions through the services they receive.

To conclude, we therefore emphasise that policy makers should not expect economic growth to improve employment conditions automatically. External factors such as globalisation, (de-)regulation, or the level of regulatory enforcement can significantly intervene in this relationship. Policy makers should therefore consider policy options that stimulate the formalisation of employment, improve employment conditions and strengthen the linkages between the latter and social protection systems.
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