

Employment and labour institutions: the key to equality of opportunities and social inclusion

The performance of the labour market is the most obvious outward sign of the quality of economic and social development. The labour market's ability to absorb the economically active population, underpin a reasonable degree of social mobility, provide acceptable wages, working hours, employment stability, labour rights, contracts and union organization, as well as offer protection for the unemployed and retired population, are all key pieces in the puzzle of social cohesion. The labour market also needs to be able to do these things in order to promote a type of economic growth that can impact more positively on the distribution of income and employment.

These achievements, however, are not a natural result of market forces, but depend on appropriate public policy decisions. Decisions in this area must take account of four important dimensions: (i) the democratically chosen values that govern the development pattern, which are structured around legitimate and stable social covenants that are duly acknowledged by the authorities (see chapter VII); (ii) the dissemination, through industrial and technology policies, of a production paradigm that can underpin steady and sustainable productivity gains (see chapter III); (iii) the adoption of a macroeconomic regime in consonance with decisions on public and private productive investment and consumption (see chapter II), and (iv) a regulatory framework that supports the development of an institutional structure that is consistent with the public policy choices made.

Broadening social equality and reducing existing gaps in societies that are structurally heterogeneous is a basic task bequeathed by history to public policymakers in Latin American and Caribbean countries. Labour market institutions are essential for creating the conditions needed to absorb productivity gains generated by a new technological paradigm and translate them into rises in real wages, shorter working days and access to social protection, at a rate in keeping with overall systemic productivity. Public policies on employment form the bridge between social and production policies. Alternatively, they may be seen as the fulcrum of the scales that enable the State to balance the two. Real wage gains can also be reinforced through the channel of indirect income transferred by means of public social spending, which broadens the range of public services needed to support the reproduction of the workforce. The array of public spending also has a strong stabilizing effect on the business cycle, since it reduces fluctuations in income and employment, thereby protecting the more vulnerable population in times of crisis (see chapters I and VI).

A. The vectors of equality and inequality in employment

Much of the inequality in the Latin American and Caribbean region can be traced back to the labour market and has been shaped largely by the economic model chosen by each country and by productivity patterns. The first part of chapter III discussed the huge productivity and wage gaps that have developed amid the highly uneven production structures that are typical of the region. The following pages return to this analysis, this time from the point of view of labour market dynamics.

The material well-being of most households in the region is largely determined by the quantity and quality of jobs, specifically by labour income (Medina and Galván, 2008). Inequalities in the assets available to the working-age population —and accordingly the unequal opportunities that those assets provide for employment in production sectors— heavily influence well-being and social cohesion. Well-being and social cohesion also reflect gaps in labour income and in access to social protection among the different groups in the workforce, differentiated by education, experience, sex, area of residence and other factors.

Labour market outcomes are not driven by individual characteristics alone, however, but also by the way that market works, determined, in turn, by the production structure, development policies and the fabric of labour institutions. This fabric, which is made up of market regulations, legal provisions and collectively negotiated rules, arose chiefly as a result of another structural inequality: that between workers and business owners, which has grown sharper since the 1980s. In recognition of this and often as a result of social conflicts over the rights of workers as the structurally weaker actors in the labour market, regulations (such as restrictions on the length of the working day) had been introduced as far back as the nineteenth century to protect labour rights and to limit the scope of self-regulation by the market. The right to trade union organization and collective bargaining has also been formally recognized. The creation of the International Labour Organization (ILO) in 1919 represented recognition at the global level that the labour market was inherently unequal and needed to be regulated.

The recent phase of globalization has worsened other labour-market-related inequalities. Against the backdrop of a production apparatus that is structurally very uneven, the nature of employment varies sharply by sector of the work force. That is, people who have similar characteristics as individuals may find themselves with very different jobs in terms of income,

access to social security and employment stability. Competition has also arisen among countries owing to asymmetries in rights and conditions of employment.

These differences are partly the result of large productivity gaps between the different production sectors (see chapter III) and the fact that labour and social institutions cover a small – and shrinking – portion of the labour force. The rest forms the vast informal sector, which spans a very large proportion of the region's economically active population. This sector lacks access to labour institutions and suffers from precarious employment conditions, low income and scant social protection. Informality casts an immense shadow over labour institutions and makes the protection they offer fragile. Even within formal enterprise there is a large segment of informal employment, as a result of subcontracting strategies adopted to cut costs, which free employers of the obligation to observe full rights for subcontracted workers.¹

Lastly, the labour market is made up of groups that are differentiated by sex and generation, with uneven access to employment. Employment conditions are more disadvantageous and less regulated for women, ethnic minorities and young people of both sexes. Longstanding forms of discrimination converge in occupational segmentation –horizontal and vertical– in which workers with similar abilities or responsibilities enjoy very different employment conditions and pay.² These patterns exacerbate the inequality of the labour market. Accordingly, certain groups of workers need special protection because they are more vulnerable; hence, for example, the regulations referring to pregnant women and to child labour.

Developments over time also reveal another pattern: the intergenerational transmission of inequality. Household characteristics (especially the level of education and jobs of the parents) strongly influence the employment opportunities of any one generation. As will be discussed in chapter VI, it is essential to level the playing field in terms of access to education, educational achievement, and timely learning. Policies that foster capacity-building regardless of personal and social background help to reduce the transmission of inequality from one generation to the next.

B. Inequalities and gaps: the data speak for themselves

1. Labour market patterns at the aggregate level

With economic growth highly volatile and posting low average rates, the 1990s and early 2000s were lean years for employment and social protection for labour rights in the countries of Latin America (see figures V.1 and V.2). By contrast, the period of relatively strong growth between 2003 and 2008 impacted favourably on employment and unemployment levels, before this

¹ As well as informality, increased precariousness in the labour market encompasses the loss of legal entitlements in the formal sector. This has come about through legally endorsed changes (alterations to labour legislation on dismissal and the individual rights of workers) as well as through illegal formats and arrangements occurring within the formal sector. The latter have been encouraged by a more limited capacity for inspection on the part of the supervisory bodies whose function it is to oversee the application of the rules. Lastly, the weakening of the trade union movement, especially in the private sector, has also eroded the capacity of workers –not even to lobby for better legislation to protect them, but simply to ensure respect for the legislation that already exists.

² Non-discrimination is also a key principle in the regulatory framework developed by ILO.

trend was abruptly ended in 2009 (see figure V.1).³ In the English-speaking Caribbean countries, measures to increase public-sector employment, by dint of fiscal spending (and fiscal deficits) helped to make up for the sluggish performance of the economy,⁴ but even so, unemployment rates in the Caribbean have remained high, especially among women and young people.⁵ In addition, the concentration of the labour force in sectors that are in rapid decline, such as agriculture and, to an extent, manufacturing, has been a leading cause of unemployment in the subregion.

Employment creation was lacklustre in Latin America in the 1990s (see figure V.1). This was also partly attributable to the phase of the demographic transition, in which the proportion of the working-age population had grown proportionally larger. The downside of this was the worsening of unemployment, while the upside was the increase in the working-age population with respect to the passive population (or the population considered passive, that aged between 0 and 15 or over 65). Accordingly –with major differences between countries– even with a standstill or fall in the employment rate (which is generally expressed as a percentage of the working-age population), the employed population has risen as a percentage of the total population (Cecchini and Uthoff, 2007).

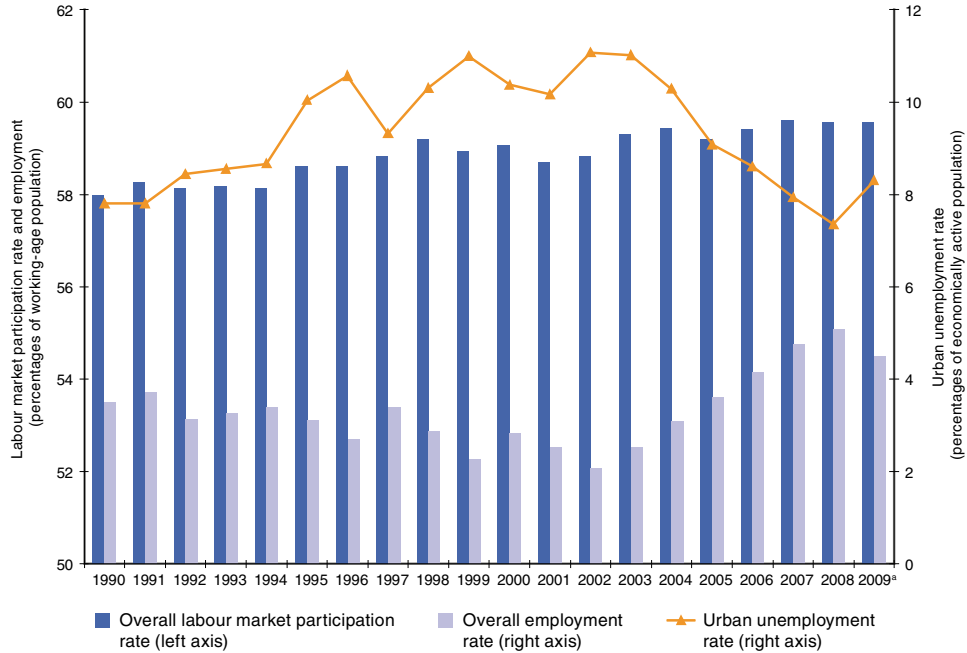
The increase in women's participation in the labour market also reduced dependency rates within households, although that increase was achieved without sufficient public spending or social services to sustain care work in low-income families. This has led to many women undertaking a double working day (one of remunerated work and another of care for the members of the household) while many others, especially those from poor households that cannot afford to pay for the care services provided by the market (the main provider), are unable to enter employment owing to the heavy care burden in the household. This has simply reinforced inequality, inasmuch as the difficulties of lower-income households in delegating care work reduces their possibilities of placing another potential breadwinner in the labour market (ECLAC, 2008a). As will be discussed in chapter VI, the State has a key role today in providing services that help to promote greater equality through support for care work in poor and vulnerable households, thereby facilitating women's entry into the labour market. This is a key pillar of equality, since it speaks at once to gender quality, equality of capacities (by linking care with early childhood education) and lesser inequality in family income (by improving the ratio between productive and dependent persons in lower-income households).

³ Between 2003 and 2008 the unemployment rate fell both in Latin America (from 11.2% to 7.2% as a simple average for 18 countries) and in the Caribbean (from 11.3% to 8.0% as a simple average for 5 countries). Both subregions saw unemployment rise sharply in 2009 (ECLAC, 2009a).

⁴ In Jamaica the number of civil servants rose from 90,000 in 2001 to 120,000 in 2004. Public-sector employment expanded by 54% and 15%, respectively, in that period in Saint Kitts and Nevis and Dominica.

⁵ In the Bahamas, the unemployment rate was 9.1% in 2002 and 7.6% in 2006; in Barbados, 10.3% and 8.7%, respectively; in Belize, 10% and 9.4%, respectively; in Jamaica, 14.2% and 10.3%, respectively, and in Trinidad and Tobago, 10.4% and 8%, respectively. But the crisis has slashed employment and pushed average unemployment up from 9.8% to 11.2% in Jamaica between 2007 and 2009, and from 14.2% to 17.7% in Saint Lucia in the same period, while in Trinidad and Tobago unemployment fell from 5.5% to 5.1% (data from national statistical offices in the respective countries).

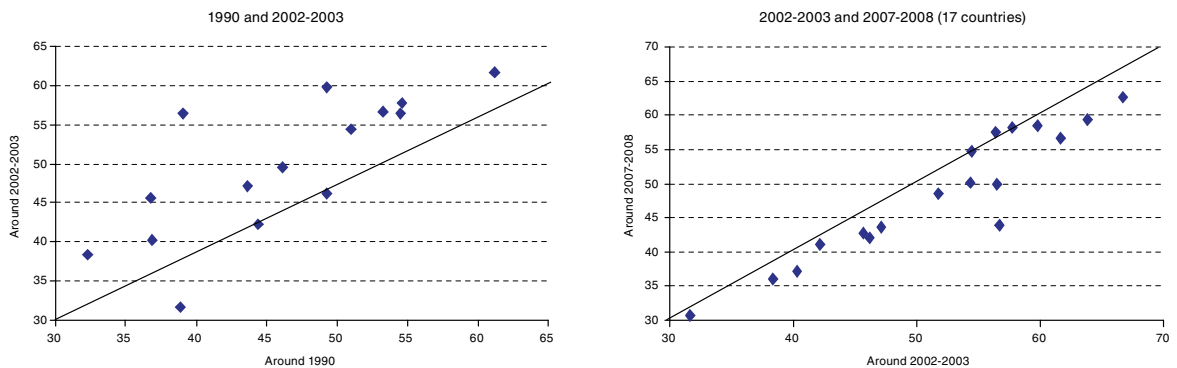
Figure V.1
**LATIN AMERICA AND THE CARIBBEAN: LABOUR MARKET PARTICIPATION,
 EMPLOYMENT AND UNEMPLOYMENT, 1990-2009**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

^a Average.

Figure V.2
**LATIN AMERICA: URBAN POPULATION EMPLOYED IN LOW PRODUCTIVITY SECTORS,
 AROUND 1990, 2002-2003 AND 2007-2008**
(Percentages of the urban employed population)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

Real average wages in the formal sector climbed moderately during much of the 1990s, with a weighted average growth rate of 1.3% per year between 1990 and 1997. They contracted by 0.8% a year on average between 1997 and 2003, however, as a result of the series of crises that hit the region starting in the late 1990s. The economic upturn in the period 2003-2008 had only a small impact on real wages (1.5% per year). Consequently, the increase for the period 1990-2008 overall was only 12.2%, or 0.6% per year. Average labour income varied little, with a slight drop in the simple average of the data for urban areas in 16 countries of the region (see table 21.1 of the statistical annex in ECLAC, 2009c), from 4.2 poverty lines around 1990 to 4.1 around 2002 and back to 4.2 around 2007.

In a number of countries, the rise in labour income helped to reduce poverty in the region during the last five-year period, while in others the benefits were due to higher employment levels (Cecchini and Uthoff, 2007). Many of the employed did not earn sufficient income to raise them out of poverty, however. In 2004-2008, 25% of the urban employed (simple average for 17 countries) and as much as 41% of the rural employed (simple average for 16 countries) remained below the poverty line (ECLAC, 2009c), which shows that the labour markets lacked the necessary inclusionary power.⁶ These limitations are now compounded by the negative impact of the current crisis on employment.

In light of this evidence, the following sections examine the behaviour of the main labour market variables in terms of distribution.⁷

2. Widening of the skills-wage gap

During the last decade of the twentieth century the wage gap widened in the countries of the region and the highly industrialized countries alike. National and comparative studies⁸ both suggest that the income of the most highly skilled rose, broadening the gap between this group and the employed population with lower levels of education. Meanwhile, there was no increase in the gap between the employed with intermediate and lower educational levels, which tends to be attributable to the sharp rise in the labour supply with intermediate levels of education.

The increase in the income gap came as a surprise to analysts who had expected globalization to increase the demand for lower-skilled labour in Latin America and the Caribbean through a more efficient international division of labour and the creation of niches of opportunities, within a market that would assign factors of production globally on the basis of economic reforms (especially in trade, finance and labour). This vision, as discussed in chapter III, overlooked the requirements of production convergence and the strategic importance of incorporating technical progress to raise the economy's productivity. In other words, that vision enshrined a type of development based on low-cost labour which, as argued in this document,

⁶ The mass emigration of Latin American and Caribbean labour that has taken place in the last few decades largely reflects families' needs for wages (or remittances from wages) in order to satisfy basic needs.

⁷ This does not refer to the functional distribution of income, although this plays a significant role in overall inequality. Harrison (2002) found that, between the 1960s and the 1990s, the labour factor declined as a proportion of primary distribution in poor countries. Rodríguez and Ortega (2001) found that trade liberalization increased the share of capital in GDP, because increased competition had weakened the bargaining power of trade unions. Lindenboim, Graña and Kennedy (2005) analysed the case of Argentina and found a regressive trend for the period 1993-2004.

⁸ See national studies in Robbins (1994), Beyer, Rojas and Vergara (1999), Harrison and Hanson (1999), López-Acevedo (2001), Pavcnik and others (2002), Altimir, Beccaria and González Rozada (2002), Arabsheibani, Carneiro and Henley (2003), Feliciano (2001), Gindling and Robbins (2001), Gasparini (2003). See comparative studies in Lora and Olivera (1998), Behrman, Birdsall and Szekely (2000), Taylor and Vos (2001), IDB (2003) and Contreras and Gallegos (2007).

reinforces vicious cycles of underdevelopment instead of activating virtuous cycles that propitiate development. What most surprised the proponents of that model was its failure to create employment and reduce income gaps on the basis of abundant low-skilled labour. On the contrary, however, the 1990s were characterized by high rates of unemployment in many countries of the region, and by a clear widening of gaps in wages and employment conditions. The reforms did not raise employment or income and did not lead to an increase in work for lower-skilled labour, still less convergence in well-being though greater equity in the labour market.

The empirical evidence has demonstrated how wrong the above-mentioned assumptions were. Probably, given the increase in the supply of skilled labour in the past two decades, demand preferences shifted towards a higher level of education. Outcomes were not as expected in international trade either. Contrary to the suppositions of the 1990s reformers, many countries' comparative advantages turned out to be based not on low-skilled labour (owing to their intermediate position in the global economy) but on natural resources (De Ferranti and others, 2002). Thus, trade liberalization did not benefit the least skilled, but instead facilitated capital goods imports and, with them, the use of technological patterns of highly industrialized countries, thereby replicating their skills bias. To this was added competition from countries outside the region with enormous reserves of low-waged unskilled labour (Freeman, 2005a).⁹

It has also been argued that macroeconomic policies, particularly exchange-rate and monetary policies, have sometimes worked unfavourably on relative prices, by raising the cost of labour in relation to capital (Lora and Olivera, 1998; Ramírez and Núñez, 2000). Institutional factors (falls or freezes in minimum wages, the weakening of trade unions) may also play a role (Cortéz, 2001).

As shown in table V.1, in the 1990s, income for the most skilled workers (those with more than 12 years of schooling) rose in comparison with other educational groups. This widening of the wage gap took place for wage workers as well for the employed population overall, and for both men and women.

As shown in table V.1, however, the wage gap has stopped growing and may even have begun to narrow again slightly in the past six years.¹⁰ The relative income of the most highly educated dropped in comparison with the least skilled, although the gap did not return to the proportions of the early 1990s. Although the changes are very small in both phases, the gap between the least skilled and the group with 9 to 12 years of schooling narrowed slightly (from 68.1% to 72.6%) between the early 1990s and 2006-2008 in the case of wage workers, but remained stable for the wider employed population. In light of developments with respect to education, one interpretation for this is that the increase in the supply of labour with intermediate and, in this decade, higher educational credentials has had a hand in reducing this group's relative income.¹¹

⁹ Specifically, trade liberalization may have contributed to broadening the wage gap in cases such as Colombia, where tariff reduction was greatest in sectors that made intensive use of labour with a lower level of education; as a result, while protection had enabled a certain level of income distribution towards those workers, liberalization led to sharp wage drops (Goldberg and Pavcnik, 2001). Other research works attribute to trade liberalization a small negative impact on increasing wage gaps (Feliciano, 2001; Acosta and Montes Rojas, 2002; Galiani and Porto, 2006).

¹⁰ It cannot be distinguished on the basis of the data shown in table V.1 whether the gaps changed because of wage improvements for the least skilled or because of wage losses for the most skilled. The evidence presented in ECLAC (2009c) indicates that part of the convergence is attributable to compression of average wages for the most skilled. In 2003-2008, the levelling did reflect wage improvements for the less-skilled sectors.

¹¹ If medians are used instead of simple averages, the same trends are observed for the employed overall, but the wage gap between the most skilled and the neighbouring group is slightly larger. Monsueto, Machado and Golgher (2006),

Table V.1
**LATIN AMERICA: RELATIVE LABOUR INCOME OF URBAN EMPLOYED WORKING BETWEEN 35
 AND 45 HOURS PER WEEK, BY LEVEL OF EDUCATION AND SEX^a**
(Simple average for 15 countries, index: 9-12 years of schooling=100)

Period	Years of schooling	Employed			Wage earners		
		Total	Men	Women	Total	Men	Women
Around 1990	Up to 8	70.1	71.5	62.4	68.1	69.4	60.7
	9-12	100.0	100.0	100.0	100.0	100.0	100.0
	Over 8	182.2	193.0	165.6	177.5	190.6	162.6
Around 2000	Up to 8	68.4	68.7	63.0	69.0	69.5	63.2
	9-12	100.0	100.0	100.0	100.0	100.0	100.0
	Over 8	215.5	229.0	206.3	205.7	219.0	196.8
2006-2008	Up to 8	70.0	70.9	63.8	72.6	72.6	68.6
	9-12	100.0	100.0	100.0	100.0	100.0	100.0
	Over 8	197.7	206.2	195.9	193.3	205.0	189.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

^a In order to control for the double effect of the fact that women work fewer hours, on average (higher hourly income and lower total income under part-time contracts), the calculations were limited to a range of “intermediate” working days excluding outlier values.

3. Distributive aspects of the production structure

Another aspect with a strong bearing on distribution outcomes is employment creation by sector. In the 1990s, the share of low productivity sectors in urban employment rose from 47.2% around 1990 to 50.8% around 2002, before dropping back to 47.4% around 2007.¹² The recent moderate decrease has reflected more buoyant economic growth in the past few years and, although comparable data are not available, the economic downturn in 2009 is likely to have halted this process. As argued in chapter III, it is essential to bolster these processes with production development policies.

The relatively weak creation of productive employment in the 1990s was also manifested in a widening of the income gap between the segments of production. Between the start of the 1990s and around 2002, average wages in micro-enterprises receded with respect to those in small, medium-sized and large firms, from 73% to 62%. The income of own-account workers (not including professionals or technical workers) fell even more steeply, from 99% to 73%, in relation to average wages in small, medium-sized and large firms. By contrast, in the years that followed (up to around 2006), when wage job creation picked up in formal firms, these gaps stopped widening and narrowed slightly, to 66% in the case of micro-enterprises and 75% in the case of own-account workers.¹³

as well as Castro Lugo and Huesca (2007) and Airola and Juhn (2008), have found recent reductions in wage inequality by educational level in Brazil and Mexico.

¹² Simple average for 15 countries calculated on the basis of ECLAC, (2009c) table 18 of the statistical annex.

¹³ Based on data from household surveys conducted in the respective countries.

4. Quality considerations

Between 2000 and 2007 the percentage of urban employed with social protection in the form of health care, pensions or both rose from 54.5% to 60.8%.¹⁴ Apart from economic growth and the rise in formal sector employment, this also reflected the lower incidence of informal working arrangements in formal firms during this period of relatively rapid growth.¹⁵ Improvements in inspection and oversight also played an important part in a number of countries.¹⁶

Employment patterns show clear signs of exposure to the volatility of the economic cycle (see figure V.1). Unemployment rose with each crisis between the mid-1990s and the early 2000s, not dropping fully back to pre-crisis levels before being hit by a fresh crisis. In some countries, labour reforms encouraged the use of fixed-term employment contracts, which led to a “flexibilization at the margin” (Tokman and Martínez, 1999) and made formal employment more unstable. Hence, as discussed in chapter II, the importance of managing macroeconomic instruments to reduce vulnerability to global volatility and its impacts on employment and well-being. This must be complemented by labour legislation that prevents more powerful sectors from using legal flexibility to lower the cost of labour by making employment more precarious during economic crises. A more sustainable and better regulated macroeconomy and labour institutions that prevent employment from being more precarious in times of crisis are two sides of the same coin in relation to decent work.

Firms tend to try to retain more specialized, highly skilled workers, while for less skilled staff they seek more flexible modalities with less protection, opting for fixed-term contracts without indemnity clauses or subcontracting arrangements (Echeverría and others, 2004). More and more new contracts are awarded on a fixed-term basis and new entrants find the labour market complex and unstable, with uncertain prospects for an upward career path (Auer, 2007; Weller, 2006).

5. Labour-market integration of disadvantaged groups

As shown in table V.2, the rate of labour market participation for urban women rose sharply in the 1990s, but only slightly in recent years. Much of this increase has to do with women’s higher education credentials, given the high correlation between level of education and rate of female labour market participation. By contrast, labour market participation by less educated women increased only moderately and recently came to a standstill.¹⁷ This indicates the persistence of major obstacles to labour market entry for these women.

¹⁴ Weighted data (ILO, 2009c, table 8 of the statistical annex). According to the same source, the proportion of employed with health protection increased from 52.1% to 58.4% and the percentage of employed covered by a pension system rose from 50.1% to 52.8%. In some countries, the number of contributors to social security systems surged between 2003 and 2008. For example, in Brazil, Chile, Costa Rica and Panama the number rose by over 30%; in Argentina, Nicaragua and Uruguay, by over 50%. Other countries, such as Guatemala and Mexico, posted smaller growth of between 10% and 20% in this variable.

¹⁵ Between 2005 and 2007, informal wage employment in the formal sector dropped from 36.9% to 31.6%, as an average for five countries (ILO, 2008).

¹⁶ See Simão (2009) in the case of Brazil.

¹⁷ In rural areas, for which less information is available for historical comparisons, between the mid-1990s and the mid-2000s the female participation rate rose from 42% to 46% and the participation gap between women of different educational levels narrowed slightly (simple average for 12 countries) (ECLAC, 2009c).

Table V.2
LATIN AMERICA: INDICATORS OF WOMEN'S LABOUR MARKET INTEGRATION

	Urban participation rate (14 countries)						Urban unemployment rate (14 countries)		Share of employment in low productivity sectors (13 countries)	
	Women (total)	0-3 years of schooling	4-6 years of schooling	7-9 years of schooling	10-12 years of schooling	13 or more years of schooling	Women (total)	Ratio (women/men)	Women	Ratio (women/men)
Around 1990	43	32	40	38	51	66	8.8	122.5	53.5	124.3
Around 2002	51	36	46	46	55	71	12.7	132.1	55.1	115.9
2007-2008	52	35	45	44	55	72	8.4	141.7	52.0	118.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

As shown in table V.2, the breakdown by sex shows that access to the labour market and productive employment is still highly unequal (Piras, 2004). These inequalities are partly a reflection of social relations that attribute to women a specific role revolving around reproduction, asset gaps, labour market institutions designed to fit the model of the male breadwinner and mechanisms of discrimination (Giosa and Rodríguez, 2009).¹⁸ The gender gap in working conditions is also worrisome because, by and large, the contingent of women entering the labour market today is forming a pool of labour that is vulnerable to being made to work under conditions that run contrary to both labour legislation and advances in legal standards on gender equality. The asymmetry in working conditions between the sexes represents a dual obstacle to equality of rights.

The female urban unemployment rate has reflected the evolution of the region's economies, rising sharply between 1990 and 2003, then dropping back to the level of the early 1990s. But, as shown in the table, women suffered worse than men from rising unemployment and benefited less from its subsequent fall, with the result that the unemployment gap between women and men widened during both phases.¹⁹

The integration of women into low productivity sectors of the labour market reflected developments in the region's economy, rising in the early 1990s and later falling. Here, the gender gap narrowed in the first phase, perhaps as a result of pressure on many men who, as principal breadwinners in the household, were obliged to accept any employment they could find, even in low productivity sectors. The economic upturn that followed partially reversed that reduction in the gender gap.

¹⁸ Atal, Ñopo and Winder (2009) found a gender gap of 10% in hourly wages in Latin America. However, the wage gap is even larger (19.5%) than the observable variables that often impact relative wages, such as level of education, are taken into account.

¹⁹ The crisis of 2009 had a different impact, at least at first, since in most of the countries unemployment rose faster for men than for women (ELAC/ILO, 2009a).

As shown in table V.3, the income gap between men and women decreased in the 1990s (both for wage earners and for the broader employed population), both at the aggregate level and for each of the three educational groups. In contrast, during the 2000s, the gap narrowed very slightly at the aggregate level while widening in several educational groups.

Table V.3
**LATIN AMERICA: LABOUR INCOME OF URBAN EMPLOYED WOMEN
 WORKING BETWEEN 35 AND 45 HOURS PER WEEK,
 RELATIVE TO MEN, BY LEVEL OF EDUCATION**
(Simple average for 15 countries)

Period	Years of schooling	Employed	Wage-earners
Around 1990	Up to 8	66.2	71.9
	9-12	76.5	82.4
	Over 12	64.9	69.7
Total		73.9	81.8
Around 2000	Up to 8	70.6	75.3
	9-12	77.1	82.5
	Over 12	69.7	74.7
Total		78.6	86.1
2006-2008	Up to 8	67.8	76.1
	9-12	74.9	80.0
	Over 12	71.5	74.2
Total		80.2	86.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

The studies show that wage discrimination persists against ethnic minorities, although the gap decreased somewhat in the 1990s (ILO, 2007, cited in Atal, Ñopo and Winder, 2009, p. 10). There is also evidence of wage discrimination by social background.²⁰ Young people also face particular problems of labour market integration, although they form a heterogeneous group whose employment options vary by age, educational level, gender, household characteristics, area of residence and ethnicity (ECLAC/OIJ, 2008). Poor education credentials seriously limit existing and future options of labour market integration for young people, confining them to low productivity, low income and, in general poor employment quality and limited prospects of an upward career path.

The problem of youth unemployment is particularly severe in the English-speaking Caribbean countries. According to available data, while unemployment among the economically active population (EAP) averaged around 11.2% in 2009 in Jamaica, it stood at 39.7% for the 14-19 age group. In Trinidad and Tobago these rates were 5% and 13%, respectively. High youth unemployment is also a factor in pushing young people to emigrate to countries with greater employment opportunities, leading to a flight of the skills needed to increase productivity and diversify the production structure of the Caribbean economies. Youth unemployment also

²⁰ In the case of Chile, Núñez and Gutiérrez (2004) identify a large wage gap by socio-economic background. In Colombia, Gaviria, Medina and Palau (2007) found that wages were lower for individuals with atypical names, which are associated with low socio-economic strata.

coincides with severe institutional disaffiliation (a high percentage of young people who neither study nor work), and extremely high levels of labour informality among young people. This is a major risk factor for the steep increase in youth crime in the Caribbean.²¹

C. Trends for the future

The previous section discusses some of the differences between the 1990s and the 2000s. In the 1990s the employment structure worsened and new jobs were concentrated in low-productivity sectors, at the same time as unemployment rates rose and some wage gaps widened, especially between those with different levels of education and those working in different segments of production. The gender gaps in labour market participation and wages both narrowed, however. During the phase of relatively high economic growth, the employment creation pattern changed, with more jobs created in medium- and high-productivity sectors, which improved links between employment and social protection. The wage gap between employees with high and low education credentials stopped widening and actually closed slightly. No further reductions were seen in the gender wage gap and women's labour market participation ceased to rise. Despite some progress, many factors still cause highly unequal outcomes in the labour markets.

Likely future developments will be shaped by a range of factors that converge in the labour markets. These are summarized below.

- (i) For many countries of the region, population trends are still offering a temporary window of opportunity that the region should seize. The increase in the working-age population relative to the total population can make a contribution to reducing poverty. But in order to take advantage of this opportunity countries must generate enough good quality jobs for a working-age population whose numbers will peak in the next few years before starting to decline owing to population ageing. Capitalizing on this "demographic asset" will take active policies on production (see chapter III) and employment, some of which are mentioned in the following section.
- (ii) The same may be said of the long-standing uptrend in female labour market participation. This participation shows large gaps by socio-economic level, with rates very low in the lowest income quintiles and higher in the upper income quintiles. These gaps have decreased recently, which has been an additional factor contributing to poverty reduction in some countries. Women who have little formal education and come from low-income households are typically employed in precarious conditions, hence mechanisms are needed to increase both their access to the labour market and the productivity and income generated thereby (Weller, 2009b).
- (iii) Another supply-side factor that will have a strong bearing on future trends in labour markets is the expansion of education systems. Although, as will be seen in chapter VI, broad achievement gaps remain by socio-economic background, greater coverage of education and the longer time spent by young people in the system are changing the profile of the labour supply — average credentials are rising steadily. As noted in chapter III, productive convergence policies are crucial if this trend is to make the economies of the region more productive and competitive. This would benefit both

²¹ In a number of Caribbean countries, the informal sector absorbs almost half the labour force, with women foremost in this sector of the economy.

productivity and systemic equality. Improving early-childhood education, broadening the cycle of preschool teaching, and increasing secondary completion rates, as well as far-reaching improvement in the quality of education: these all contribute to this process, as proposed in the next chapter.

- (iv) On the demand side, there is evidence that the sectoral composition of growth influences the characteristics of employment creation and its contribution to poverty reduction (Gutiérrez and others, 2007). In this respect, the long-term decline (relative or even absolute) in agricultural employment is likely to continue. In view of the average traits of this type of employment, this decline would benefit equality, provided that young people in rural areas receive an education and qualifications that enable them to perform productive work in non-agricultural activities and that the jobs are created to tap the potential for structural transformation.
- (v) In the past few decades new employment creation has been centred in the tertiary sector and this is likely to continue. Employment in this sector is very heterogeneous, however, since it encompasses the bulk of informal occupations, especially in commerce and personal services, as well as high-productivity activities with positive quality indicators. The former expand at times of low economic growth, whereas the latter, which are tied to the modernization of the production structure, the expansion of public services and higher investment levels, grow during periods of economic expansion, to which they also contribute.
- (vi) Analysis at the global level indicates that in the region as a whole employment in manufacturing is likely to decline as a proportion of total employment. It will, however, continue to play a key role in the region's productivity and competitiveness and, given, the right conditions, will continue to increase in absolute terms. As discussed in chapter III, policies that encourage more intensive innovation and the reduction of internal productivity gaps, will be the greatest contributors to achieving this.
- (vii) As also mentioned in chapter III, this should be complemented with much more vigorous public policies and investment to drive productivity gains in SMEs, in order to maintain the capacity to create employment in that sector, while reducing productivity gaps with larger firms. Redoubling efforts in this area is vital in order to reduce structural heterogeneity and, along with it, social inclusion gaps. As long as the bulk of employment is generated by a sector whose productivity falls short of the average in the faster-growing sectors of the economy, productive divergence will systematically reproduce gaps in all areas. This divergence will not be solved overnight. But it will not be solved at all unless much more robust financial and institution-building efforts are made to do so. As discussed in the last chapter, this social covenants will be necessary in order to close productive gaps.
- (viii) As regards wages, the great doubling of the world labour force (Freeman, 2005a), as a result of the incorporation into the global market of countries that were part of the former Soviet Union as well as Asian countries such as China and Viet Nam, is exerting strong downward pressure on wages. Mechanisms are needed, therefore, to link productivity to wages in order to ensure that gains in the first are transmitted to the second. This is an aspect of labour institutions that should be examined in the framework of the new realities in global markets. Other similar factors are considered in the following section.

D. Policies for reducing inequality in the labour market

Work is a pillar of life in society. It is the means by which most people generate the income they need to ensure their family's well-being and the space in which they develop most of their capacities, receive recognition, broaden social interaction and exercise their bargaining rights, forge a sense of fair treatment and formalize protection and social stability.

The multiple meanings and benefits of work do not occur automatically, however. On the contrary, they are the result of a long process of productive development, conflict negotiation and collective achievements. This diversity of meanings also comes with a range of channels of social inclusion. As discussed below, these channels are weak in Latin America, but they have a history and deserve a future.

The achievement of quality employment for all, as cited in target 1.B of Millennium Development Goal 1,²² is closely associated with two other targets: economic development, since only steadily growing economies with rising productivity can generate this sort of jobs in the quantities required; and social inclusion, since it is not possible for the entire labour force to have access to quality jobs unless the prevailing exclusion and segmentation are reduced. To this end, labour institutions must be established to promote these outcomes.

1. Labour institutions in the spotlight

Labour institutions encompass the array of rules that govern the behaviour of actors in the labour market, which include market regulations, laws and negotiated rules. The design of labour institutions varies significantly in the region.²³ Although there is no single best design, the characteristics of the labour market require these institutions to pursue two objectives (ECLAC, 2009f):²⁴ (i) the efficient functioning of the labour market with full respect for rights,²⁵ and (ii) the protection of workers as the structurally weaker actors, especially vulnerable groups that face particular problems in entering productive employment.

It is a major challenge to adapt labour institutions to a changing economic and social context to enable them to fulfil their objectives in a sustainable manner. The changes wrought by the adoption of new technologies and the challenges of intrafirm and systemic competitiveness exert pressure towards greater flexibility in production. Here, a dilemma arises with respect to labour market regulation, insofar as making labour markets more flexible enhances their ability to adjust in the short term, but tends to encourage the use of short-term contract modalities and detract from job stability. Yet a degree of employment stability is necessary for developing new knowledge and skills and steering productivity growth. To be efficient, therefore, the labour market needs to be endowed with both short-term adaptability and long-term productivity.

²² Target 1.B: Achieve full and productive employment and decent work for all, including women and young people.

²³ The origin of labour institutions in the Caribbean countries sets them apart from those in Latin America (Downes, 2006 and 2009).

²⁴ See Auer (2007) and references therein to authors who argue along these lines. Freeman (2009) emphasizes that OECD has also recently recognized that different schemes of labour institutions can be effective.

²⁵ Labour market efficiency implies not only the absence of rigidities and distortions, but also the capacity to incorporate more workers and agents' possibilities of absorbing productivity gains.

In the past few decades, many Latin American and Caribbean countries reformed their labour institutions (Weller, 2009a). Some of these reforms were aimed at deregulating and flexibilizing the labour market, but fell short of expectations with regard to employment creation (Stallings and Peres, 2000; IDB, 2003) and came under strong criticism after the political context in which they had originally been adopted changed. At the present juncture, there is increasing skepticism that radical labour market deregulation can have a favourable impact on employment (Freeman, 2005b).

There are opposing positions in the current debate on labour institutions and flexibility (ECLAC, 2009f). In this framework, criteria still need to be aligned to promote more efficient labour market functioning without making employment conditions more precarious. For this reason, it is important not to take formulas out of context, but to identify specific areas in which there may be bottlenecks in the functioning of the labour market.

Here, it is essential to examine the scope of labour flexibility and private contractualism in the sphere of work. Forms of labour organization are undoubtedly dynamic over time. The technological development embedded in production, changes in societal organization and cultural expectations surrounding work alter the ways in which labour is organized and regulated. This disrupts routines, relations on the job, factor mobility and the freedom-security binomial in the working world.

However, if equality of rights and opportunities in society is assumed to be a non-negotiable value, then flexibility cannot, under any circumstances, be allowed to entrench or perpetuate profound asymmetries in bargaining power and contractual situations. When this occurs — where private contractualism is left to the bargaining power of agents in the absence of State mediation— flexibilization in practice becomes synonymous with greater precariousness, with the attendant deterioration in working conditions and broadening of social gaps. In other words, a contradiction of the right-to-decent-work maxim embraced today by the international community.

In this framework, countries are to be commended for not resorting to flexibility-biased labour reform as a response to unemployment in the current crisis. In situations of rising unemployment and informality, employees' ability to negotiate working conditions decreases while the bargaining power of employers increases proportionately. In other words, agreement between private actors, without State or labour regulation, is highly unlikely to yield positive achievements in this sphere in times of crisis, because trade unions lose power and flexibilization broadens profit margins without increasing employment and income security, even in the short term. Hence, private contractualism is not a good solution in emerging countries, because of legitimacy and stability issues associated with agreements. There are well-known cases in which worker vulnerability has increased, with significant well-being losses and broadening of social gaps. Flexibilization is very different in European countries, where social protection systems have wide coverage and tripartite covenants (between the State, the trade unions and employers) are at the heart of negotiations on working conditions, guarantees and the distribution of costs and benefits among the parties.

2. Economic security and labour market inclusion: capacities, representation, income and quality of work

Many factors are involved in the protection of the structurally weaker actors in the labour market. Under a different, but similar, concept of “economic security”, ILO (2004a) has identified seven important components:

- Income security, which refers to the level and payment mechanisms of labour income and financial support received in the event of job loss;
- Labour market security, which refers to the level of employment opportunities in the framework of full-employment-oriented policies;
- Employment security, which refers to ongoing, protected and full-time jobs;
- Work security, which refers to the health and safety standards on the job that are necessary to avoid work-related illness and accidents;
- Skills security, which refers to the possibility of acquiring knowledge and skills needed for the job;
- Job security, which refers to the opportunity to build a career;
- Voice representation security, which refers to levels of organization and collective bargaining.

This variety of components indicates that there is no single mechanism through which the fabric of labour institutions can protect against insecurity. The type of protection instruments varies, as do priorities in terms of the type of insecurity countries need to protect against, and they do not all have the same significance as regards workers’ economic security and well-being. There is a range of instruments that serve to strengthen different aspects of economic security:

(a) Access to training

The opportunity to train is important for entering first employment and for moving into a different area, especially in dynamic production structures. It is also essential to enable those who are working to progress in their careers and to improve their skills to take on new challenges at work.

The countries of the region have made efforts to broaden the supply of training, making it more demand-orientated and providing a larger range of training instruments and contents.²⁶ However, training systems have limited coverage, both for first time entrants to the labour market and for economically active persons needing ongoing skills-building or retaining (ECLAC, 2008c, 2009f). Large firms make more use of training incentives than small firms and they generally provide greater benefits to senior and administrative staff than to production workers. Vulnerable groups have only limited access to training programmes.

Training systems are seldom integrated into long-term development strategies oriented towards continual improvement in systemic competitiveness. Thus no synergies are generated between labour market inclusion and productive development, or between productive convergence and social equality. As noted in chapter III, these synergies do not exist in the

²⁶ See Vera (2009).

countries of the region. Training is a key instrument for enhancing labour market trajectories throughout working life, but also plays a part in making firms more productive and competitive. Accordingly, as will be discussed in the last chapter, a social covenant is needed to link training with equality of work opportunities, with a view to achieving greater productive convergence in the Latin American and Caribbean economies.

(b) Voice, representation and negotiation

The right to form trade unions and to collective bargaining have been widely recognized in the ratification of the respective ILO conventions. Trade unionization and collective bargaining tend to reduce wage inequality by strengthening the income of less-skilled workers (ECLAC, 2009f). In Latin America and the Caribbean, however, as in other regions, trade unionization is waning because of changes in the productive and organizational structure, as well as the prevalence of anti-union policies and practices.²⁷

Recently a number of countries have made efforts to encourage organized labour. It is argued that deficits in labour representation disperse workers and thus weaken them as actors in the labour market, which contributes to creating a culture of confrontation more than regulated negotiation of demands. Providing broader opportunities for collective bargaining is also a necessary condition for adjusting labour regulations to new economic conditions, which should be pursued in a framework of agreement between actors.

This adjustment does not mean side-stepping legal regulations, but orienting those regulations to ensure that workers are represented in order to guarantee proper opportunities for negotiation and establish minimum thresholds of benefits and rights. This is essential where there is extensive informality and production strata in which union organization is extremely difficult, as occurs in many countries of the region.

(c) Minimum wage

This is an important instrument for protecting the most vulnerable workers. After minimum wage policies were subordinated to counter-inflation policies in many countries in the 1980s and 1990s,²⁸ a number of Governments have recently adopted such policies to boost the purchasing power of low-income households. The minimum wage has the potential to reduce inequality and poverty, by establishing a floor that benefits the lowest-income wage earners, even in the informal sector (ECLAC, 2009f). Even so, wage policy must take into account the relative value of the minimum wage in order to optimize its impact on distribution and poverty (Marinakis, 2008). But the role of the State in wage policy is not limited to setting the minimum wage. As noted in chapters II and III, working conditions and income for the most vulnerable sectors can only be improved in the framework of a macroeconomy and State strategy explicitly oriented towards improving the labour market's capacity to increase very low wages. This means considering the parameters of goods and services production, the prices of basic consumption baskets and the relative costs of labour.

²⁷ Vega-Ruiz (2004) offers a review of trade union freedoms and effective recognition of the right to collective bargaining in Latin America.

²⁸ This was not the case in all the countries, however: for example, in Brazil and Chile, minimum wages rose steadily in real terms in the 1990s.

(d) Quality and formalization of employment

An important aspect of labour market inclusion and quality of employment is the contractual status of workers. Not only the informal working-age population is prejudiced in this regard; so are those who lack formal contractual conditions even though they work for a formal firm. Some countries have recently taken steps to extend formal employment protection to subcontracted workers. Other measures include protection for home-based workers and domestic employees (Tokman, 2008).

In the past few years, many of the region's countries have applied different measures to encourage the formalization of informal firms and specifically of employment relations. These measures have the potential to reduce labour market inequality and to extend the coverage of labour institutions to groups that were previously excluded. However, experience indicates that reducing the labour costs of formality —specifically through lower contributions to social security systems— is not sufficient to compensate for the higher costs that formalization carries in other areas (taxes, licences, other types of contributions). In order for the cost-benefit equation of formalization to favour a significant number of informal enterprises, it is necessary to provide well-defined benefits (for example, access to business development schemes) and limit the costs associated with formalization (Chacaltana, 2009a). Programmes to promote formalization must avoid deepening segmentation by, for example, establishing legal differences in workers' rights by type of firm, but they could create temporary mechanisms to encourage formalization and, thereby, the standardization of basic working conditions (Tokman, 2008).

Lastly, some situations of informality are not due to the firm's inability to comply with rules under existing conditions, but to strategies of cost reduction and profit maximization. A number of countries have built up the capacities of their labour inspection institutions in order to reduce the impact of such strategies. Given that there is a large grey area —especially in micro- and small enterprises— surrounding the causes of non-compliance with existing rules, it would be advisable to adopt a strategy based on supporting future compliance, rather than sanctioning past infractions (Schrack and Piore, 2007).

Although labour formalization has the potential to broaden the contributory base of social protection, given the huge coverage gap that exists in most of the countries of the region, it is still essential to strengthen non-contributory systems based on solidary transfers (ECLAC, 2006a) (see chapter VI). In the longer term, it might also be possible to consider shifting part of the costs of social protection schemes from the contributory system to general taxes, in order to limit the disincentive to formal contracting implicit in non-wage labour costs.

(e) Labour market inclusion of specific groups

Certain groups require special measures to promote their integration into productive employment. Programmes that stimulate the integration of groups that face special problems in accessing the labour market and productive jobs not only improve income and employment prospects for the direct beneficiaries, but also contribute to enhanced production. In other words, they are not only instruments of social development, but also constitute mechanisms for boosting productive development.

With regard to women, policies to reconcile work and family life are essential to reduce the gaps in labour market access and in employment conditions (ILO/UNDP, 2009). Specifically, the availability of care services for small children increases women's labour market participation and income.²⁹ There is a need for care services (from the community, the market, the solidary sector or the State), which would serve the dual purpose of broadening children's socialization and providing mothers with more time to devote to work.

Other measures include specific agreements on working hours, flexitime and distance working, emergency leave, the encouragement and facilitation of a larger role for men in caregiving and the inclusion of the issue in collective bargaining processes with a view to finding suitable solutions for particular sectors or firms (Giosa and Rodríguez, 2009). With respect to women already in the labour market, headway must be made with measures to prevent sexual discrimination. Effective legislation is essential to put an end to discriminatory practices: although it cannot replace the cultural change needed with respect to the sexual division of labour and coresponsibility for care work, it can contribute to bringing about the change.

Another group facing clear problems regarding labour market integration is youth, whose unemployment levels are twice and even three times as high as the jobless rates of their elders (with major variations by socio-economic level, educational credentials and gender). In order to facilitate access for young people to good quality jobs, it is necessary to improve the education system and strengthen training and labour intermediation. With respect to the first, young dropouts from the education system must be given options for resuming their studies. As far as possible, this should include modalities that enable them to combine work and study, or subsidies for remaining in or returning to full-time education. With regard to the second, there is a need for training and intermediation instruments, skills certification, hiring subsidies, first-job incentives and support for enterprise, all of which are in their infancy in the region (Chacaltana, 2009b).

In sum, there is no single route to improving labour market integration and combating labour market inequality. This section has put forward a number of areas to which the countries of the region should turn their attention. First, professional training and coaching instruments need to be enhanced on the basis of improved education for all, and adapted to the needs of different groups of workers. Second, it is essential to strengthen collective bargaining, not only in order to improve income distribution but also, as will be discussed later, as a mechanism for building sustainable socio-labour covenants with broad benefits. Third, efforts should be made to unlock the significant distributive potential of the minimum wage, taking into account the specific characteristics of the wage structure in each country. Fourth, formal sector labour relations which, for no legitimate reason, fail to recognize general labour rights must be properly institutionalized as a matter of priority. Fifth, steps must be taken to lessen the vulnerability of workers in the informal sector, by means of productive development instruments and non-contributory social protection mechanisms. Sixth, instruments designed to help groups that face obstacles in securing good-quality jobs should be strengthened. Seventh, as noted in chapter II, the macroeconomic environment must be designed to shield against perverse relationships between external volatility and the quantity and quality of employment.

²⁹ On average for five countries of the region, the participation rate of women without children under age six in the household is 53.5%, while the rate for women with three or more children under age six in the household is 43.8% (calculation by ECLAC, on the basis of household surveys conducted in the respective countries, in the framework of the joint project conducted by ECLAC and the Swedish International Development Cooperation Agency (SIDA), entitled "Enhancing Economic and Social Conditions and Opportunities of Vulnerable Groups in Latin America").

3. The challenges of labour institutions: reconciling market efficiency and protection of workers

Labour institutions are called upon to contribute to long-term development strategies in which innovation and the accumulation of knowledge and skills are fundamental. As part of this, the coverage, quality and progression rates of education systems must be improved, as discussed in chapter VI. But two components of labour institutions also contribute: training (as noted earlier in this chapter) and labour relations.

The impact of satisfactory labour relations on worker performance has been established both empirically and theoretically. Decent treatment, material and non-material recognition of effort, options for personal development for building an upward career path and the possibility of being heard individually and as part of a collectivity (“representation security”): these are all factors that not only dignify work and the person performing it, but also promote learning and innovation in work routines, which feeds into productivity.

Ease of firing, which is an explicit element of labour flexibility, especially in cost-cutting schemes, is much debated in this context. The negative impacts of firing costs on the possibilities of hiring new workers during expansionary phases of the business cycle are often cited, as is the incentive to reduce the ratio of employment to capital. It is also argued that certain levels of turnover can increase productivity by facilitating the generation and dissemination of know-how, the migration of workers away from low-productivity sectors, and hiring in emerging sectors where productivity is rising.

Be this as it may, however, an institutional setting which encourages high turnover tends to prevent productivity gains, which are favoured by greater stability.³⁰ This is partly because of the specific know-how and skills a worker gains on the job.³¹ High employee turnover also discourages firms from investing in the overall knowledge base and skills of their workers, given the risk that they may not see the returns on that investment (Chacaltana and García, 2001). Eliminating or substantially reducing the cost of firing can therefore have a negative impact on economic efficiency.

It will be recalled, however, that job security is only one component of economic security for workers and it is not necessarily obvious which elements should be treated as a priority. A variety of protection mechanisms correspond to the range of components of economic security. ILO (2004b) used a simplified matrix of two (in)securities to prepare a typology of OECD countries by levels of social and labour protection (proxied by the stringency of active and passive labour market policies protecting income in the event of job loss and facilitating rapid reintegration into the labour market) and employment protection (proxied by the strictness of labour legislation on dismissal) and analysed the relation between the two types of protection and the perception of economic (in)security in the population. Tokman (2008) replicated this exercise for the Latin American countries and, as shown in table V.4, four groups of countries were identified. As in the OECD countries, the perception of security is greater in countries that have higher levels of social and labour protection and, within this group, countries with lower employment protection.

³⁰ Auer, Berg and Coulibaly (2005) emphasize that employment stability is positively, but not linearly, correlated with productivity.

³¹ Hence the loss of income associated with a period of unemployment, even when the worker finds a new job in the same branch of economic activity.

Table V.4
LATIN AMERICA: COMBINATIONS OF LABOUR AND SOCIAL PROTECTION

		Social protection	
		High	Low
Employment protection	High	Stringent labour legislation: second highest Spending on social protection: second highest Perception of security: second highest Bolivarian Republic of Venezuela and Brazil	Stringent labour legislation: highest Spending on social protection: second lowest Perception of security: lowest Colombia, Ecuador, Mexico, Panama, Paraguay and Peru
	Low	Stringent labour legislation: lowest Spending on social protection: highest Perception of security: highest Argentina, Chile, Costa Rica and Uruguay	Stringent labour legislation: second lowest Spending on social protection: lowest Perception of security: second lowest Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Plurinational State of Bolivia

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Víctor Tokman, "Flexiguridad con informalidad: opciones y restricciones", *Macroeconomía del desarrollo series*, No. 70 (LC/L.2973-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2008. United Nations publication, Sales No. S.08.II.G.83.

Differences in the perception of security, in both OECD and Latin American countries, indicate greater sensitivity to income security than to employment protection, which may be explained by the fact that for most workers job loss is associated with income loss and a substantial decline in family well-being, even when new employment is found quickly (Farber, 2001; Bucheli and Furtado, 2002; Herrera and Hidalgo, 2003). The risk of this occurring may be even greater in the Latin American and Caribbean countries since, as unemployment protection systems are weak, the only alternative following the loss of a formal job may be to accept poorer-quality employment in the informal sector.³² Hence the importance (since there is no such thing as absolute employment security) of income security. It may be added that excessive employment security could discourage reasonable levels of risk-taking, which would hinder individual and societal development prospects (ILO, 2004a, p. 15-17).

Linked to the importance of income security is another fundamental issue in the debate on labour institutions: compensation, the instrument traditionally used in the region in the case of dismissal without just cause. This instrument has been criticized for the rigidity it introduces into contractual relations, insider-outsider segmentation of the workforce, and limited coverage. It has also been slated as an inefficient mechanism of protection, given the high percentage of workers fired without receiving due payment (for example, in the event of bankruptcy) or receiving only partial payments in the framework of out-of-court settlements (Velásquez, 2009).

In order to tackle these weaknesses, several countries have created and developed unemployment insurance systems. At this time, Argentina, Barbados, the Bolivarian Republic of Venezuela, Brazil, Chile, Ecuador and Uruguay all have some sort of unemployment insurance scheme. Other countries have introduced systems of individual accounts to which workers have access in the event of dismissal. These systems have flaws too, especially in terms of coverage, and must be carefully designed in order to function as attractive protection instruments without creating disproportionate costs.³³

³² Unemployment protection schemes, which will be discussed later in this section, play a major role in this context.

³³ Berg and Salerno (2008) note that many countries that have broad unemployment insurance today began to introduce those schemes when their per capita income was similar to or even lower than the current levels of many Latin American and Caribbean countries.

It has been argued that indemnity payments should be eliminated once unemployment insurance has been introduced. But this is a false dilemma, because the two instruments are not perfect substitutes for each other, particularly inasmuch as indemnity payments constitute a disincentive for dismissal (Blanchard, 2003). Since compensation is not payable in the case of dismissal where due cause exists, the key issue is the definition of just cause and the size of the indemnity payment. With respect to the first point, the question is whether, and in what circumstances, a firm's difficult financial situation may be considered just cause. This question certainly requires rethinking in a context of open and competitive markets. On the second point, it has been proposed that indemnity payments be reduced and contributions to unemployment insurance raised, in order to guarantee payment in case of dismissal and reduce the cost of laying off workers without eliminating altogether the disincentive for dismissal (Goldin, 2009).

In times of economic crisis, there is justification for considering alternatives for protecting workers in precarious employment against job loss. Since, by definition, such a scheme would be funded from general revenues, it could be argued that insurance for formal workers should be funded from general revenues as well, rather than from payroll contributions, as an incentive for formalization. Even if both programmes (for formal and non-formal workers) were financed from general revenues, however, it is important to differentiate the two because the means of verifying unemployed status is different in each case, and the scheme for informal sector workers would be different too. These workers could be asked to perform some kind of counterpart task, along the lines of training or participation in community work, which would vouch for their unemployed status.

Lastly, as will be discussed in chapter VII, social dialogue among actors in the labour market is essential, both as regards worker protection and in the interests of productivity, taking into account the specific context in each country. Building and promoting this sort of dialogue is not easy and requires the social actors to acknowledge each other mutually as representing legitimate, albeit divergent, positions. It also requires the gradual building of trust as a basis for crafting sustainable agreements and for complying with international commitments regarding trade union freedoms and collective bargaining. Among other advantages, social dialogue optimizes the search for mechanisms for increasing labour market efficiency without reducing protection, while generating benefits for workers.

In sum, labour institutions need to be rethought in the framework of a long-term development strategy. This chapter has set forth the guiding principles for improving the apparatus of labour institutions, namely: (i) labour relations that build trust between social actors and lead to productivity gains; (ii) national training systems that respond to the needs of businesses and workers; (iii) equilibria between employment stability and mobility that impact positively on both labour security and productivity; (iv) the development of unemployment protection systems for more volatile labour markets, which can also contribute to more efficient job-seeking, especially if public employment services integrate these passive policies with active labour market policies; (v) identification by the stakeholders of bottlenecks that detract from labour market functioning and outcomes and whose negotiated removal can generate benefits for employers and workers, and (vi) the pursuit of social and labour dialogue as a mechanism for forging agreements that enjoy broad legitimacy. For all these reasons, both the State and the social actors in the production sector have a key role to play in the development of labour institutions.