



“Summary of article by Hernando Gómez Buendía: The Politics and Economics of Global Employment: A Perspective from Latin America” in Frontier Issues in Economic Thought, Volume 4: The Changing Nature of Work. Island Press: Washington DC, 1998. pp. 101-105

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The standard methodology for analyzing levels of employment, namely a comparison of trends affecting labor supply and demand, may lead to an understanding of the reported rate of unemployment in developed countries. The same methods fail, however, to comprehend a crucial problem in developing countries: the large volume of low-productivity underemployment, often in the informal sector of the economy. Many Latin American countries, in particular, have a very modern, but relatively small, high-productivity formal sector alongside a much larger urban informal sector. This essay, by a Colombian economist, relates Latin America’s dual structure of employment to the political and economic history of the region.

THE POLITICS OF UNEMPLOYMENT

Global reviews of employment problems often overlook the important distinction between formal unemployment and informal underemployment. Academic and political interest in employment issues varies with the formal unemployment rate in developed countries. In historical terms, unemployment only becomes a political issue when a society is able to afford comprehensive, publicly funded unemployment insurance, an innovation that makes the costs of unemployment a matter of concern to everyone. Common strategies of public intervention in labor markets -- better information about job openings, public works employment, changes in labor regulations, and retraining and small business loan programs -- are designed to address the formal unemployment of a small minority, not the informal underemployment of a large fraction of the labor force.

FORMAL AND INFORMAL LABOR MARKETS

[There is a] political dimension behind each of the four most commonly recognized economic peculiarities of the Latin American labor market, that is: the large size of the informal sector; the early and uneven development of labor protection regimes; the lag in technological development which blocks further expansions in productive employment; and the large extent of state intervention reflected in the large share of the public sector in overall employment. [66]

The urban informal sector, a set of heterogeneous activities characterized by small scale, labor-intensive technologies, free entry, competition, and absence of regulation, includes a large portion of the labor force in developing countries. Though statistics are unreliable, estimates for

Latin America are often between 20 and 30 percent of the nonagricultural labor force, if not higher. Moreover, informal employment appears to have grown during both the debt-adjustment crisis of the 1980s and the more recent move toward flexible labor markets.

Informal organization of urban life is not restricted to employment, but also encompasses approaches to housing, transportation, and access to public utilities. Some authors view the informal sector as a reaction to excessive regulation in the formal sector. The present author has argued elsewhere that the informal economy can be understood as private appropriation of public goods: informal work takes place in the streets, or in enterprises that do not pay taxes and utility bills; squatter settlements do not pay for public land, sanitation and other services, nor do they meet public health and safety standards; informal access to utility networks is simply unpaid appropriation of these services.

Formal labor protection and social service legislation in Latin America is generous to the worker, roughly on a par with Western Europe. Compensation for workplace injuries, and retirement pensions for some categories of workers, were introduced earlier in several Latin American countries than in the United States. Labor-oriented legal systems are a result of the region's history of industrial protectionism. A strategy of import substitution led to the successful development of a manufacturing sector, beginning around the 1910s; this allowed the rise of powerful unions in the protected industrial sector. Other factors promoting labor legislation included the social teachings of the Catholic Church, the earlier unionization of selected agricultural and mining export industries, and the region's populist traditions.

However, the generosity of the resulting system is more than Latin American economies can afford; "there is an abyss between law and reality" [76]. Basic social security covers less than half of the economically active population throughout the region, and less than one fourth in many countries. Those who are covered often receive inequitable treatment, varying widely by occupation and region.

PROTECTIONISM AND THE STATE

The puzzle of Latin American development is the sharp slowdown in industrialization in the 1970s, followed by a decline in the 1980s. The standard economic explanation is that import substitution turned out to be self-defeating: more complex manufactures required more, not fewer, imported inputs, while the distortion in prices caused by protectionism made export industries uncompetitive in the world market. A complementary explanation rests on the politics of protectionism: Latin American industrialists, having prospered for decades on the basis of political connections and regulation, naturally remained focused on preserving access to government policy makers and protected domestic markets, rather than competing with more efficient foreign producers.

The state plays a crucial role in molding the labor markets of Latin America, in part through its generous but unevenly applied labor and social welfare legislation (which defines the informal sector by exclusion from these provisions). The state is also an important employer, accounting for 10-15 percent of total nonagricultural employment in the larger countries -- more than the average for developing countries in Africa and Asia, but less than in many industrialized

countries. Public workers in Latin America appear to be more active in politics than their counterparts in developed nations. As with labor legislation, there is a gap between formal and informal reality: governments often refuse to recognize powerful unions, yet negotiate with them anyway; collective bargaining and strikes by public sector workers are legally prohibited or restricted, yet routinely occur, in many countries; benefits and privileges somewhat beyond the law are often available to lawmakers, the military, and employees of major public enterprises.

LABOR DUALISM REVISITED

There is a longstanding debate on the nature of economic dualism in Latin America. Parts of the regional economy began to modernize much earlier than other developing countries. There are wide disparities both between and within Latin American countries: Argentina is not Haiti, nor is Brazil's impoverished Northeast comparable to the modern industry of São Paulo. Such trends as the demographic transition to slower population growth, and the increased participation of women in formal employment, began earlier in the more affluent Latin American countries than in other developing nations.

Yet modernization and industrialization did not continue to expand. Employment in agriculture fell from 55 percent of the region's work force in the 1950s to 26 percent by the end of the 1980s, and 72 percent of the population now lives in cities. At the same time, employment in modern manufacturing has remained around 14 percent of the regional labor force for four decades, and overall per capita productivity has barely increased. The result has been the coexistence of formal and informal labor markets, with open unemployment and disguised, informal underemployment side by side.

The formal and informal labor markets interact with each other; those who lose jobs in the formal sector often end up in informal occupations, while times of prosperity and expansion in the formal sector will draw workers out of informal activities. There is little evidence of a long-term trend, either up or down, in formal unemployment. The existence of the vast reserve of informal sector workers undercuts most interventions in the labor market aimed at reducing formal unemployment. Indeed, formal unemployment may be a luxury, available only to those who qualify for unemployment assistance or have other resources that allow them to search for more desirable jobs rather than immediately pursuing low-paid, informal activity.

The economy of the future, it appears, will rely even more heavily on skills and knowledge, rather than the simple, unskilled labor that is so abundant in the informal sector of Latin America. What will become of those who cannot join the technologically defined global village of the future? Even more intensive informalization of the economy is one scenario. Another, more ominous possibility is demagogic or xenophobic opposition to technology and globalization, under the guise of neo-populist alternatives. "One can only hope that some others will discover that asserting the public interest and constructing a nation where all can be gainfully employed can be a task far more rewarding." [90]