CURRENT HISTORY

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"The most important question concerning labor in Latin American today is how . . . to achieve a meaningful incorporation of all citizens of working age and ability in the workforce."

The Challenges of Formalizing Labor in Latin America

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Labor Shifts

Fifth in a series

Visit any of the great Latin American cities—whether Bogotá or Buenos Aires, Lima or Mexico City, Santiago or São Paulo—and you will be struck by three starkly contrasting realities of work. First you will see the office towers that have risen in recent years. Home to banks, law firms, and financial consultants, they represent a highly professionalized, highly skilled segment of the economy, where incomes are high and the pace is dynamic; but it is a niche that constitutes less than 10 percent of overall employment. These buildings cast a long shadow that shows both the potential and the limitations of work in Latin America today.

Continue out to the edges of the city and you will see industry, manufacturing, and agribusiness in various forms, with long, low-slung production facilities and buses of workers arriving for two or three shifts each day (and in many cases, through the night). Assembling products as diverse as garments and electronics, and packaging them for shipment to economies in the north, the workers are young and nimble, and they work long hours in highly repetitive tasks. Many of these workers have been drawn from rural areas, and their jobs are a major change from the work and pace of life in their home communities. Some of their parents continue to work in more traditional industries—whether extracting resources or manufacturing for domestic consumption—but they have faced layoffs and downsizing nearly across the board as new technologies come on line. Throughout the region, these young and old workers make up anywhere from 20 to 40 percent of the labor force.

Between these two worlds of work, ensconced in every unoccupied space, is the largest segment of the workforce. It is made up of small, family-run housefront stores selling produce and dry goods; artisanal beekeepers, broom-makers, and clothing weavers; ambulatory vendors who sell fruit and newspapers and candy wherever two or three people are gathered; and service providers offering haircuts, housecleaning, and day labor in many forms, either in their own locales or by going directly to their customers.

This largest, and highly heterogeneous, component of the labor force does not "count." It is not officially registered with the state, and its workers do not ordinarily have contracts, pay social security taxes, or receive state benefits. Their "informal" work in a sense does not exist, even though it typically comprises between 40 and 60 percent of the labor force in most countries in Latin America.

Couple this reality with Latin America's longstanding status as the most unequal region of the world in terms of income and wealth, and you begin to have a picture of the complex tensions over labor in the region today. Dynamism and rapid change affect every level of production and work, yet vast social and political divisions are still present. Perhaps the most important source of tension is the question of who constitutes a "worker," and how work provides people with access to status and opportunities.

TERMS OF TRADE

To put it simply, work cannot be taken for granted in Latin America—in terms of either em-

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ployment that provides for one's well-being or the social status it confers. In the first place, countries have faced considerable challenges in their efforts to create jobs and promote stable growth. Throughout its history, the region has been prone to boom-and-bust cycles, driven by fluctuations in commodity prices on world markets. Latin American countries have often fallen prey to debt crises, most notably in the 1980s and 1990s, and they have not been immune to the fickle fates of world financial markets (though they weathered the 2008 financial crisis better than many other regions). This volatility has produced whipsawing economic and labor policy shifts.

The early part of the twentieth century saw many Latin American countries focus on the production of primary commodities, ranging from minerals in Peru and Mexico to beef in Argentina and coffee and bananas in Central America. Such goods required considerable labor to extract or harvest, drawing workers into jobs organized around mines and plantations. But they also left the region vulnerable to price fluctuations and "declining terms of trade," as the economist and sociologist Andre Gunder Frank described the trend by which Latin America's commodities fetched ever lower prices compared with the manufactured goods purchased from the industrialized north.

In response, many nations in the region embarked on an ambitious program of industrialization through import substitution in the middle of the twentieth century. By actively detaching themselves from the world market, they hoped to develop domestic industry, producing at home the expensive manufactured goods that had previously been imported. As part of this process, a massive workforce was brought to cities and put to work on assembly lines and on transportation and public works projects, building the infrastructure needed to galvanize growth. Employment in stable jobs in the industrial and public sectors quickly expanded, and became the foundation for organizing and political activity by labor unions.

The stability of this inward-directed development was short-lived. The "infant industries" depended heavily on subsidies from the state, and never achieved the expected efficiencies that would allow them to compete on world markets. Faced with mounting debt, the state had to reduce wages, shutter many plants, and sell others in a process of privatization. These adjustments took a toll on the livelihoods of workers and their families, especially younger workers who could not find a ready place in the workforce. And in fact, these industries had never employed much more than about half of the male workforce.

In the context of globalization, Latin America in the twenty-first century has shifted course and in some ways returned to its roots, placing an increasing emphasis on commodities as drivers of economic growth. However, the goods and production processes at the center of this model have changed dramatically. In the new dispensation, copper in Chile, natural gas in Bolivia, and oil in Brazil are the drivers of growth. Yet these commodities tend to be more capital-intensive than labor-intensive, so the sector has not produced jobs at the same rate as earlier industrialization. A relatively small segment of highly specialized workers is employed in the extractive industries, complemented by a small set of banking and financial service providers in major cities. To the extent that other employment is generated in this model, it is found in transportation and other supporting services—or in some cases, political patronage jobs with the state.

The jobs created in this latest cycle are by and large low-skilled (with the exceptions of engineers, bankers, and consultants), but they offer wages that would be considered middle-class by regional and world standards. Political scientist Ben Ross Schneider has called the current model of economic production and labor relations in Latin America a "low-skill trap." Workers do not have an incentive to invest in additional education or skill acquisition, since few jobs requiring moderate to high skills exist; likewise, firms have no incentive to build facilities that produce more advanced goods and thus require higher-skilled personnel, since the labor force lacks sufficiently prepared workers.

Elusive middle class

The region's great aspiration—in recent years, tenuously attained—has been the creation of a middle class. In these pages in 2013, Michael Shifter and Cameron Combs highlighted the diverging fates of Brazil and Mexico. Brazil had seen rapid job creation and a burgeoning middle class over the preceding decade, but was beginning to falter. It was experiencing the start of a downturn that has only deepened since then, giving rise to widespread protests and eventually to investigations into corruption involving the state-run oil giant, Petrobras, and the impeachment of President Dilma Rousseff in 2016. Meanwhile, Mexico was seeing its middle class grow to 50 percent of the population for the first time, along with a real reduction in poverty and improved security—all of which pointed toward a bright and more stable future if it could be sustained.

These two cases are representative of broader trends in countries such as Chile, Colombia, and Peru. The latest wave of job creation promises to foster the development of the middle class. However, even in the best cases, jobs are vulnerable to rapid turnover. In fact, many positions are not contracted directly by major firms, but coordinated through third parties and treated as temporary jobs, facilitating regular dismissals and rehiring. As a result, stable middle-class status, achieved through regular employment in legally registered firms, remains elusive for many. They find themselves regularly cycling through jobs and enduring intermittent periods of unemployment or underemployment.

Then there is the division between formal work and the informal sector. Many analysts speak of a "dualization" in the labor market between those who are employed in state-registered jobs (including the industrial and middle-class jobs described above) and those whose work is "off-the-books." Workers in the latter category engage in a variety of creative pursuits, from artisanal production to small retail ventures to personal services. Some are employed by legally recognized firms, but their jobs are not reported to the state. These workers lack recourse to labor protections and access to social security systems.

Conditional cash transfers are providing incentives for increasing the skills and earning potential of workers.

Of course, this is not a new development; there have always been workers in these sectors. What is striking, though, is the inability of the state to effectively incorporate them into legal, registered work. This is not simply an issue of firms evading regulations. It reflects a legal code governing labor that many analysts see as out of step with the region's needs.

CORPORATIST CODES

Latin American labor codes are a study in contrasts and contradictions. Formulated during the push for economic growth and modernization in the middle of the twentieth century, labor laws were designed to fit the needs of societies that hoped to soon be filled with full-time workers employed in stable jobs. In many cases, these jobs were to be directly provided or heavily subsidized by the state; they were part of the larger project of industrialization through import substitution. The adoption of these new labor codes was driven as much by political as by economic motives. Governments as diverse as those of the populist Juan Perón in Argentina and the long-ruling Institutional Revolutionary Party in Mexico sought to "incorporate" labor into the political arena as a loyal, reliable voting bloc, as the political scientists Ruth Berins Collier and David Collier observed.

Labor laws thus came to provide extensive benefits and protections. Hiring and firing requirements were highly restrictive, guaranteeing dismissed workers one month or more of pay for each year worked. This provided a high degree of job stability, since it made firing workers so costly that employers often chose to keep them on the books during periods of adjustment or economic downturns. In addition, activism by quickly growing labor unions led to the adoption of generous yearly bonuses—the *aguinaldo*, the traditional "thirteenth month" Christmas bonus, was in many countries complemented by a fourteenth-month bonus in June or July—as well as annual vacations of up to one month, even for newly hired workers. Social security systems were set up as contributory funds, in which the regular contributions of employers and employees would pay for workers' retirement benefits.

At the same time, the labor codes gave pride of place to unions in political activity and industrial organization. Many countries in the region adopted a corporatist approach to economic representation, channeling the interests of labor through industrial unions and sectoral federations, a hierarchy culminating in powerful labor union confederations. Leaders of these confederations emerged as highly influential political actors, and their activity was protected by a host of labor regulations that gave them near-monopoly status in representing workers' interests.

Of course, these extensive provisions never applied to all workers. The high level of informal employment was both a consequence of these codes and a barrier to their enforcement. On the one hand, self-employed workers and non-formalized personal service workers were ill-suited to the contracted model of work envisioned by the labor codes. And on the other hand, employers often saw the codes as imposing onerous costs, overly restrictive, and inefficient. Noncompliance was—and remains—widespread in many countries in the region. As a result, the contributory social security funds were stretched to the breaking point. With payments made only by workers in long-term, stable jobs, the accounts were insufficient to cover the needs of retirees, and they left workers without a record of contributions completely unprotected.

ON PROBATION

As economic growth slowed in the 1980s, countries across Latin America began contemplating reforms to these labor laws, but three decades of efforts have produced only modest changes. Turning toward export-oriented production, governments sought to make their economies more competitive in world markets. They introduced policies to "flexibilize" employment, enabling more rapid hiring and firing of workers as market conditions change by lowering severance pay requirements, shortening vacations, and decreasing employer contributions to social security funds.

However, substantial pushback from unions—especially in Argentina and Mexico—limited the overall impact of these reforms on existing formal-sector workers. Rather, the policies had their most significant effect on new entrants to the workforce. They included provisions allowing firms to hire young workers for their first jobs on a "probationary" status, during which they would not receive the standard set of protections and benefits, and social security contributions would not be required. Likewise, in Peru, firms were given the opportunity to apply probationary hiring rules when retooling factories and opening new ventures.

In these ways, while the labor code typically remained largely unchanged, it applied to a smaller subset of the working population, and it established a second tier of formality that did not include access to traditional protections. At the same time, there was a push to rein in the power of labor unions, but connections between union leaders and political parties inhibited such efforts.

In short, as the political scientist Maria Victoria Murillo has documented, reforms sought to push Latin American labor codes in two directions. First, they weakened job protections and social security systems for individual workers, and they began a slow process of making the pool of covered workers smaller. But the collective power of labor unions remained strong in many countries, at least for their members. Unions, and their leadership, continued to play an important role as interlocutors with government and business, and they received increasing support and solidarity from overseas unions. Recent work by the political scientist Layna Mosley has shown that such solidarity was well founded, since increasingly close trade relations between countries tend to be associated with growing similarity between their labor codes.

The long-term trend of Latin American labor codes has been one of continuity despite change. Even after numerous efforts at reform, the fundamental structure and contradictions of labor regulation remain entrenched. A relatively privileged, and highly rigid, system of individual labor protections exists for formal sector workers, and this has the unintended effect of shunting many other workers into the informal sector. Growth is likely slower than it could be because firms are reluctant to take on new workers in moments of opportunity for fear of the future costs they may entail, and investors worry about the long-term liabilities they may be assuming. Off-the-books employment, even in recognized firms, is fairly common, with the additional problem of poor monitoring of labor standards. Labor reform thus remains among the highest priorities on the agenda of nearly every country in the region.

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POLICY INNOVATION

While reform of legal codes has proved to be slow and often stymied by political opposition, significant advances have been made in other policy areas to address the long-term concerns of Latin American labor. These innovative policies seek to bridge the gaps between formality and informality, and prepare a new generation of dynamic, better-skilled workers to enter the labor force.

Among the most important of these programs are conditional cash transfers (CCTs), which have been widely adopted across the region. Aimed primarily at low-income households, CCTs consist of small transfer payments to families, conditioned on their compliance with requirements related to health and education. For example, families that complete the basic cycle of immunizations for their infants, or achieve regular attendance at school by their children, receive a modest monthly cash payment. Since these payments are made primarily to mothers, they help combat gender inequalities. And because they are frequently disbursed in electronic transfers through ATM cards, they incorporate low-income households into the financial system and connect them to the state.

These programs have had notable success, generally producing an increase of a year or more of school attendance for the children involved, which has been associated with increased earning potential. Most families seem to spend the payments on better nutrition, school supplies, and other investments in their children's welfare. Planners anticipate further gains as program participants age, with increased incomes, greater productivity, and an emphasis on more education for subsequent generations. Begun in pilot form in the late 1990s—Brazil's Bolsa Família and Mexico's Oportunidades were the pioneers—these programs have now spread to every country in the region. To the extent that they deliver on their promises, they may offer a first, tentative step toward overcoming the low-skill trap.

An alternative approach has sought to unlock the entrepreneurial potential of the informal sector. Noting that most of the small producers and service providers that populate the burgeoning marketplaces of Latin American cities lack access to capital for investment and growth, policy makers and nongovernmental organizations have developed a range of microcredit and microfinance programs. These initiatives harness the local knowledge of small producers to assess the collateral and growth potential of their fellow community members and provide them with entry-scale loans to expand their production. Recipients are organized into mutually supportive groups, which provide monitoring and assistance as individuals invest and seek to grow their businesses. Participants are also given courses in accounting and financial literacy.

The considerable success of these programs can be seen in their high repayment rates, which hover well above 90 percent, and in the jobs they have created for previously unemployed or underemployed youth, family members, and neighbors. While most of these businesses remain small, they serve as important sources of employment. Such examples point to the still-untapped potential of entrepreneurs and unincorporated workers in the region.

Policies such as these, coupled with robust economic growth in many countries in recent years, have contributed to an impressive—and unprecedented—decline in income inequality, as the economist Nora Lustig noted in these pages in 2013. After standing out as the region with the world's highest inequality for the previous century, Latin America made significant strides in raising its lowest-income citizens out of poverty in the first decade of the twenty-first century. The direct cash transfers played an important role in this accomplishment, showing how a concerted effort by the state, targeted on a segment of the population that was previously left out of contributory social security schemes, can make a real difference. At the same time, the wider access to credit provided by microfinance and sustained economic growth lifted all sectors of the workforce, increasing the size of the middle class and expanding access to imported consumer goods and new investment opportunities. The region is now poised for a new kind of inclusive expansion that could be transformative for its workers.

UNTAPPED RESOURCES

The most important question concerning labor in Latin American today is how to capitalize on these recent gains to achieve a meaningful incorporation of all citizens of working age and ability in the workforce—in jobs, in the labor code, and in systems of social security. The current model is plagued by contradictions that leave a massive share of workers, in some cases more than half of them, outside the legal employment sphere and without the protection of a social safety net. Even workers in the formal sector are highly vulnerable to turnover as firms restructure and pursue new ventures. This undermines the contributory social policies that are the foundation of old-age protection in the region.

The greatest opportunity, and the greatest risk, involves two groups that struggle most for incorporation. Young workers—especially those entering the workforce for the first time—are often disadvantaged by labor contracts that treat them as probationary employees and thus render them easier to hire and fire. Many do not find stable employment until much later in life than previous generations did. Yet these workers are frequently the most adaptable and skilled in new technologies, and they could be important sources of contributions to existing social security programs.

Women often face a double set of challenges in the Latin American labor force. Deep-seated cultural norms can restrict their entry into the workforce, instead privileging their traditional role in the management of family households. And when they do enter the workforce, they have been channeled into occupations such as domestic help and personal services that are among the lowest paid and the most likely to have informal status. But women are often the most stable providers for families, and research has shown that increased incomes and opportunities for them have ample positive effects on their children's well-being, education, and future earnings. Creative policies, including improved family-leave benefits and the registering and formalization of domestic work, are needed to assist women's transition into the workforce.

The recent wave of innovative programs, with their emphasis on youth and women, offers the possibility of path-altering change in the region's labor force. Conditional cash transfers are providing incentives for the pursuit of additional years of education, even in low-income families, increasing the skills and earning potential of workers throughout the economy. Better-educated workers would suit the needs of firms seeking to upgrade production methods. Likewise, women are expanding their role in the economy, both as workers in their own right and in managing family resources supplemented with CCTs and microloans and making investments in their children. A new era of labor force participation may be dawning for them.

Finally, it is crucial to recognize the challenges faced by workers in traditional sectors, ranging from agriculture to industry to state employment, who have seen their jobs jeopardized or lost in recent decades. As international firms have sought to lower labor costs by moving operations from Latin America to Asia, and as states have been forced to cut back overburdened budgets, they have frequently left workers—many of them with long careers and advanced in age—out of work. Efforts to fully incorporate the labor force will need to give special attention to these workers.

The Latin American workforce is divided yet dynamic. Recent policy shifts may be sowing the seeds to overcome some of the divisions, filling in the gaps and bringing greater stability to the middle class. To the extent that the public and private sectors succeed in addressing deeply rooted structural, legal, and social barriers, they can unleash the region's potential for growth and set the course for an inclusive future of work. ■