

## MIT Open Access Articles

### *Complementarities and Continuities in the Political Economy of Labor Markets in Latin America*

The MIT Faculty has made this article openly available. **Please share** how this access benefits you. Your story matters.

**Citation:** Schneider, B. R., and S. Karcher. "Complementarities and Continuities in the Political Economy of Labour Markets in Latin America." *Socio-Economic Review* 8.4 (2010): 623–651. Web.

**As Published:** <http://dx.doi.org/10.1093/ser/mwq022>

**Publisher:** Oxford University Press and the Society for the Advancement of Socio-Economics

**Persistent URL:** <http://hdl.handle.net/1721.1/70941>

**Version:** Author's final manuscript: final author's manuscript post peer review, without publisher's formatting or copy editing

**Terms of use:** Creative Commons Attribution-Noncommercial-Share Alike 3.0



# **Complementarities and Continuities in the Political Economy of Labor Markets in Latin America**

Ben Ross Schneider  
brs@mit.edu

Sebastian Karcher  
karcher@u.northwestern.edu

March 2010

**Abstract.** In a comparative institutional or ‘variety of capitalism’ perspective, the distinctive traits of labor markets in Latin America differ in most respects from labor markets in developed countries. Moreover, there are strong economic complementarities among five core features of labor markets in Latin America: low skill levels, high labor regulation, short job tenure, a large informal sector, and small, politicized unions that lack plant level representation. While numerous and strong, economic complementarities among these five components do not tell the whole story, and we analyze additional political complementarities. This integrated perspective on the economic and political interactions helps explain continuities in labor markets in Latin America and their disappointing response in recent decades to market reform and globalization.

## **I. Introduction: Sources of Continuity**

Observers of labor markets in Latin America generally agree that performance in recent decades was disappointing, for some in fact, “perhaps the greatest disappointment of the new development strategy” (Berg et al. 2006: 1; Pagés et al. 2009: 1). This disappointment is not restricted to social scientists, as public opinion surveys “have identified unemployment, low wages, and job instability as the most pressing problems in the region...” (IDB 2003: 1). However, beyond this general consensus, the diagnoses, and resulting policy prescriptions, vary greatly. For the International Labour Organization, for example, a core problem is informality, which accounts for about half of all employment and half of the new jobs created in the 2000s. A central policy recommendation is therefore for more and better enforcement as well as “social dialogue” among representatives of workers, employers, and the government (ILO 2006: 12, 19; see also IDB 2003: 118, 277). Others in contrast blame rigidity and overregulation and its “many undesirable side effects,” and call for deregulation and more flexibility (World Bank 2004b: 35, 37-8).

Another group focuses on comparatively low levels of education and skills. These studies usually recommend greater investment in education as well as additional policies to reform training institutes (IDB 2003: 276), to expose firms to greater competition (de Ferranti et al 2003: 9), or promote diffusion of information on the high returns to education (Menezes-Filho 2003: 143). Returns to education have been a central concern of scholars who analyze how recent shifts in labor markets have tended to exacerbate already high levels of inequality, both because wages of skilled workers have risen relative to wages of unskilled workers and because the returns to education are higher for rich students than for poor students (Perry et al. 2005, di

Gropello 2006: 76-7). Policy prescriptions tend to emphasize reducing obstacles and enhancing access to secondary, post-secondary, and vocational education.

The case for each of these proposed reforms is compelling, but individually their impact is likely to be muted unless they take into account the broader interactions among core aspects of labor markets. Expanding programs in vocational education, for example, is designed to raise skill levels in the workforce. However, the usefulness of these skills and the incentives of workers to invest time in acquiring them depend on the likelihood of remaining in jobs that require these skills, a condition that is difficult to meet in labor markets in Latin America where median job tenure is only three years. This low tenure rate in turn is associated in part with high regulation and a large informal sector. In other words, the effectiveness of training depends on a range of other factors beyond the actual training programs themselves.

To map out a more encompassing analysis of the major components of labor markets we focus on five core features – high labor market regulation, low skill levels, high turnover, weak unions, and high informality – that distinguish labor markets in Latin America from labor markets in most other regions. In addition to highlighting these distinctive components, we also examine the reinforcing interactions among them. Other scholars have looked at some of these connections, but none have put together all these pieces. Particularly turnover, and the negative effects of high turnover for human capital and social dialogue, has received little attention. In fact, to the extent researchers look at turnover it is often viewed in positive terms as an indicator of rapid adjustment to changing market opportunities (see World Bank 2004a, chapter 7).

Political factors also reinforce some of these economic interactions. Political contention over issues like informality, high employment protection, or low skills, cannot be fully

understood in isolation from one another. Moreover, understanding these interactions helps flesh out the politics of labor market regulation by adding to the analysis of the active support for the status quo an understanding of the weakness of potential sources of support for would-be reformers. So, for example, the potential coalition for reforming the informal sector (forcing more workers onto the books) is weak in part because the informal sector does not threaten existing unions, provides a default safety net for workers who are laid off on a regular basis, and offers employers ways to circumvent costly regulations.

Generally speaking the large literatures on labor politics, on the one hand, and on labor markets, on the other, do not engage each other much. Political analyses focus primarily on unions (organization, leadership, strategies, etc.) and their relations with states and parties to the relative neglect labor markets (Murillo 2001; Cook 2007). Economic analyses of labor markets in turn incorporate politics only rarely and then in fairly mechanical fashion (e.g., insiders seek and defend exclusive privileges) (IDB 2003). Hence, a second goal of ours is to integrate better politics and economics and combine, where relevant, insights from both literatures.

Our last, and primary, goal is to contribute to the debate on what went wrong in labor markets in Latin America. Why has the response to market reform and globalization been so disappointing in terms of the quality of jobs generated, what a recent World Bank study calls “growthless jobs” (Pagés et al. 2009: 2)? We draw on the multiple interactions and complementarities to show how they mostly tend to reinforce the suboptimal status quo. Admittedly, the last decades have seen substantial changes on some of the core dimensions we analyze, yet these are still the dimensions that most differentiate Latin America, especially when adjusted for income levels, from other regions, both developed and developing. In this

comparative perspective, it is this relative continuity that requires explanation, and where our focus on complementarities and reinforcing dynamics has the most to offer.

Our framework draws general inspiration from the ‘varieties of capitalism’ approach. Peter Hall and David Soskice (2001) distinguish between “liberal market economies” (LMEs, including the United States, Great Britain, and its other settler colonies) and “coordinated market economies” (CMEs, including most countries in northern Europe and Japan). LMEs and CMEs have distinctive strengths and weaknesses that derive from the different organization of capital markets, labor markets, education and skills, inter-firm relations, and labor relations, as well as the complementarities among these core institutions of capitalism. While we hope to show that Latin American labor markets do have important commonalities, our goal in this paper is not to establish a Latin American variety of capitalism. Such a study would need to incorporate the wider range of economic institutions in the original framework (see, for example, Xxxx 2009). Moreover, the patterns we document here may also exist in similar forms in other developing and transition economics, so the interactions and complementarities we identify are not exclusively Latin American (Batt et al. 2009; Piore and Schrank 2008).

Section II elaborates on the distinctive traits of labor markets in Latin America and briefly catalogs how labor markets in Latin America differ in most respects from both LMEs and CMEs. Section III turns to an examination of the complementarities among the five core features of labor markets in Latin America: low skill levels, high labor regulation, short job tenure, a large informal sector, and small, politicized unions that lack plant level representation. While numerous and strong, economic complementarities among these five components do not tell the whole story, and section IV examines additional political complementarities.

For empirical evidence, we draw on a variety of sources, quantitative and qualitative. Our quantitative evidence is presented largely by means of descriptive statistics and simple correlations.<sup>1</sup> For qualitative data and more micro-level analysis we rely on a range of dispersed country, industry, or firm-level studies, as well as personal interviews. Some of the most detailed and penetrating empirical studies focus on Chile, in part because Chile is often held up as a model for other countries (Berg 2005, Haagh 2002a, and Sehnbruch 2006)

## **II. Labor Markets in LMEs, CMEs, and Latin America**

There has been some discussion of possible varieties or hybrids of capitalism in developing countries, but it has been fairly limited, inconclusive, and focused mostly on Asia (e.g., Amable 2003) and Eastern Europe (e.g., Feldman 2007; Nölke and Vliegenthart 2009). So, we first want to establish empirically the distinctiveness of labor markets in Latin America, compared to LMEs and CMEs, and thereby establish the need for further elaboration of the ‘varieties of capitalism’ framework for extension to developing countries.

Of course, the wide income disparities between developed countries and Latin America would lead us to expect differences in labor markets. However, most of the differences would remain if we adjusted the comparison for levels of GDP per capita by comparing Latin America in recent decades with LMEs and CMEs in the mid 20<sup>th</sup> century when levels of GDP per capita in now developed countries were around what they are today in Latin America (Maddison 1983). CMEs and LMEs took distinctive shape in the early postwar period (Hall 2007). By then levels

---

<sup>1</sup> Since our focus is on mutual causation and complementarities among different variables, regression analyses would suffer from problems of endogeneity and multi-collinearity. In this, we mirror the approach taken in Hall and Soskice (2001) and Estevez-Abe et al. (2001). See the appendix for further discussion of the quantitative data.

of union density were high in LMEs and CMEs (higher in most cases than in the 2000s), shop floor coordination existed in CMEs, basic patterns of labor market regulation were established, and the informal economies were not large (informality in 1960 in Western Europe was in the single digits, ranging from 0.4 to 5.9 percent (Schneider 1997: 43)).<sup>2</sup> Moreover, by the end of the 20<sup>th</sup> century, the larger, richer countries of Latin America had completed the major modernizing transition from rural to urban societies and were well along in the post-industrial transition to service-based economies. So there is less reason to expect that ongoing economic growth will automatically push labor market indicators for Latin America closer to the levels in developed countries. The adjectives of ‘emerging’ or ‘developing’ continue to give the false impression that poor countries are following similar development trajectories to those that rich countries traveled earlier.

The box-and-whiskers plots in figures 1.1 through 1.5 provide a first overview of how different labor markets in Latin America are from CMEs and LMEs on all five dimensions: informality and labor market regulation are higher than in CMEs and LMEs, job tenure, union density, and schooling are lower.<sup>3</sup> Across the five dimensions, there is almost no overlap between the boxes for Latin America and those for CMEs and LMEs. The box plots also show that Latin American countries are not only distinct from those in CMEs and LMEs, but also quite similar to each other: The boxes and whiskers for union density, job tenure, and labor market regulation are just as narrow as those for the established varieties of capitalism. While there is considerable variation in the degree of informality and average years of schooling among Latin

---

<sup>2</sup> Botero et al. (2004: 1364) find “no evidence that employment laws or collective [labor] relations laws vary with the level of economic development.”

<sup>3</sup> In the box and whisker plots, the thick line shows the median for each group. The box contains all cases between the 1<sup>st</sup> and the 3<sup>rd</sup> quartile. The “whiskers” include all cases within another 1.5 quartile ranges.



American countries, they still form a comparative cluster (with almost no overlap with the ranges for CMEs and LMEs). Latin American labor markets – despite their important intra-regional differences – do appear to constitute a distinct variety, as the following discussions of each dimension spell out in greater detail.

--- **Figures 1.1-1.5 about here** ---

1. Labor Market Regulation. Indices of regulation in Latin American labor market are very high in comparative terms (Figure 1.1). Although not shown here, these indices are also higher than in other developing regions (the median for developing Asia is close to the median for LMEs). Many countries in Latin America liberalized their labor legislations in the late 20<sup>th</sup> century in line with overall economic liberalization, yet these reforms were much more limited in extent than in other areas of the economy (Lora 2001). Particular to Latin America is a strong reliance on severance pay as a means of employment protection (cf. Weller 2008). The index on job-security by Botero et al. (2003) that we use does not weigh this heavily and may thus even understate the degree of regulation in Latin America. According to an index of dismissal costs developed by Heckman and Pagés-Serra (2000), regulation in every Latin American country is higher than in developed countries.<sup>4</sup>

---

<sup>4</sup> Although reforms in labor markets were not as significant or extensive as market reforms in other areas, several countries, especially Chile, Peru, and Argentina, undertook major flexibilizing reforms (though these were partially reversed in Argentina in the late 1990s and early 2000s). However, the Botero et al. index captures the state of regulation after most of these reforms. Cook (2007: 56-7) classifies 31 protective and flexibilizing reforms in 18 countries of Latin America from 1985 to 2004. Of the flexibilizing reforms 15 of 18 happened before 1997 and would therefore be included in the Botero et al. indices. These indices are based on formal laws and statutes and do not take into account variable levels of actual enforcement. Although generally lax, partial evidence suggest that enforcement has been improving in some countries (Anner 2008, Piore and Schrank 2008). See the data appendix for further analysis of the merits of alternative indices of regulation. Our focus is on individual rather than

2. Labor Unions (Figure 1.2). Despite considerable variation, most labor unions in Latin America are comparatively small, and most have been shrinking. Rates of union density vary from 20-25 percent, in Brazil, Argentina, and Mexico, to 10-15 percent in Peru, Colombia, and Chile, to negligible rates in some of the smaller, poorer countries (IDB 2003: 233). In a more qualitative vein, labor unions in Latin America are more politicized than their counterparts elsewhere (Murillo 2001: 197; Cook 1998: 314). Earlier in the 20<sup>th</sup> century, unions in Latin America, as well as in most developed countries, focused their mobilization strategies heavily on the state and political parties. However, unions in Europe retained a powerful organizational presence in the labor market and in many cases mobilized to bargain directly with strong employers' associations. Unions in Latin America had less autonomous organizational strength in labor markets, depended more on state and party leaders, and encountered fewer encompassing employers' associations with whom they could bargain independently; "relatively few unions have the resources, the bargaining power, or the employer counterparts willing to engage in this kind of negotiation" (Cook 1998: 316). Their focus has been on "political bargaining," in contrast to the greater concentration on economic (wage) bargaining by unions in developed countries (Payne 1965, cf. Cook 1998).<sup>5</sup>

---

collective rights or union regulation. The latter tends to vary more across Latin America than the former (Carnes 2009: 4).

<sup>5</sup>For example, in pre-Chávez Venezuela, the four confederations of unions were closely tied with political parties, and "labor representatives used the clout of the major political parties to win favorable terms from management in contract negotiations. Since 1984, in fact, the union confederations have focused on achieving blanket salary raises by government decree..., shifting their activity from negotiating with business to government lobbying" (Enright, Francés, and Saavedra 1996: 218-9). Observers in Chile have criticized the CUT for focusing on traditional political and ethical concerns and attacking the neoliberal development model, rather than attending to more immediate, tractable worker concerns. However, CUT is legally prohibited from collective bargaining which is completely decentralized to the firm level (Berg 2005: 50).

In instances where unions in Latin America do negotiate employment contracts, the level of centralization varies greatly across countries and over time. In Argentina, most contracts were by sector until 1993, then decentralized to the firm level for a decade, before re-centralizing at the sectoral level in the wake of the economic boom of the mid 2000s (Etchemendy and Collier 2006). In Mexico most, and in Chile all, contracts are negotiated at the firm level (Berg, et al. 2006, 197-8; Haagh 2002b, 92). However, despite this trend towards decentralized wage bargaining, union representation at the plant and shopfloor levels remains weak (Nelson 1991, 42).<sup>6</sup>

In sum, the general picture of bargaining in Latin America is of small, truncated unions, circumscribed in scope and confined to an intermediate, meso-level of bargaining with major political, organizational, and legal constraints on centralized bargaining and on decentralized representation. Sympathetic governments may occasionally bolster union negotiators but in recent decades such support has rarely had lasting institutionalized consequences, especially on the shop floor. The absence of plant level representation, and certainly anything formal like German-style works councils, is crucial in foreclosing possibilities for negotiations over skills and work organization that are more common in CMEs.

3. Job Tenure. By a variety of measures, job tenure is high in CMEs, low in LMEs, and even lower in Latin America. The median tenure was 7.4 years in CMEs, 5 in LMEs, and only 3 in Latin America (figure 1.3). Mean tenure rates show similar differences and a declining trend.

<sup>6</sup> Measures of the proportion of workers covered by collective bargains are not available for most countries. In Argentina coverage rose to 80-90 percent of workers in the mid 2000s (Etchemendy and Collier 2006). In Chile, in contrast, coverage was less than 10 percent in the 1990s (Haagh 2002b: 92). But even in Argentina unions are only weakly represented on the shopfloor. In the comparatively well organized metal sector, less than 20 percent of the firms that are covered by the industrial level bargaining agreement have union delegates. (interview, UOM Córdoba, 1 July 2009, see also Delfini and Picchetti 2007 35; Veiga and Martin 2009; 366).

Among major countries in Latin America, mean tenure in Argentina was 6.7 years in 2001 (down from 7.1 years in 1992) and 5 years in Brazil. In the wake of flexibilizing reforms in Peru in the 1990s, mean tenure fell by almost half from 5.8 years in 1991 to 3.3 years in 1999 (Cook 2007: 125). In contrast, mean tenure was 6.6 years in the United States in 1998, 12.2 years in Japan, and 10.7 years in Germany (Berg et al 2006: 38). A 2004 survey of several hundred, mostly lower income workers in São Paulo found that the median duration of their last employment was only about 13 months and for nearly three quarters their last job lasted less than two years (Haagh 2007: 7). The exceptionally high turnover in Latin America is rarely central in analyses of labor markets and labor politics, but deserves greater emphasis on its own as a defining feature of work in Latin America, and especially, as discussed later, in relation to skills, regulation, and union organizing.

4. Informal economy (Figure 1.4). Non-agricultural informal work has averaged more than 40 percent in the region for the past several decades (Pagés et al. 2009: 1). The range is wide within Latin America (from 25 percent (Chile) to 65 percent (Peru) (IDB 2003: 210)) but still well above levels for CMEs and LMEs, both recently and historically, and somewhat higher than levels of informality in Asia. The largest share of the informal economy is accounted for by self-employed workers, or workers in micro-enterprises with less than five workers, but even for firms with more than 100 workers, almost 20 percent of workers are not covered by social security and can thus be considered informal (IDB 2003: 211). While large proportions of workers are in the informal sector, the division in Latin America is permeable, and studies based on household panels suggest that it does not create stark, dual labor markets (cf. Maloney 1997; IDB 2003; Berg et al. 2006). Workers move rather frequently from informal to formal jobs, and

back again. Although debate continues on how best to measure informality (see ILO 2006, Perry et al. 2007), all indicators show comparatively large and stable informal sectors in Latin America.

5. Skills and education. Not surprisingly, given the income disparities, general education levels in Latin America are much lower than in developed countries. By the rough measure in Figure 1.5, the average years of schooling among the adult population is 5.7 years in Latin America, 9.9 years in CMEs, and 11 years in LMEs. Controlling for income, educational attainment in Latin America is also comparatively low. Overall, “Latin American adults have 1.4 fewer years of education, and East Asian adults 0.4 years more than would be expected by their income levels” (de Ferranti et al. 2003: 3). Moreover, Latin American governments invest little in training people once out of school: median spending on vocational training for the unemployed is .04 percent of GDP, compared to .23 percent in LMEs and .52 percent in CMEs (calculated from IDB 2003: 282). By another calculation, Venezuelan companies spent on average .2 percent of revenues on training, compared to 2 percent in Germany and 3 percent in Japan (Granell and Parra cited in Enright, Francés, and Saavedra 1996: 215).

In sum, in a descriptive sense labor markets in Latin America are distinct rather than a subvariety of either LMEs or CMEs. Some trends in Latin America – falling union density or higher turnover – make them appear to be heading in an LME direction. However, the convergence is partial and slow and not matched on dimensions like regulation and informality, so for the time being it does not seem appropriate to think of them as emerging LMEs. A complete overview of labor markets in Latin America would explore in greater detail variations over time and across countries. However, from a comparative perspective what stands out is the

relative absence of significant variation, compared both to other regions and other dimensions of change in the political economies of Latin America. The decline of union density is one of the areas of greatest change, though this did not always imply a radical shift in the role of unions in labor markets because previously larger unions were often constrained by hostile and/or authoritarian government and many lacked routinized mechanisms for collective bargaining.

On the regulation dimension, one comprehensive study of the labor reforms between 1990 and the mid 2000s documents reforms in 11 of the 17 countries in Latin America, but finds surprisingly little change in the standard labor contract (Vega Ruíz 2005: 12). Other authors studying Latin American labor reforms have argued that “[e]arly laws have proved particularly stable over time” (Carnes 2009, cf. also Cook 2007). ILO estimates point to an increasing informalization in Latin America through the mid 2000s, but even in the period between 1950 and 1980, 4 out of every 10 jobs created were in the informal economy (Tokman 2001: 13). Low skill levels and a lack of training have been a well known issue in Latin America for decades, and, while schooling has improved somewhat, Latin America's relative position in the worldwide skill distribution has not. Evidence on turnover prior to the 1990s is scarce, but most partial data suggest that turnover was high (see for example Humphrey 1982).

This review of the five core features of labor markets focuses on the average tendencies in Latin America. The point is not that the countries of the region are all the same, but rather that labor market indices cluster in ways that justify classifying them as different from labor markets elsewhere.<sup>7</sup> For other purposes, further disaggregation would be necessary, and one might want

---

<sup>7</sup> Comparable data are not available on job tenure, but partial data (from the sources listed in the data appendix) on developing countries in Asia show similar average levels of schooling and informality to Latin America, but lower levels of union density, and much lower levels of regulation (lower than CMEs and on par with LMEs).

to separate out groups of smaller, poorer countries in Central America and the Andean region where countries tend to have lower union density, lower education levels, and larger informal sectors than larger, richer countries in South America. And, for the most part, the qualitative evidence for this paper is drawn from this latter group. These variations notwithstanding, it is still useful to distinguish average trends in Latin America as a whole.

Moreover, beyond descriptive characteristics, there is a further case that most labor markets in Latin America belong to a separate variety because, as we spell out in the next section, the interactions among these labor market features generate distinct complementarities and reinforcing dynamics.

### **III. Complementarities in Labor Markets in Latin America**

To understand the interactions among major components of labor markets in Latin America we extend the concept of complementarities by adding in negative complementarities to the traditional positive connotations and by adding – in Section IV - the notion of *political* complementarities to the economic complementarities considered in this section. Hall and Soskice consider two institutions complementary “if the presence (or efficiency) of one increases the returns from (or efficiency) of the other.” (2001: 17). In labor markets in Latin America, there are also instances of mutually reinforcing *inefficiencies*. These negative complementarities are akin to market failure and multiple equilibria in economic theory: Under some conditions, utility maximizing agents will behave in a way that leads to a pareto inefficient outcome. One of the better known examples of this is the “low skills, bad jobs” trap, in which firms in countries with a large unskilled workforce “have little incentives to provide good jobs (requiring high

skills and providing high wages), and if few good jobs are available, workers have little incentive to acquire skills.” (Snower 1994: 1, see also Jackson and Deeg 2006: 12 on negative complementarities).

Figure 2 sketches out economic complementarities and compatibilities among five core components of labor markets in Latin America. Complementarities structure contemporary incentives for sustaining the status quo (and as such constitute a constant cause type of path dependency (Mahoney 2000)), but are not necessarily part of the explanation of the historical causes or origins of these labor market institutions. Following historical institutionalism, in order to understand the origins of institutions we cannot look at their current function but “we have to go back and look” (Pierson 2000: 264). Existing historical studies are mostly concerned with labor regulation. Some suggest that the complementarities we identify, between labor unions, skill regime, and labor regulation were important in the creation of labor regimes (Carnes 2009). Other researchers emphasize more contingent historical factors, most importantly the history of labor incorporation (Collier and Collier 1991, Cook 2007). Research on the historical origins of informality and tenure in Latin America is much scarcer. Our focus however is on the contemporary incentives for continuity rather than deeper historical causes.

### --- Figure 2. Economic Complementarities ---

Labor Unions. The characteristics of Latin American labor unions – low density, strength in political bargaining, weakness in economic bargaining, and a lack of shop floor



organization – reinforce several other labor market features. The weakness of unions, both nationally and on the shop floor, reinforces the low skill equilibrium by impeding closer employer-union cooperation in skill upgrading. In earlier industrializers, unions were crucial in establishing vocational training systems (Thelen 2004), and later in enhancing the quality and quantity of training (Sehnbruch 2006: 208). In CMEs, the most successful vocational training systems are, in fact, administered jointly by unions and employers.

In Latin America, systems of vocational education often provide for representation by labor unions on the national, local, and sometimes firm-level boards and committees responsible for planning training programs (IDB 2001: 139-40). But these boards are often pro-forma councils charged with overseeing state-mandated spending, and most are distant from the shopfloor (Ducci 2001: 272). In Chile firms receive tax benefits for training workers, and even greater benefits if the training program is endorsed by a worker-management committee. Yet only five percent of the firms that provide training establish such committees (Sehnbruch 2006: 185). In addition, the Chilean government created in 1988 an apprenticeship program financed through large tax deductions. The government expected the program would train 10,000 workers, but companies hired only about 500, in part because neither unions nor business associations were involved in designing or implementing the program (Sehnbruch 2006: 179). As noted above, Chilean labor law forbids unions from bargaining over non-wage issues.

The character of unions and generalized antagonism between unions and management may also contribute to low levels of job tenure. In the absence of important coordinating functions (as for example over training), “[e]mployers throughout the region have preferred the unilateral imposition of workplace changes” (Cook 1998: 316). From the union side, the absence

of local opportunities for negotiation encourages a more national and militant orientation. The mutual disengagement at the firm and plant level creates a climate of distrust between unions and employers, and gives employers stronger incentives to accelerate turnover to foreclose possibilities of more vigorous union organizing on the shop floor.<sup>8</sup>

The IDB examined several surveys and concluded that industrial relations were “far from optimal” in the larger countries of Latin America.. Among 47 countries surveyed, six Latin American countries mostly fell toward the bottom half, some near the bottom, of rankings by employers on whether industrial relations were more productive or hostile. Employees took an even dimmer view. Asked whether employers were honest, worker responses ranges from a high of only 25 percent in Mexico to a low of less than five percent in Argentina. Positive responses were similarly low to the answer of whether employees thought overall relations with employers were good (IDB 2001: 135-6).

Informal Economy. A large pool of informal workers facilitates high turnover rates in Latin America. From a firm’s point of view, the ‘reserve army’ of informal workers facilitates quick replacement of laid-off workers. Maloney does find evidence of “queuing” for formal jobs, i.e. there are several informal workers waiting to fill any opening for a formal job (1997: 20). The fact that mainly salaried workers are queuing may even suggest that firms are able to fill vacant positions with employees already working in comparable (albeit informal) jobs. In general there is a relatively large flow of informal workers into formal jobs – and back. Over a

---

<sup>8</sup> In Chile, increasingly common temporary employment contracts legally prohibit workers from joining unions (Berg 2005: 55). In his account of Brazilian auto-workers, Humphrey describes how employers used regular lay-offs – regardless of skill level or seniority – to control workers (1982: 118-121; 161f).

six month period the flow was about 10 percent of all workers in either direction in Argentina and 15 percent in Mexico (IDB 2003: 68f.; 76).

Additionally, high levels of informal work, especially in the form of self-employment and tiny firms, have a detrimental effect on the skill regimes. As these microenterprises are characterized by “poor capitalization and backward technology” (Portes et al. 1989: 300), they become part of the “low skill trap”, where returns are low for additional training. The availability of employment opportunities in the informal sector, some of them well paid, lowers incentives for students to stay in school or for workers to invest more in skills. If we expand the concept of the informal sector across borders, then the option of high wage, unskilled employment in a foreign informal sector (as for undocumented workers in the United States) further reduces incentives for training and formal schooling. Conversely, improving labor law enforcement – and thereby reducing informality – can enhance skill levels (Schrank 2006 and Almeida and Aterido 2008).

Short Job Tenure. The short average duration of job tenure in Latin America also undermines incentives to invest in education and training. In Peru, for example, high and increasing turnover in the 1990s, “had negative consequences for training and productivity” (Cook 2007: 125). More generally, the IDB concluded that “temporary contracts also seem to have negative effects on the accumulation of human capital” (2003: 220). Investments in specific skills are especially unlikely if both workers and employers face high risks of losing their investment (Estevez Abe et al. 2001).<sup>9</sup>

<sup>9</sup> In Venezuela, high turnover, fueled in part, as noted above, by the high cost of severance payments, “discourages firms from hiring people for the long-term, promoting them to higher levels of responsibility, or investing in their training or education. Managers of firms that place a high value on human resource training confided in interviews that they have to struggle against these very real disincentives” (Enright, Francés, and Saavedra 1996: 205, see also 215).

For example, in Chile, though workers may receive some initial induction training in their first months on the job, training is generally more common for workers with longer tenure (Sehnbruch 2006: 191, 193). Moreover, not only do workers change jobs frequently, they also move among very different kinds of jobs. Among Chilean workers who changed jobs in the late 1990s, around half moved from industry, commerce, construction, or services into one of the other three sectors (Sehnbruch 2006: 128). In short, workers had little reason to expect that training in one job would be useful for the next.

Short job tenure also complicates union organizing, especially on the shopfloor. For the median worker whose expected job tenure is three years, there is little incentive to spend time and money to get organized. More generally, a range of comparative evidence finds a positive relationship between higher tenure and greater organization. In the United Kingdom, for example, long tenure is strongly associated with union membership (Gottfried 1992: 108). In Brazil, the auto-worker strikes in the late 1970s were initiated by toolmakers who had much longer average times of employment (Humphrey 1982: 161f). More generally in Latin America, workers in the public sector have disproportionately high unionization rates and much higher job stability and tenure (Marceira and Murillo 2001: 9).

Finally, high turnover rates are also positively associated with the size of the informal economy. As unemployment benefits are very low or altogether absent in Latin American economies, workers cannot afford to remain unemployed during extended periods of job search (IDB 2003: 65). As a consequence the informal labor market serves as a highly flexible buffer. In Argentina, more than eight out of ten unemployed workers who find work start working an informal job; in Mexico the equivalent number is six out of ten. (ibid. 73f.). High turnover and

economic insecurity thus make the informal sector an important temporary source of employment for Latin American workers and contribute to its large size.

Labor Market Regulation. Most economists agree that highly regulated labor markets promote larger informal economies (Schneider 2005, Loayza et al. 2005, IDB 2003: 208, World Bank 2004a: 136, 148).<sup>10</sup> The logic of this complementarity is simple: as labor regulations increase, the “opportunity costs” of formal employment (compared to informal employment) rise. In a context of weak enforcement, the costs for firms to remain completely or partially informal may be much lower than the costs of formal compliance. A World Bank study concluded that, “cross-country studies show that a reduction of the employment regulation index by a third is associated with a 14-percentage-point decline in informal employment and a 6.7-percentage-point fall in output produced in the informal economy” (2004b: 37).

One of the key arguments in the varieties of capitalism literature on advanced industrialized countries concerns the stability of employment. Political institutions in CMEs promote employment stability and thus foster the investment in specific skills by both firms and workers. As figure 3 shows, there is indeed a positive relationship (.61) between employment regulation and job tenure in advanced industrialized countries. In the same graph, we can see, however, that the correlation in Latin America runs the opposite way: employment regulation actually has a negative relationship (-.52) with median job tenure.

**--- Figure 3. Job Tenure and Employment Protection ---**

<sup>10</sup> Our interest here is in how contemporary regulation affects incentives for informal employment. This is not to say that regulation is the main cause of informality nor that deregulation is the best means for reducing informality. Historically, several other causes, including levels of enforcement, contributed to the emergence of contemporary patterns of informality. For an update on these debates, see Berg et al. 2006, Anner 2008, and Piore and Schrank 2008.

High levels of labor regulation can lower job tenure in the formal sector in several ways. Dismissed workers are entitled in most countries to severance payments (Cook 2007: 48). As severance payments generally increase with length of service (IDB 2003: 58), employers have incentives to keep average tenure short. According to an overview of the Venezuelan labor market in the 1990s, severance provisions “make it costlier to keep workers on payroll for extended periods than to dismiss them and hire new workers. For more firms, it is cheaper to fire workers and to replace them than to promote them, since each increase in salary inflates the final payment to be made on their leaving the firm” (Enright, Francés, and Saavedra 1996: 205).<sup>11</sup> In addition, according to a report from McKinsey, “companies try to get around such laws [on severance pay and employment security] by employing temporary workers and then firing them just before they would have the right to become permanent (2007: xx).<sup>12</sup>

Low Skills. Lastly, low skill levels should, in principle, also facilitate (or reduce the cost to employers of) high turnover, because unskilled workers are easier to replace than skilled workers. On average the median time to fill an unskilled vacancy in Latin America is just over one week, compared to just under three weeks to fill a vacancy for a skilled position (Pagés et al. 2009: 106). Surveys of workers in the 1990s showed that unskilled workers in Mexico were

---

<sup>11</sup> Many labor reforms in Latin America included provisions to make temporary and non-standard contracts more readily available, and employers in most countries, but especially Peru, Chile, and Argentina, have made wide use of them. Temporary contracts are one of the components in the Botero et al index.

<sup>12</sup> High severance pay also creates a partial complementarity with low skill levels available in the labor market. For the minority of workers who have long tenure, their right to accumulated severance pay makes it costly for them to leave voluntarily to move to another firm. This in turn reduces the poaching problem for employers who therefore have incentives to invest more in training their long-term workers, which in turn reduces the demand for skilled workers in the labor market.

twice as likely as skilled workers, and in Argentina over 50 percent more likely, to transition from employment to unemployment or inactivity (IDB 2003: 76).<sup>13</sup> And, the connection between low skills and turnover is not just among small and medium, lower technology firms; in Camargo Correa, one of the largest private firms in Brazil, more than half the workers have only a primary education or less, and median tenure is close to two years (*Relatorio Anual 2004: 4*).

The goal of this section was to illustrate the wide range of complementarities among the five core components where institutionalized patterns of behavior in one realm of the labor market affects the incentives of employers and workers in other realms. The intensity of these complementarities is variable as are the precise mechanisms which link the realms together, but the overall conclusion is that it makes little sense to analyze these components in isolation. Moreover, there are other complementarities, to which we now turn, that are mediated by politics.

#### **IV. Politics and Complementarities with Other Institutions**

In Latin American political systems and states structure incentives in ways that form an important part of the complementary interactions of economic institutions. Two institutions may not only be complementary because they reinforce each others' economic performance, but also if their joint existence reinforces their political resiliency. We define a complementary relationship as 'political' if it is intermediated by the state or political system (e.g. union pressure

---

<sup>13</sup>Other surveys of workers in Argentina and Brazil show a more mixed picture (Berg et al. 2006: 39). In Argentina skilled workers in 1992 had somewhat shorter tenure, though by 2001 they had slightly longer tenure than unskilled workers. In Brazil, in contrast, skilled workers had longer tenure in 1992 but roughly the same as unskilled workers by 1999.

for labor regulation) or if it affects the incentives for, or ability of, actors to mobilize for political goals (e.g. the difficulties a large informal economy poses for union organization). Figure 4 illustrates these complementarities graphically with the dark lines (political) superimposed on the fainter lines of the economic complementarities in Figure 2. The overall picture is one of tighter integration among the five components.

--- **Figure 4. Economic and political complementarities** ---

Labor Unions. Unions have the strongest and best documented effect on continuities in labor market regulation (IDB 2003: 219). These effects largely conform to expectations of approaches that emphasize feedback loops, path dependence, and insider/outsider cleavages (Rueda 2005, Carnes 2009). Lacking leverage in direct negotiations with employers, unions invested heavily in ties to states and political parties (Buchanan 1995). Extensive protective labor codes in most Latin American countries date back to the 1930s or 1940s, and unions have recently campaigned less to obtain new rights and more to safeguard old benefits, especially collective rights. This political focus has often been effective even during periods of broad liberalization (Murillo and Schrank 2005, Cook 2007).

The absence of well organized unions in many workplaces contributes to another political or state-mediated complementarity: without strong unions, labor inspections are less likely to occur and enforcement is less likely to be effective, thereby increasing informality. As Mark Anner points out, “active and well-informed labor unions are one of the best mechanisms to ensure vigilance of labor standards at the workplace” (2008: 43). Without the support of



engaged and well organized involved labor unions, inspectors can only cover a small fraction of labor law infractions (Amengual 2010).<sup>14</sup>

Informality. Latin America's large informal sectors pose a major problem for labor unions, as informal workers are almost impossible to organize. Large informal sectors of Latin American economies thus reinforce the small size of unions and encourage them to focus on the narrow 'insider' interests of workers in the formal sector. While the frequent movement of workers between the formal and informal sectors attenuates the insider/outsider cleavage, the segmentation of the labor market nonetheless restricts the scope of union organizing and the range of interests unions might represent. The incentives in this political complementarity are straightforward: the existence of a large informal sector reduces the returns for labor leaders from investing in extensive and solidaristic organizing.

The possibility of using flexible, informal employment also mutes business opposition to high levels of regulation, especially in contexts where business fears a highly charged political backlash (interview with an ex-president of the American Chamber of Commerce, Santiago, Chile, March 2007). Although business people generally favor reducing regulation (especially in interviews and surveys, e.g. IDB 2001: 113, World Bank 2004a: 136), the options for less regulated, informal employment, both within the firm and through subcontractors, reduces the total cost of regulation and thereby the incentives for open political mobilization by employers to push reform (Cook 2007: 9, 46). Moreover, weak enforcement often means that workers in the formal sector do not receive the benefits regulations entitle them to (cf. Bensusán 2006). There also appears to be considerable political discretion in enforcement and governments can adjust

---

<sup>14</sup> See Piore and Schrank (2008) and Schrank (2009) on the overall politics of labor law enforcement.

enforcement to economic circumstances: when the Chilean construction sector suffered from the economic crisis between 1998-2004, inspections became less frequent and were usually announced beforehand (ibid. 274).

This may also help to understand the increase of informality during the 1990s (cf. Tokman 2001), in spite of the (somewhat) more flexible labor law regime, which would seem to contradict the relationship between labor law and informality we stipulate in section III above. As firms faced increasing pressure from globalization, lax enforcement of labor law provided a welcome source of flexibility. The trend was exacerbated by a shrinking and embattled union movement, which, as outlined above, led to even less effective enforcement.

Scattered evidence suggests that MNCs are more heavily regulated or more likely to comply with regulations than domestic firms, especially smaller firms (e.g., Sehnbruch 2006: 7, World Bank 2004a: 100). This disparity further reinforces the status quo politically and weakens a potential de-regulation coalition between MNCs and domestic firms. First, MNCs usually shy away from high visibility engagement in domestic politics, especially on high voltage issues like labor rights (see Schneider 2004). Second, domestic firms that compete with MNCs and that pay less than the full cost of regulation have few incentives to press for deregulation that could level the playing field and reduce their competitive advantages.

Short Job Tenure. High worker turnover works in a similar way to reduce the costs of regulation and thereby the incentives for employers to invest in campaigning politically to reform them. Worker benefits often accumulate with longer periods of employment, so employers can reduce average costs by laying workers off after a few years. Moreover, workers

who circulate rapidly through many jobs are less likely to press past employers for benefits delayed or denied. In Chile employers frequently deny severance benefits to employees, and workers face long delays, high costs, and uncertain judgments if they opt to take their cases to the labor tribunals (Sehnbruch 2006: 138). A survey in 1992 of labor leaders in 302 firms in Chile revealed that in two thirds of potentially actionable infractions on severance pay, no case was taken to the labor courts (Haagh 2002a: 105).

Low Skill Level. Historical and comparative analyses provide grounds for expecting that low skill levels contribute to union weakness, especially on the shopfloor. In early industrializers, skilled workers were at the vanguard of early union organizing. There was a “striking similarity” across Europe that “printers, machine workers, and construction workers were at the core of early, stable union organizations, while unskilled workers were hard to organize” (Fischer 1985: 81, our translation). Even today, low-skill workers (defined as those without an upper secondary education) are less likely to be union members in almost all countries (Schnabel and Wagner 2007). The same pattern holds in Latin America, where workers without a high-school diploma are less likely to be unionized (IDB 2003: 231).

In sum, this brief review of political incentives for major protagonists in labor markets – workers, union leaders, and employers – yields another layer of political complementarities that generally reinforce continuities in the economic complementarities analysed in Section III. Beyond the straightforward interests of unions in bolstering labor regulation, the other political complementarities work in the direction of reducing or constraining impulses for change by actors who would gain from reform. So, for example, union leaders might seek to expand membership, but cannot organize workers in the huge informal sector. Employers might gain

from deregulation, but informal employment and high turnover reduce the costs of regulation and weaken the reform impulse. Thus the absence of stronger incentives for employers and the absence for unions of new groups to organize, either skilled workers or more formal sector workers, favor the status quo.

## **V. Conclusions**

Our analysis emphasizes the complementarities and compatibilities that reinforce continuity and help explain the lack of significant improvement in labor markets in recent decades. Throughout much of the late 20<sup>th</sup> century, labor markets in Latin America were characterized by large informal sectors, low skills, politicized unions (that were weak on the shopfloor and in collective bargaining), extensive regulation, and high turnover. Previous studies have offered explanations for persistence in each of these areas, however, our argument is that individual continuities cannot be fully understood without factoring in the multiple economic and political complementarities that reinforce continuity and raise obstacles to change.

Our analysis of interactions and complementarities has several practical implications, especially for the design and implementation of common policies intended to raise skills or reduce informality. For example, efforts to crack down on informality are more likely to prosper if accompanied by complementary policies intended to redress problems in regulation that provided incentives to go off the books in the first place (by for example shifting from severance pay to unemployment insurance). On skills, proposals to improve education and vocational training focus mostly on the supply side: expand secondary education, improve educational quality, give students incentives to stay in school, increase funding for vocational training, etc.

However, the benefits of such efforts are not likely to be fully realized in the absence of complementary policies to improve the demand side – expansion of opportunities for long term employment in higher skill jobs. If workers expect that they will work much of their career in the informal sector or have only short tenure jobs in a variety of different formal sector jobs, then they have few incentives to invest in skills, regardless of how good the supply of educational alternatives becomes.

Our primary focus has been on continuity, but this is not meant to imply that change is impossible. In fact, change has been significant on some dimensions and could accelerate in the future. Most of these changes are in the direction of LMEs: some de-regulation, weakening of unions, and the expansion of the service sector. In a more speculative vein, the expansion of higher skill and higher wage service employment might offer one possible escape, at least for some workers, from a low skill equilibrium, because employment in many service jobs offers the possibility of incremental investment in general skills (for example, evening classes in software and business management). The implication for policy would be to shift resources from vocational training in specific skills to programs in general skills (along the lines community colleges in the United States) (Finegold and Soskice 1988; Castro and Garcia 2003).

One of the broader theoretical goals of our analysis is the identification of a new variety of labor market with its own distinctive complementarities. If the complementarities in Latin American labor markets differ from those in other varieties, and if these complementarities and other pressures are not pushing labor markets in Latin America toward either LMEs or CMEs, then a plausible case can be made that Latin American economies belong to a distinct variety of capitalism. The debate on varieties of capitalism has had a profound influence on research in

political economy in developed countries. However, the approach can not be fruitfully shifted to examine developing countries without a great deal of groundwork to identify comparable sets of institutional foundations and differing sorts of complementary interactions.

Our overview analysis necessarily omitted more detailed consideration of variations within Latin America. The hope is that our contribution as “lumpers” provides a useful framework in which to engage in “splitting.” In the overall picture of labor markets in Latin America, the chances for rapid improvement may look bleak, but studies of successful divergence from the patterns we identify can shed important light on possible ways out of the various negative complementarities. Some cases of interesting divergence could include the impact of the Intel investment in Costa Rica, which may single-handedly have changed the demand side of the “low skill” trap. Or, the dramatic increase in tertiary education in Chile might lead the economy toward a promising LME path that relies primarily on high general skills. However, the promise of, and obstacles to, the consolidation of these exceptional cases can best be analyzed within the sort of framework of interlocking complementarities proposed here.

Another contribution we hope to make to the debate on varieties of capitalism is a fuller, though perhaps more complex, incorporation of politics and the state. Hall and Soskice’s original framework is often criticized for its neglect of politics. Others have subsequently brought more politics in by incorporating coalitions, parties, and state actors in most cases to show how these actors adopted policies that actively and deliberately reinforced or shored up core positive complementarities, as in Germany among high skills, long tenure, and employer coordination (Thelen 2004, Iverson and Soskice 2007, Hancke et al. 2007). Part of the political

story in Latin America is similar, as for example when unions engage in politics to maintain labor market regulations. However, there is an additional, crucial, more passive side where complementarities in labor markets work to impede the emergence of potential coalitions for change and thereby contribute to reinforcing current, sometimes negative trends.

## Data Appendix

Despite the enormous amount of quantitative data on labor markets in Latin America, finding the best measures the five core components – union presence, informal employment, skills, job tenure, and regulation – required extensive searching and sifting to settle on the sources listed below in appendix table 1 and used in the figures in the text.

Data on union density (unionized workers as percentage of total labor force) for Latin America are from Forteza and Rama (2002) for the period between 1991 and 1995 as cited in IDB (2003) and for LMEs and CMEs from OECD (2010) for 1995. Unfortunately there are no more recent data on union density for a broad set of Latin American countries. Current data for the OECD as well as Mexico and Chile show comparable downward trends: Between 1991 and 2005 union density in Mexico fell from 24.3 to 18.3 percent and in Chile from 21.2 to 15.1 percent – this decline by about 25% is comparable to the old OECD countries, where unions have declined more steeply in some cases (e.g. union density in Germany falling from 36 to 21.6 percent; in Australia from 39.6 to 22.1 percent over the same period) and have been more stable in others (most notably the Scandinavian countries, where numbers have changed little).(OECD 2010).

Beyond OECD countries, data on union density must be used with caution. Union density is conventionally measured as the number of union members divided by the total number of employees: But who exactly counts as an employee? In order to account for the large proportion of workers in the informal labor market, union density for Latin American (and other less



developed) countries is commonly calculated as a percentage of the non-agricultural labor force (Lawrence and Ishikawa 2005). These types of decisions make the data hard to compare across countries. There are two different sets of data for labor covering most Latin American countries: the data prepared by Fortaleza and Rama at the World Bank and data from the 1997/1998 *World Labour Report* compiled by the ILO (1997), both for 1995. We use the former because it was designed for comparative analysis. Although the absolute values differ somewhat between the two, (the ILO numbers are slightly higher), both the general magnitude and the rank order of countries is the same.

Our measure of labor market regulation is taken from the Employment Law Index created by Botero et al. (2003) and averages the scores on three sub-categories: alternative employment contracts, firing costs, and dismissal protections. For comparative analysis, it is important to combine multiple measures of employment regulation because modes of employment protection vary widely across countries. Using single dimensions can give a distorted picture. Firing costs, for example, tend to be especially high in Latin American countries, which biases the index by Heckman and Pagés-Serra (2000). We use the data working paper version of Botero et al. (2003) instead of the index in the later published version (Botero et al. 2004) which includes a fourth category of measuring regulation of overtime. Regulating overtime does not add much to the index, because it is less significant than regulating terms of hiring and firing in the first place. In any case, the two indicators are largely similar for most countries and would not alter much the average comparisons we make.

A key advantage of the Botero et al. index is that it measures codified regulation only and is thus relatively objective and comparable across countries. Indices such as those in Fortaleza and

Rama (2006) which attempt to measure 'real' labor market rigidity introduce possible error by including non-regulatory dimensions such as the strength of labor unions and the size of government employment. In any case, an exclusive focus on formal regulation is more appropriate for our analysis. While the data by Botero et al. do not have a time-series component, the collection of labor law changes in Latin America compiled by Vega Ruiz (2005) demonstrates that labor law changes have been limited, but more significant than in the OECD, where they have been largely untouched (OECD 1999). So, while high levels of labor market regulation have been a continuous feature of Latin American labor markets, there may have been some convergence in the 2000s toward CME levels.

On job tenure, the data for Latin America are from IDB (2003, appendix), based on household panels and labor force surveys, with additional data for Mexico from Calderón-Madrid (2000) and for Colombia from Schaffner (2001)). For CMEs and LMEs we take the data from Estevez-Abe et al. (2001: 170), using OECD data from the mid-1990s. Unfortunately, most published data on job-tenure gives average rather than median values. But whereas average job tenure is skewed heavily both by very short job stints and by workers holding jobs for forty and more years, median job tenure depicts the duration of tenure for an average worker. We thus strongly prefer it as a measure. Nonetheless, for purposes of comparison, the relative rankings of countries and regions are the same using either median or mean measures. Average job tenure (see appendix table 1) was 10.57 in CMEs, 8.39 in LMEs, and 6.1 in Latin America (data for CMEs and LMEs for 2003 from OECD 2010 – data for Japan and the United States for 2003 from earlier versions of the OECD labor force statistics; for Latin America from IDB 2003 for 1999/2000, Chile for 1996).

Measures of the informal economy are from Schneider (2005), who uses a currency demand model based on the idea that most transactions in the informal economy take place in cash. Schneider then uses a type of factor analysis (multiple indicator –multiple cause model) that treats the size of the informal economy (as percentage of GDP) as an unknown variable to estimate its change over time. This method is far from perfect, but Schneider has created the only comprehensive set of cross-country data on the informal economy. For some countries in Latin America we do have data based on household panels, measuring the percentage of workers without social security coverage, a useful proxy for the informal sector (cf. IDB 2003: 166). Unfortunately these data are only available for a limited number of countries and, as the respective surveys are not identical, problematic for comparative usage.

**Appendix Table 1. Labor Market Indicators for Latin America, CMEs, and LMEs**

| Country              | Median job-tenure | Average job tenure | Union density | Size informal economy | Average years of schooling | Employment Law Index |
|----------------------|-------------------|--------------------|---------------|-----------------------|----------------------------|----------------------|
| <b>Latin America</b> |                   |                    |               |                       |                            |                      |
| Argentina            | 4                 | 6.7                | 21.5          | 25.4                  | 8.49                       | 1.55                 |
| Bolivia              | 4                 | 7                  | 16.4          | 67.1                  | 5.54                       | 1.82                 |
| Brazil               | 3                 | 5.3                | 24.8          | 39.8                  | 4.56                       | 2.4                  |
| Chile                | 2.6               | 5.4                | 13.1          | 19.8                  | 7.89                       | 1.56                 |
| Colombia             | 1.9               | 4.3                | 12.1          | 39.1                  | 5.01                       | 1.99                 |
| Costa Rica           |                   |                    | 15            | 26.2                  | 6.01                       |                      |
| Ecuador              |                   |                    | 13.5          | 34.4                  | 6.52                       | 1.86                 |
| El Salvador          |                   |                    | 15            |                       | 4.5                        |                      |
| Guatemala            |                   |                    | 4.4           | 51.5                  | 3.12                       |                      |
| Honduras             | 1                 | 3.7                | 20            | 49.6                  | 4.08                       |                      |
| Mexico               | 3.5               | 6.5                | 22.4          | 30.1                  | 6.73                       | 2.01                 |
| Nicaragua            | 2                 | 5.2                | 23.4          | 45.2                  | 4.42                       |                      |
| Panama               | 3                 | 6.7                | 14.2          | 64.1                  | 7.9                        | 2.38                 |
| Paraguay             | 5                 | 7.5                | 2.8           |                       | 5.74                       |                      |
| Peru                 | 3                 | 6.6                | 12.9          | 59.9                  | 7.33                       | 1.67                 |
| Uruguay              | 4                 | 7.8                | 16.3          | 51.1                  | 7.25                       | 1.02                 |
| Venezuela            | 2                 | 5.1                | 18            | 33.6                  | 5.61                       | 2.32                 |
| <b>CMEs</b>          |                   |                    |               |                       |                            |                      |
| Austria              | 6.9               | 11.36              | 41.1          | 10.8                  | 8.8                        | 0.8                  |
| Belgium              | 8.4               | 12.12              | 55.7          | 21.5                  | 8.73                       | 1.77                 |
| Denmark              | 4.4               | 9.01               | 77            | 17.5                  | 10.09                      | 0.95                 |

|                |      |       |      |      |       |      |
|----------------|------|-------|------|------|-------|------|
| Finland        | 7.8  | 10.59 | 80.4 | 17.6 | 10.14 | 1.73 |
| Germany        | 10.7 | 11.01 | 29.2 | 16.8 | 9.75  | 1.57 |
| Japan          | 8.3  | 11.6  | 24   | 11   | 9.72  | 1.42 |
| Netherlands    | 5.5  | 10.35 | 25.7 | 12.8 | 9.24  | 1.68 |
| Norway         | 6.5  | 9.69  | 57.3 | 18.7 | 11.86 | 1.29 |
| Sweden         | 7.8  | 11.35 | 83.1 | 18.7 | 11.36 | 1.05 |
| Switzerland    | 6    | 9.78  | 22.9 | 9.5  | 10.39 | 1.28 |
| <b>LMEs</b>    |      |       |      |      |       |      |
| Australia      | 3.4  |       | 32.4 | 13.8 | 10.57 | 0.92 |
| Canada         | 5.9  |       | 32.2 | 15.4 | 11.43 | 1.22 |
| Ireland        | 5.3  | 10.17 | 45.1 | 15.5 | 9.02  | 1.04 |
| New Zealand    |      |       | 27.1 | 12.4 | 11.52 | 1.06 |
| United Kingdom | 5    | 8.78  | 32.7 | 12.3 | 9.35  | 1.02 |
| United States  | 4.2  | 6.6   | 14.3 | 8.6  | 12.25 | 0.92 |

## References

Almeida, Rita, and Reyes, Aterido. 2008. "The Incentives to Invest in Job Training: Do Strict Labor Codes Influence This Decision?" Working paper, World Bank.

Amable, Bruno. 2003. *The Diversity of Modern Capitalism*. New York: Oxford University Press.

Amengual, Matthew. 2010. "The Politics of Labor and Environmental Regulation in Argentina: Constructing State-Society Relations for Effective Implementation." Phd Dissertation, MIT.

Anner, Mark. 2008. "Meeting the Challenges of Industrial Restructuring: Labor Reform and Enforcement in Latin America." *Latin American Politics and Society* 50(2): 33-65.

Barro, Robert and Jong -Wha Lee. 2000.. "International Data on Educational Attainment: Updates and Implications", *CID Working Paper No. 42*, Center for International Development, Harvard University, Cambridge, MA.

Batt, Rosemary, David Holman, and Ursula Holtgrewe. 2009. "The Globalization of Service Work: Comparative Institutional Perspectives on Call Centers." *Industrial and Labor Relations Review* 62(4, July): 453-88.

Berg, Janine, Christoph Ernst, and Peter Auer. 2006. *Meeting the Employment Challenge: Argentina, Brazil, and Mexico in the Global Economy*. Boulder, CO: Lynne Rienner.

Berg, Janine. 2005. *Miracle for Whom? Chilean Workers Under Free Trade*. New York: Routledge.

Bensusán, Graciela. 2006. "Las Instituciones Laborales en una Perspectiva Comparativa." In *Diseño Legal y Desempeño Real: Instituciones Laborales en América Latina*, éd. Graciela Bensusán. México, D.F: Miguel Ángel Porrúa.

Botero, Juan, Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer 2003. "The Regulation of Labor.", *NBER Working Paper 9756*, National Bureau of Economic Research, Cambridge, MA.

Botero, Juan, Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer 2004. "The Regulation of Labor." *Quarterly Journal of Economics* 119(4):1339-1382.

Buchanan, Paul. 1995. *State, Labor, Capital*. Pittsburgh: Pittsburgh University Press.

Calderón-Madrid, Angel. 2000. *Job Stability and Labor Mobility in Urban Mexico a Study Based on Duration Models and Transition Analysis*. Washington, DC: Inter-American Development Bank.

Carnes, Matthew. 2009. "Institutionalizing Inequality: The Political Origins of Labor Codes in Latin America." *Kellogg Institute Working Paper* 363.

Castro, Claudio de Moura, and Norma García, eds. 2003. *Community Colleges: A Model for Latin America?* Washington, DC: Inter-American Development Bank.

Cook, Maria Lorena. 1998. "Toward Flexible Industrial Relations? Neo-Liberalism, Democracy, and Labor Reform in Latin America", *Industrial Relations*, 37(3), 311-336.

Cook, Maria Lorena 2007. *The Politics of Labor Reform in Latin America. Between Flexibility and Rights*, University Park, PA: The Pennsylvania State University Press.

de Ferranti, David, Guillermo Perry, Indermit Gill, J. Luis Guasch, William; Maloney, Carolina Sánchez-Páramo, and Norbert Schady. 2003. *Closing the Gap in Education and Technology*. Washington, D.C.: World Bank.

Delfini, Marcelo, and Valentina Picchetti. 2007. "Production Strategies and Practices in the Argentine Automotive Industry: Between Coercion and Hegemony." *Latin American Perspectives* 34(6): 28-39.

Di Gropello, Emanuela, ed. 2006. *Meeting the Challenges of Secondary Education in Latin America and East Asia*. Washington, DC: World Bank.

Ducci, María Angélica. 2001. "Training and Retraining in Latin America." In *Labor Market Policies in Canada and Latin America*, ed. Albert Berry. Boston: Kluwer Academic.

Enright, Michael, Antonio Francés, and Edith Saavedra. 1996. *Venezuela, the Challenge of Competitiveness*. New York: St. Martin's.

Etchemendy, Sebastián, and Ruth Berins Collier. 2006. "Trade Union Resurgence and Neo-Corporatism in Argentina (2002-2006): Evidence, Causes, and Implications." APSA. Philadelphia.

Estevez-Abe, Margarita, Torben Iversen and David Soskice. 2001. "Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State", in: Hall, P.A. and Soskice, D. (eds.), Oxford and New York: Oxford University Press, 145-83.

- Feldmann, Magnus. 2007. "The Origins of Varieties of Capitalism: Lessons from Post-Socialist Transition in Estonia and Slovenia." In *Beyond Varieties of Capitalism*, ed. Bob Hancké, Martin Rhodes, and Mark Thatcher. Oxford: Oxford University Press.
- Finegold, David, and David Soskice. 1988. "The Failure of Training in Britain: Analysis and Prescription." *Oxford Review of Economic Policy* 4(3, Autumn): 21-53.
- Fischer, Wolfram. 1985. "Wirtschaft und Gesellschaft Europas 1850-1914", in: Fischer, W. et al. (eds.), *Handbuch der Europäischen Wirtschafts- und Sozialgeschichte*, vol. 5, Stuttgart: Ernst Klett Verlage, 1-208.
- Forteza, Alvaro, and Martín Rama. 2006. "Labor Market 'Rigidity' and the Success of Economic Reforms Across More Than 100 Countries." *Journal of Policy Reform* 9(1):75-105.
- Gottfried, Heidi. 1992. "The Impact of Skill on Union Membership: Rethinking Gender Differences", in: *The Sociological Quarterly*, 33(1), 99-114.
- Haagh, Louise. 2002a. *Citizenship, Labour Markets and Democratization : Chile and the Modern Sequence*, Houndmills, Basingstoke, Hampshire and New York: Palgrave.
- Haagh, Louise. 2002b. "The Emperor's New Clothes: Labor Reform and Social Democratization in Chile." *Studies in Comparative International Development* 37(1, Spring): 86-115.
- Haagh, Louise. 2007. "Inequality of Income and Inequality of Control: Conceptualizing Links Between the Labour Market and Social Policy in Latin America." Paper prepared for the Conference on Social Policy, Economic Development and Income Inequality. Institute for the Study of the Americas, London.
- Hall, Peter. 2007. "The Evolution of Varieties of Capitalism in Europe." In *Beyond Varieties of Capitalism*, ed. Bob Hancké, Martin Rhodes, and Mark Thatcher. Oxford: Oxford University Press.
- Hall, Peter, and David Soskice. 2001. "An Introduction to Varieties of Capitalism." In *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, ed. Peter Hall and David Soskice. New York: Oxford University Press.
- Heckman, James, and Carmen Pagés-Serra. 2000. "The Cost of Job Security Regulation: Evidence from Latin American Labor Markets." *Economia* 1(1): 109-144.
- Humphrey, John. 1982. *Capitalist Control and Workers' Struggle in the Brazilian Auto Industry*, Princeton, NJ: Princeton University Press.



IDB. 2001. *Competitiveness: The Business of Growth (Economic and Social Progress in Latin America)*. Washington, D.C.: Inter-American Development Bank.

IDB. 2003. *Good Jobs Wanted: Labor Markets in Latin America (Economic and Social Progress in Latin America: 2004 Report)*. Washington, D.C.: Inter-American Development Bank and Johns Hopkins University Press.

ILO. 1997. *World Labour Report 1997/1998: Industrial Relations, Democracy, and Social Stability*. Geneva: International Labour Office.

ILO. 2006. *2006 Labour Overview: Latin America and the Caribbean*. Lima: International Labour Organization.

Jackson, Gregory, and Richard Deeg. 2006. "How Many Varieties of Capitalism? Comparing the Comparative Institutional Analyses of Capitalist Diversity." *MPIfG Discussion Paper* 06(2). Available at: [http://www.mpifg.de/pu/mpifg\\_dp/dp06-2.pdf](http://www.mpifg.de/pu/mpifg_dp/dp06-2.pdf) [Accessed January 27, 2009].

Lawrence, Sophia, and Junko Ishikawa. 2005. *Social Dialogue Indicators. ILO Integration Working Paper No. 59*. Geneva: International Labor Office.

Loayza, Norman, Ana M. Oviedo and Luis Servén. 2005. "The Impact of Regulation on Growth and Informality. Cross-Country Evidence", *World Bank Policy Research Working Paper No. 3623*, World Bank, Washington D.C.

Lora, Eduardo. 2001. "Structural Reforms in Latin America: What Has Been Reformed and How to Measure It." Working Paper #466. Washington, DC: Inter-American Development Bank.

Maceira, Daniel and M. Victoria Murillo. 2001. "Social Sector Reform in Latin America and the Role of Unions", *Working Paper #456*, Inter-American Development Bank, Washington D.C.

Maddison, Angus. 1983. "A Comparison of Levels of GDP Per Capita in Developed and Developing Countries, 1700-1980." *The Journal of Economic History*, Vol. 43, No. 1 (March), pp. 27-41.

Maloney, William F. 1997. "Labor Market Structure in LDCs. Time Series Evidence on Competing Views", *Working Paper*, The World Bank, Washington D.C.

Mahoney, James. 2000. "Path Dependence in Historical Sociology." *Theory and Society* 29(4, August).

Murillo, M. Victoria and Andrew Schrank. 2005. "With a Little Help from My Friends. Partisan Politics, Transnational Alliances, and Labor Rights in Latin America", *Comparative Political Studies*, 38(8), 971-999.

Murillo, M. Victoria. 2001. *Labor Unions, Partisan Coalitions, and Market Reforms in Latin America*, Cambridge: Cambridge University Press.

Nelson, Joan M. 1991. "Organized Labor, Politics, and Labor Market Flexibility in Developing Countries ." *World Bank Research Observer* 6(1), 37-56.

Nölke, Andreas, and Arjan Vliegenthart. 2009. "Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe." *World Politics* 61(4, October): 670-702.

OECD. 2010. *Statistics Portal*, <http://stats.oecd.org/Index.aspx>

Pagés, Carmen, Gaëlle Pierre, and Stefano Scarpetta. 2009. *Job Creation in Latin America and the Caribbean: Recent Trends and Policy Challenges*. Washington, DC: World Bank.

Payne, James. 1965. *Labor and politics in Peru the system of political bargaining*. New Haven: Yale University Press.

Perry, Guillermo, et al. 2005. *Virtuous Circles of Poverty Reduction and Growth*. Washington, DC: World Bank.

Perry, Guillermo, et al. 2007. *Informality: Exit and Exclusion*. Washington, DC: World Bank.

Pierson, Paul. 2000. "Increasing Returns, Path Dependence, and the Study of Politics." *American Political Science Review* 94(2): 251-267.

Piore, Michael, and Andrew Schrank. 2008. "Toward Managed Flexibility: The Revival of Labour Inspection in the Latin World." *International Labour Review* 147(1): 1-23.

Portes, Alejandro, Manuel Castells and Laura A. Benton 1989. "Conclusion: The Policy Implications of Informality", in: Portes, A. et al. (eds.), *The Informal Economy. Studies in Advanced and Less Developed Countries*, Baltimore, MD and London: Johns Hopkins University Press, 298-311.

Rueda, David. 2005. "Insider-Outsider Politics in Industrialized Democracies: The Challenge to Social Democratic Parties." *American Political Science Review* 99(1, February): 61-74.

Schaffner, Julie Anderson. 2001. "Job Stability in Developing and Developed Countries: Evidence from Colombia and the United States.." *Economic Development & Cultural Change* 49(3):511.

Schnabel, Claus and Joachim Wagner. 2007. "'Union Density and Determinants of Union Membership in 18 EU Countries: Evidence from Micro Data, 2002/03", in: *Industrial Relations Journal*, 38(1), 5-32.

Schneider, Ben Ross. 2004. *Business Politics and the State in 20th Century Latin America*. New York: Cambridge University Press.

Schneider, Friedrich. 1997. "The shadow economies of Western Europe." *Economic Affairs* 17(3): 42-48.

Schneider, Friedrich. 2005. "Shadow Economies Around the World: What Do We Really Know?" *European Journal of Political Economy*, 21(3), 598-642.

Schrank, Andrew. 2006. "Labor Inspectors in the CAFTA Region: Cosmetic, Costly, or Constructive?" Paper presented at the Workshop on Multinational Production and Labor Rights, UNC Chapel Hill, September 22-23, 2006.

Schrank, Andrew. 2009. "Professionalization and Probity in a Patrimonial State: Labor Inspectors in the Dominican Republic." *Latin American Politics and Society* 51(2): 91 - 115.

Sehnbruch, Kirsten. 2006. *The Chilean Labor Market: A Key to Understanding Latin American Labor Markets*. New York: Palgrave Macmillan.

Snowder, Dennis J. 1994. "The Low-Skill, Bad-Job Trap." *IMF Working Paper No. 94/83*. Available at: <http://ssrn.com/paper=883810> [accessed January 5, 2009].

Thelen, Kathleen. 2004. *How Institutions Evolve. The Political Economy of Skill in Germany, Britain, the United States, and Japan*, Cambridge: Cambridge University Press.

Tokman, Victor E. 2001. "De la Informalidad a la Modernidad." *Boletín Técnico Interamericano De Formación Profesional* 155: 9-32.

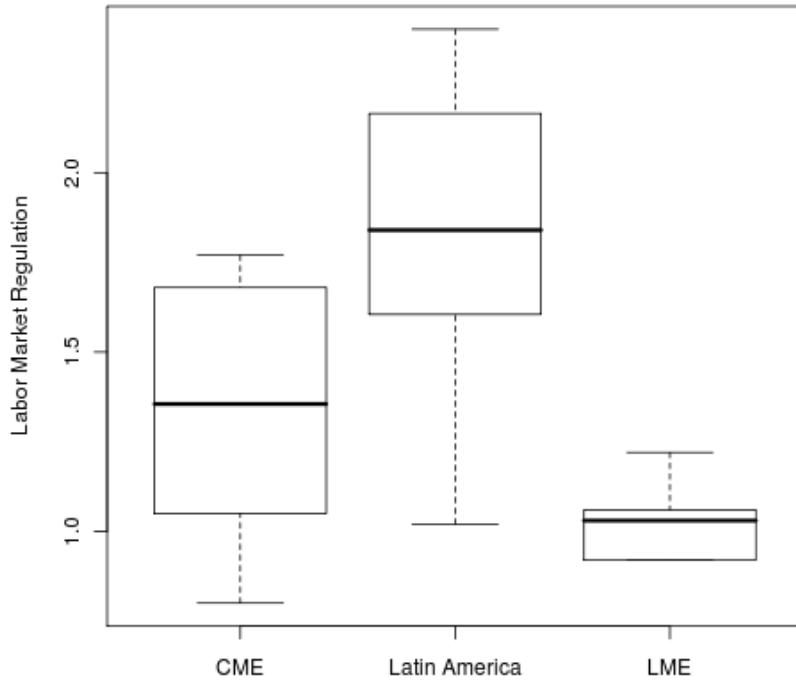
Vega Ruíz, María Luz. 2005. *La Reforma Laboral en América Latina: 15 Años Después. Un Análisis Comparado*. Lima: OIT/Oficina regional para América Latina.

Veiga, Joao Paulo, and Scott Martin. 2009. "Corporate Employee Representation, Union Strategies, and Third-Party Union-Linked Monitoring: Germany's BASF in Brazil as a Critical Case Study." *Labor Studies Journal* 34(3): 363-384.

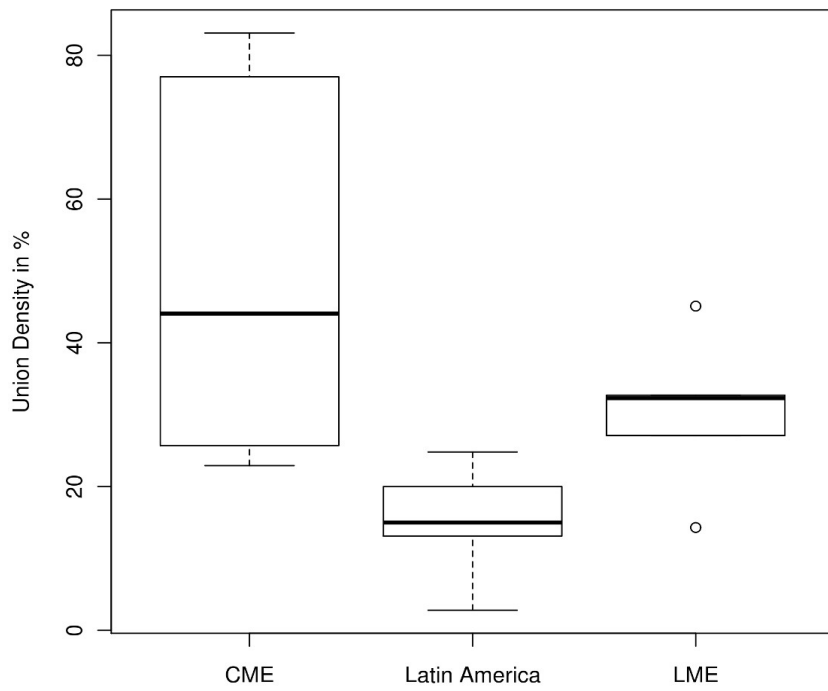
Weller, Jürgen. 2008. *Labour Markets, Worker Protection ,and Lifelong Learning in a Global Economy*. Santiago de Chile: ECLAC.

World Bank. 2004a. *World Development Report 2005: A Better Investment Climate for Everyone*. Washington, DC: World Bank and Oxford University press.

World Bank. 2004b. *Doing Business in 2004: Understanding Regulation*. Washington, DC: World Bank and Oxford University press.



*Figure 1.1: Labor Market Regulation in Latin America and the OECD  
Data for 1997 from Botero et al. 2003*



*Figure 1.2: Union Density in Latin America and the OECD  
Data for 1991-1995 for Latin America and 1995 for CMEs and LMEs.  
Source: IDB 2003 for Latin America, OECD 2010 for CMEs and LMEs*

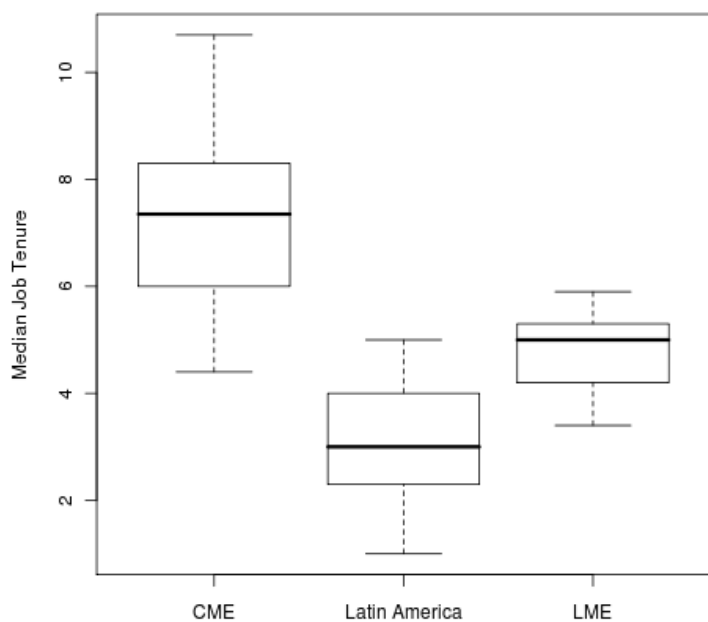


Figure 1.3: Median Job Tenure in Latin America and the OECD; Data for Latin America 1999-2001, except for Chile (1996) from IDB 2003; Data for CMEs/LMEs for 1995 from Estevez Abe et al 2001 using OECD data.

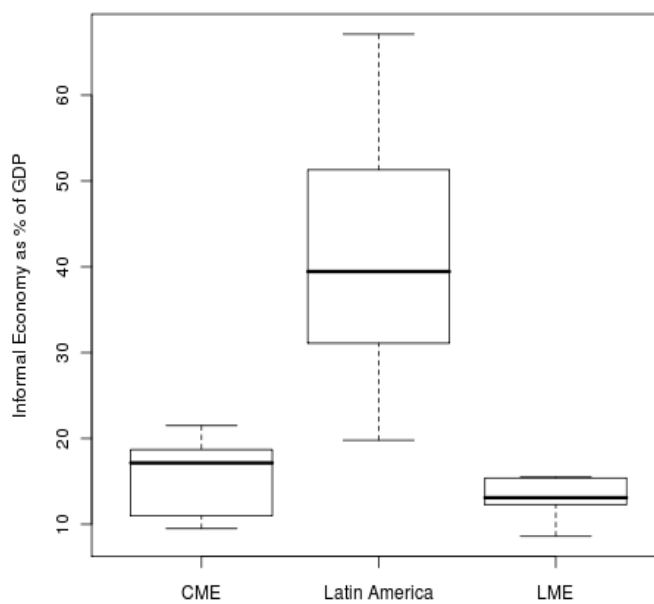
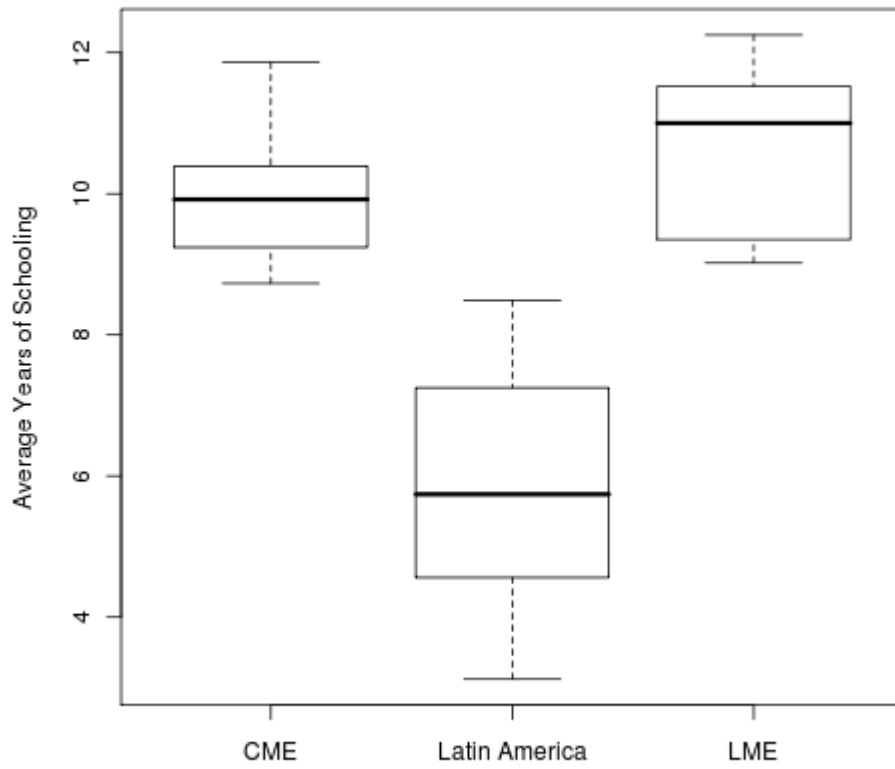
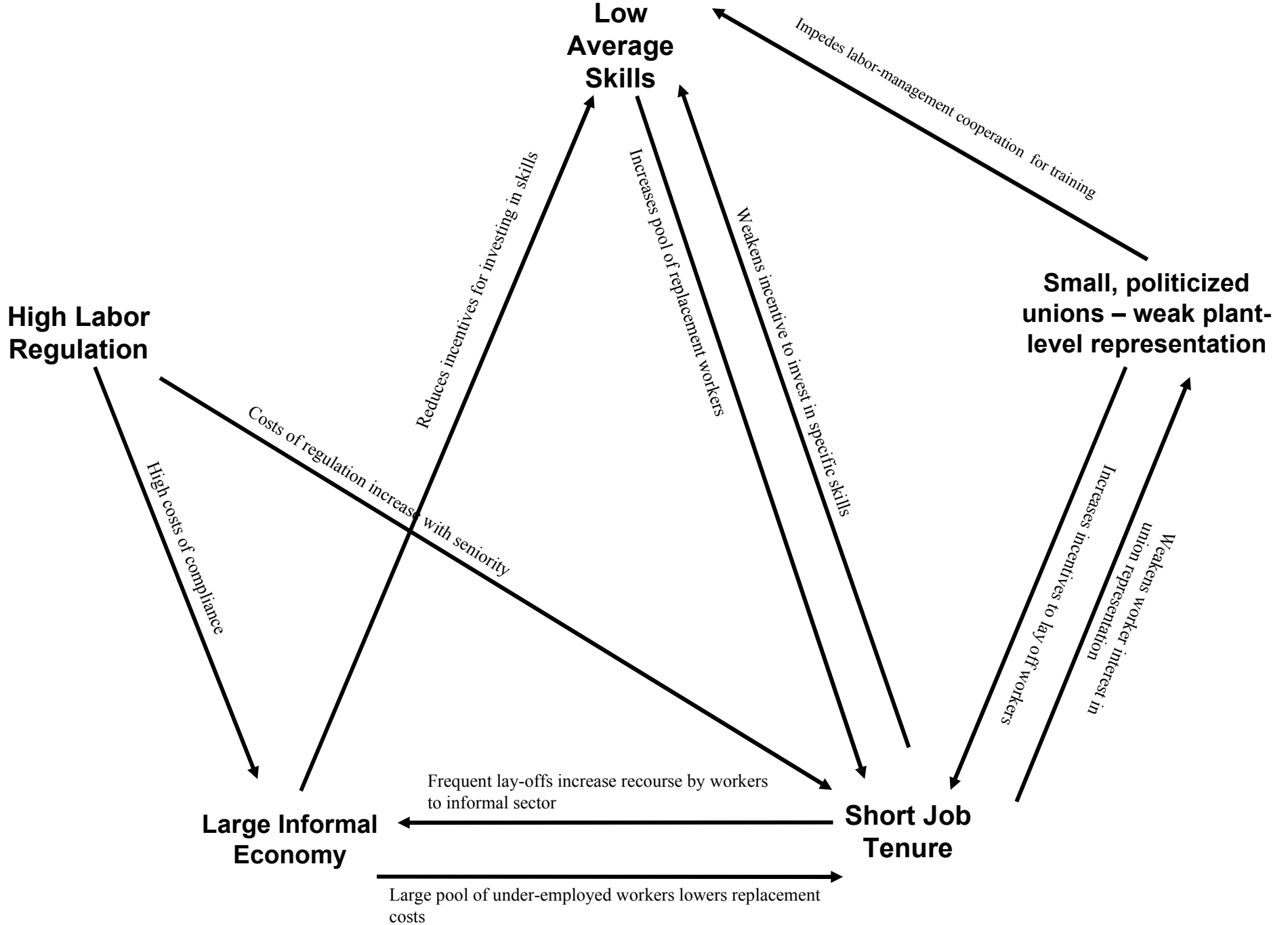


Figure 1.4: Informal Economy in Latin America and the OECD; Data for 2002/2003 from Schneider 2005.



*Figure 1.5: Education in Latin America and the OECD; Data for 2000 from Barro and Lee 2000.*





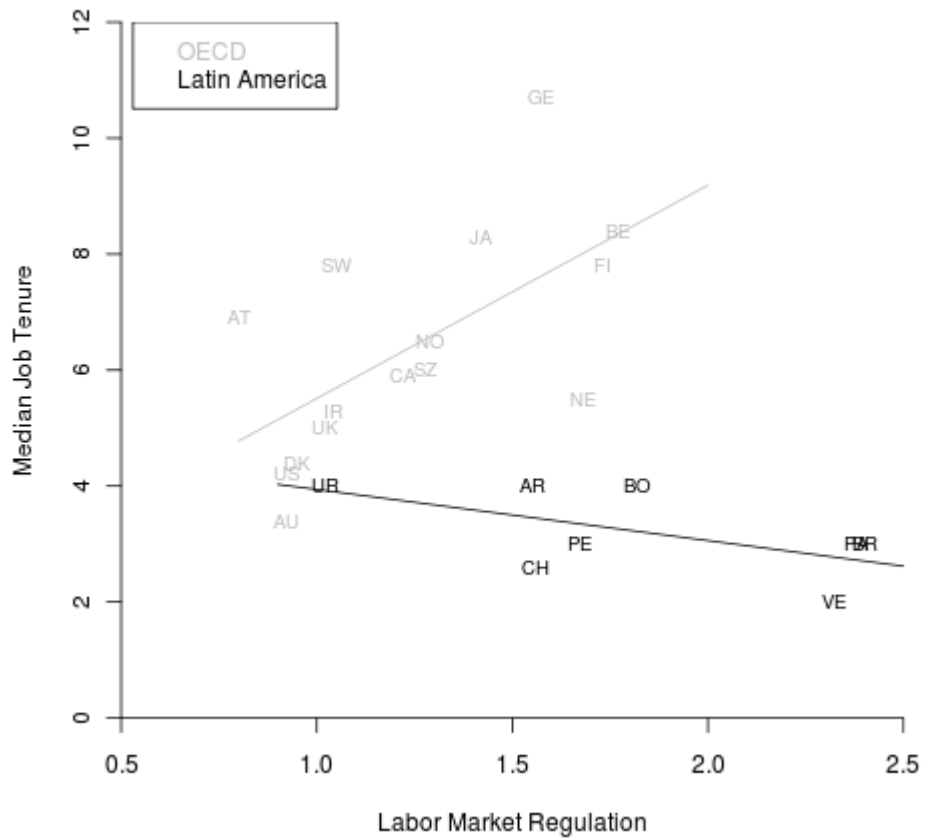


Figure 3: The Relationship between Job Tenure and Labor Market Regulation in Latin America and the OECD

