

A “Left Turn” in Latin America?

THE URGENT NEED FOR LABOR LAW REFORM

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Among the defining but often overlooked characteristics of modern Latin American electorates is their “informality.”¹ The economic reforms of the 1990s and the subsequent failure of labor markets to absorb unemployment have left more than half the region’s urban working (and voting) population on the economic margins and without attachments to organized channels of political participation. Behind the much-noted resurgence of populism² in Latin America lies this fluid and heterogeneous popular sector. Incorporating it into formal political and economic life is the region’s greatest challenge.

According to regionwide surveys, unemployment and job security remain Latin Americans’ greatest concerns, and with good reason. Unemployment has risen since the 1990s even as such measures of job quality as employment security, labor-rights guarantees, and access to benefits have declined dramatically. The dilemma of what to do with a growing pool of jobless or underemployed and disaffected people is not unique to Latin America or even the developing parts of the globe. As antiglobalization riots were enveloping the 4–5 November 2005 Mar del Plata Summit of the Americas in Argentina, across the Atlantic unemployed youths from poor, immigrant neighborhoods in France were in the midst of a weeks-long series of car burnings and riots in and around Paris and other large cities. In early 2006, the French government moved tepidly to relax labor-market rigidities (such as severe limits on employers’ freedom to dismiss workers) that were widely blamed for exacerbating immigrant unemployment. Those who felt their own interests threatened by such

changes reacted with disruptive and sometimes-violent protests of their own that rose to a crescendo in March. The twin outbreaks of unrest in late 2005 and early 2006 left French premier Dominique de Villepin's government badly shaken. They also suggest that Latin America's governments, like their counterpart in France, face a choice: They can enact labor-market reform and risk political instability now, or else allow a demographic time bomb to keep ticking away as more and more young people come of age whom the rigid job market cannot absorb.

Despite the hopes of technocrats, multilateral organizations, and some politicians, the economic and fiscal reforms of the 1990s (measures now known disparagingly as the Washington Consensus) failed to generate employment at the anticipated rates. The privatization of state enterprises and the restructuring of private firms resulted in huge formal-sector layoffs. Reformers had assumed that in a new macroeconomic environment purged of fundamental inefficiencies and energized by liberalized trade, displaced workers would find new jobs relatively quickly in sectors fueled by foreign direct investment and the region's enticingly low labor costs.

Growth did follow the reforms, but it was not enough to offset the effect of the layoffs plus the entrance of new workers into the labor market. Across Latin America, urban unemployment nearly doubled, going from 5 percent in 1989 to 9 percent in 2003.³ In stark contrast to expectations, those hardest hit by the jobs downturn were unskilled and semiskilled workers and youth. But more important was the *quality* of the jobs that were generated during the period. Throughout the region, the 1990s continued the trends of the 1980s: Manufacturing and public-sector jobs became rarer, employment in services climbed, and informal-sector jobs grew dramatically. By 2001, estimates placed the percentage of workers employed in the informal economy at more than half the region's urban workforce.

These patterns deepened the split between skilled workers (who benefited from the growth of export-oriented jobs) and unskilled and semi-skilled workers, many of whom lost jobs in the restructuring and with them the social-welfare benefits that the state and labor unions had typically provided.

In the post-Washington Consensus environment, in which the public sector no longer provided the primary source of employment and the state no longer protected certain industries, firms had to boost productivity in order to compete internationally. Doing so meant cutting labor costs. But existing and mostly unreformed labor laws have kept nonwage labor costs artificially high and hence have pushed growing businesses toward extralegal hiring. While unemployment (temporary or otherwise) has been a consequence of market reforms, the explosion of informal employment has sprung from the failure to push reforms to completion.

Every country in Latin America has a welter of laws governing relations between employers and employees. Many of these laws date from

the 1930s and 1940s, and have remained largely unchanged since then. Anachronistic laws make Latin American labor markets among the most restrictive, rigid, and cumbersome in the world. Legal “job-security provisions” typically saddle employers with lengthy notice requirements, mandate compensation for dismissal without adequate cause (which in many cases cannot include the employer’s economic difficulties), and award “seniority premiums” to long-serving employees.⁴ For employers calculating the costs of hiring or firing, the costs of complying with these laws can be staggering.

To cite a few specifics, Argentina’s labor laws mandate two months’ notice or two months’ wages before dismissal, at which point the fired worker becomes entitled to a twelfth of his or her salary and bonuses from the last year, plus vacation, all multiplied by the total number of years worked. Moreover, to avert massive layoffs during Argentina’s 2001 financial crisis, dismissal payments were temporarily doubled. In Peru, labor legislation guarantees each dismissed employee one and a half times the worker’s monthly salary (in contrast to the one month’s annualized salary in Argentina) times the number of years worked, capped at twelve years total. Chilean labor laws provide for a month’s salary, plus vacation multiplied by the number of years worked, up to ten years.

Reforms introduced in the 1990s did little to improve the overall labor market. Most aimed at allowing firms formally to contract temporary workers. Peru introduced a parallel and more flexible system that allowed for temporary hiring and probationary periods by small and medium-sized enterprises and several key industries. Chile permitted the use of temporary and less binding labor contracts and established a government subsidy for the first four months of a contract with a private company. Later reforms also changed the requirements for registering and recognizing the authority of new unions. Argentina approved a three-month probationary period for new employees. In response to these legal loopholes for hiring, the percentage of workers employed under temporary contracts shot up.⁵

But these were only half-measures, introduced by governments afraid to face the heat that any broader reform of labor laws would generate. The root problem, which concerns long-term rather than temporary employees, remained untouched. Moreover, the backdoor created for temporary hiring also limited workers’ ability to gain access to the benefits of full employment and union organization. Finally, even after the opening of these temporary-employment loopholes, the average costs associated with dismissing a formally hired, full-time worker in Latin America were still the highest in the entire industrialized world.⁶

Businesses must of course take carefully into account the long-term legal and financial costs and commitments associated with hiring new regular employees. The high incidence of job-security provisions serves as a disincentive to thinning the numbers of unproductive laborers or

shifting them to other areas. At the same time, the risk of being saddled with expensive, hard-to-fire workers discourages firms from making new hires. The result, most of the time, is that expanding businesses seek extralegal means of adding employees. Predictably, higher dismissal costs correlate with higher rates of self-employment and informality. Job-security provisions that “lock in” the employment of existing workers tend to bar new workforce entrants, who are disproportionately young and female. According to one study, the effect of job-security provisions is twice as great on youth as it is on other sectors.⁷

Informal employment is a two-way street, with both firms and workers calculating costs and making choices. Firms hire informally or extralegally in order to avoid the costs (financial and administrative) associated with formal, full-time employees. Among these costs, broadly construed, is the risk that regular employees will be more likely to organize or join unions that can later press for higher pay and benefits. Hiring informally promises not only a cheaper but also a more quiescent labor force. And yet the very precariousness of informally contracted labor may arguably dampen productivity in the long run, making it less obviously a good bargain for employers or societies as a whole.

Research suggests that the border between formal and informal employment is fairly porous and more voluntary than previously thought.⁸ Workers sometimes opt for the informal sector to avoid having to direct some of their salary to benefit plans. The decision is often based on both the low level of formal wages and a lack of confidence that benefits such as pensions and unemployment insurance will ever materialize in countries where employers can refuse to pay while governments refuse to make them. Rather than pay portions of their salaries into a system which offers few guarantees that they can collect their contribution and the expected match, many workers prefer to be paid directly in cash.

Whether because workers choose it or simply lack options, the informal sector has swelled over the last two decades. According to a 2005 International Labor Organization (ILO) report, during the 1990s the rate of job growth in Latin America’s informal sector was almost twice what it was in the formal economy.⁹ While estimates vary depending on how “informal” employment is defined, most current studies calculate that close to half of Latin America’s nonagricultural workforce is now informal.¹⁰ In countries such as Ecuador, Honduras, and Peru, that number is probably closer to 60 percent, while in Chile—whose rate of informality is the region’s lowest—just under 40 percent of nonagricultural workers are not formally employed.

Life on the Edges

While informal employment may have helped to cushion the blow of economic reforms in the absence of a more efficient labor market, it is

hardly a desirable employment outcome. There is a fair amount of variation concerning how people enter the informal sector and their degree of choice in doing so. Yet there can be little doubt that informal-sector employment is generally a suboptimal situation for a worker. Those who toil on the fringes of the formal economy all too often have limited access even to minimal job security or basic benefits and safety protections.

Frequently it is women and youth who suffer most. According to a number of studies, women and younger workers make up the majority of those employed informally.¹¹ That women and youth should be over-represented in the informal sector is to be expected given the proven discriminatory effect that existing labor law has on aspiring entrants to the labor market. This effect looms particularly large in a region where more than a third of the populace is under 16.¹² This “youth bulge” will mean that Latin American labor markets will have to absorb a flood of new workers when already, according to the ILO, unemployment among youth (18.8 percent) is more than double the overall unemployment rate of 9 percent.¹³

Falling employment in public and manufacturing jobs plus dramatic increases in informal and temporary hiring have meant plummeting rates of unionization throughout Latin America. Unions find their traditional structures and orientations under pressure as never before. The large public sectors and protected industries on which union organizers and leaders once focused gave way during the decade of the Washington Consensus to privatization programs and a reduced role for state intervention. In the past, the heavy role of the state in the economy meant that unions’ advocacy efforts and relationships were oriented primarily toward the government and elected officials. Economic reforms involving the passage of public enterprises into private hands have cut public payrolls, reduced state intervention, deprived the unions of a central site for negotiations, and heightened the need for new strategies of organization and bargaining.

At a time when unionization has declined across the world, it has dropped especially sharply in Latin America. While comparable data are difficult to find, levels of unionization have decreased by almost 50 percent in Argentina, Colombia, Peru, and Venezuela since 1980. In Colombia and Peru, the unionized share of the workforce is just 5 to 8 percent.¹⁴

Union membership has grown in just two countries: Brazil and Chile. Brazil’s President Luiz Inácio (“Lula”) da Silva has launched a campaign to grant informal-sector workers semiofficial recognition as laborers by giving them workers’ identity cards, thus providing access to state-provided health and pension benefits. While the loose incorporation of informally employed workers into union ranks has sparked tensions within the formal union movement, the plan has increased membership (albeit via an ill-defined category) in formal labor unions. The policy points to a future path for reform for the region.

In Chile, the rise in union membership has been the result of a labor-law reform that has left few limits on the ability of small workers' groups to gain recognition as unions and bargain collectively. Membership in these groups went up after the reform, but what was in effect a diffusion of the right to organize has also left worker representation in a dramatically fragmented state.

The movement of so much of the working class beyond the reach of traditional union-organizing efforts has had implications for both economic and political representation. Established unions have become increasingly marginal, and along with their waning influence has shrunk that of the old-line labor-based parties which these unions have long supported. Argentina's General Confederation of Workers (CGT) and Peronist party, Mexico's Confederation of Mexican Workers (CTM) and Institutional Revolutionary Party (PRI), and Venezuela's Confederation of Venezuelan Workers (CTV) and Democratic Action (AD) party are classic examples of mass unions and the parties that depended on them. With the organized segment of the working class in eclipse, such parties have either declined or, as in the case of the Peronists, have begun to seek new constituents amid the growing ranks of informal workers.

For unions, the task of organizing the informal sector presents a dilemma. Heterogeneous and dispersed, this sector has few easily identifiable or unified interests and little sense of common identity. The informal sector is a world of small producers, casual laborers, street vendors, illegally contracted workers, and domestic employees. In this world, it is hard to apply the usual union model of banding large numbers of workers together in order to negotiate with employers by leveraging the collective power of the workers' labor. Such workers' organizations as are found in the informal sector typically take the form of sector-specific groups or neighborhood associations. While such small groups may have coherent interests, they do not add up to meaningful nationwide movements able to facilitate large-scale inclusion.¹⁵ Despite these challenges to collective action, the traditional orientation of Latin American unions toward the state rather than employers may mean that unions will be well-equipped to act as political advocates for informal workers in the future.

For now, absent an existing structure or logic for mass mobilization and representation, the informal sector remains a fluid or at best loosely attached electoral base. In several countries, political entrepreneurs and outsider candidates have effectively leveraged informal workers' votes by means of populist movements and rhetoric. But as with the typical populist project, these efforts have so far failed to create and consolidate stabler and more institutionalized channels for sustaining informal workers' participation and representation in political life. Over the past decade, in countries such as Peru, Venezuela, Guatemala, Ecuador, Bo-

livia, and even Argentina, the presence of this unattached base has spelled high levels of electoral volatility as well as erosion in the coherence of party systems. More recently, the swelling pool of informal workers has helped to feed a populist backlash against the organized political system. In all this, ideology has mattered little.

Populist Leaders, Informal Followers

The list of political leaders who have tapped the power of the informals ranges from Peru's former president Alberto Fujimori (1990–2000) to Venezuela's current president Hugo Chávez. The means and ends to which these leaders have sought to mobilize these sectors have varied, as has the extent to which they have sought to build more institutionalized links to these sectors.

In his first campaign in 1990, one-time agronomy professor Fujimori was at best a long shot against the world-famous and erudite Peruvian novelist Mario Vargas Llosa. Nevertheless, the social and economic destruction wrought by the first administration of once-and-future-president Alan García (1985–90, 2006–) had exploded traditional partisan and social alliances. When García left office after his first term, Peru's economy was in tatters, inflation was raging at 7,000 percent, the international community had turned its back, and the Peruvian people were suffering from the violent assaults of the Maoist Sendero Luminoso (Shining Path) terror group. Running as an outsider with no organized structure except a loose electoral machine called Cambio 90, Fujimori appealed to Peru's marginalized and in particular its many informals. He railed against political elites and promised a host of programs oriented toward the informal sector—the legalization of street vendors, the creation of lending projects for microbusinesses, and a program to grant land titles to squatters—and even included leaders from the informal community on the Cambio 90 ticket.

Fujimori's programmatic and rhetorical appeal to Peru's dispossessed worked. During his early years in power, the urban informal sector formed an important part of his popular constituency. After his election, Fujimori directed many of the proceeds from the unexpected wave of privatization toward projects targeting the needs of the poor. Yet the president's lack of interest in institutionalizing a broader movement quickly became clear. He built personalistic relations with the business class, forged an alliance with sectors of the military, and then set out to create a new political movement with each election. After his April 1992 dissolution of Congress and *autogolpe* (self-coup), he called elections for a constituent assembly to draft a new basic law and then dissolved Cambio 90 in favor of a new political machine, Nueva Mayoría (New Majority). A few years later, in 1998, he formed Vamos Vecino (Let's Go Neighbor) for that year's municipal elections, and soon created a party called Perú

2000 to promote his bid for a controversial third term amid major corruption scandals and calls for his ouster.

In all these instances, the focus was on mobilizing voters behind Fujimorismo rather than crafting a coherent structure for representation. Even the programs aimed at serving the needs of the underclass quickly became personalized. Fujimori had these programs organized and run out of his office, and personally announced and delivered them, especially at election time. Changes to the labor law that granted businesses greater leeway for temporary hiring also served to augment the president's base of informal-sector workers while weakening the labor unions lined up against him. As with other changes in Latin American labor law that made temporary hiring easier, the Fujimori-era reforms did little to help informal workers in the long term.

After Fujimori fled into exile in 2000, his poorly institutionalized electoral machine collapsed. Six years later, in the May 2006 presidential election, many of the popular sectors to which Fujimori had appealed swung behind another outsider candidate. Ollanta Humala used populist appeals to the dispossessed, denunciations of the political class, and the promise of radical change to woo voters. The strategy worked in the shantytowns that ring Lima and the poor, rural regions of southern Peru and the Andean highlands. While this was not enough to win the presidency, Humala secured a plurality for his party in Congress and came within 5 percentage points of the repentant Alan García. The question now is if the one-time traditional populist García can organize a new political base to head off the latest breed of populists who succeeded him and now nip at his heels.

Even before Hugo Chávez arrived on the political scene, Venezuela's growing informal sector had been eating away at the base of the country's once-dominant national labor union, the CTV. One CTV leader estimated in 2002 that the proportion of workers who lay beyond the organizational framework of the union—and hence also that of its ally, the AD party—had over the years approached 53 percent.¹⁶ These nonunionized, informal workers became a base ripe for political mobilization against the two-party dominance that had corroded democratic accountability and led to massive corruption. Many informals resented the CTV leadership as part of this old, corrupt system.

Following his failed 1992 coup attempt and a resulting jail term, former army lieutenant-colonel Chávez won the presidency in a 1998 landslide. Shunning the traditional power structures as vestiges of the bankrupt old order and emphasizing his dark skin and indigenous features, Chávez sought direct contact with the unorganized base of his poor followers. Like Fujimori in Peru, Chávez claimed to represent the impoverished masses whom decades of cozy upper-class power-sharing had ignored and brushed aside. To those on the margins of the economy looking in, the old-line parties and unions seemed tokens of

the exclusiveness and clubby self-dealing that Chávez was promising to sweep away.

Once elected, he quickly set out to dismantle or wear down many of the old order's pillars, including the CTV. Rallying his base among the working poor and his own circle of labor leaders, Chávez attempted first to remake the CTV into a Chavista labor organization by allowing unaffiliated workers to vote in union elections. Stiff resistance from the CTV and international labor groups led to elections that produced a president from the union's traditional base, though pro-Chavista union leaders won seats on the CTV board. With the "inside" strategy of taking over the CTV via internal elections having produced such mixed results, in 2003 Chavista labor leaders turned to the "outside" approach of creating a parallel, pro-Chavista union known as the National Union of Workers (UNT). Their hope was that the UNT would offer a means of both splitting the traditional labor movement and mobilizing informal-sector workers.¹⁷ Nevertheless, recent labor-related clashes that have pitted the UNT against the government and various publicly owned enterprises have cast doubt on the regime's commitment to creating a vehicle for worker representation which can effectively defend workers' rights before the state.

The Chávez regime has paired its efforts at labor organizing with a less centralized grassroots campaign to set up local committees of the working poor. Through organizations such as the Bolivarian circles (similar in structure and function to block committees), social-development missions, and cooperatives, the government has sought to reach into poor neighborhoods and the networks of the informal sector. More than a structured source for representation, however, many of these regime constructs are conduits for state patronage. Their connection to President Chávez's party, the Fifth Republic Movement (MVR), is tenuous; they remain primarily a set of decentralized and diffuse channels for clientelism tied to the president's personal influence.

In Bolivia, the political trajectory of President Evo Morales has followed much the same pattern. An Aymara elected in December 2005 as his country's first indigenous president, Morales draws his largest support from a coalition of indigenous rural voters and working-poor informals from places such as El Alto, the rapidly growing and heavily indigenous slum that looms above the capital of La Paz. While his opposition to the U.S.-backed coca-leaf eradication program as leader of the coca growers' union consolidated his base among indigenous rural voters, as Morales's stature grew he and his party (the Movement Toward Socialism, or MAS) tapped into the growing urban working class. In recent years, the cities in Bolivia's highlands and even in its flatter and more Europeanized east have seen a wave of rural migrants, mostly indigenous people, who often wind up working informally as vendors or in small businesses.

During his run for the presidency, Morales held his heterogeneous, loosely structured popular base and party together by directing anger and protest against the ruling class and the international economic order. This was an easy tactic to master: Strikes and protests (including highway blockages around La Paz) made life hard for an elected government headed by politicians tied to the economic and business classes of Bolivia's east. Now that he has secured power, however, Morales must face the more difficult task of governing. Early actions such as the 1 May 2006 armed seizure and nationalization of internationally owned natural-gas fields and the calling of an assembly to draft a new constitution have kept the base united with a fresh dose of defiance and a new common project. Yet signs of strain are evident as well. A series of compromises have sparked protests from within Morales's own movement by more radical groups which charge that the president is not sticking to the revolutionary pledges that he made on the campaign trail. Morales's attempts to take a more moderate line in recent land conflicts with Bolivian settlers on the Brazilian border, to resist demands that he quickly nationalize mines as well as a host of sectors in addition to gas, and to moderate his stated opposition to U.S. policies aimed at discouraging coca growing have provoked dissent on the part of leaders and organizations with ties to his popular base.

The New Environment

It is difficult to imagine a more dysfunctional situation than the conditions that workers face in Latin America today: increasing wage disparity between skilled and unskilled workers, swelling youth unemployment, declining levels of already-low unionization, incomplete enforcement of existing labor protections, and rapid growth of informal employment caused in part by labor laws that constrain the growth of formal employment.

Among the principal political challenges facing Latin America as a whole are those of incorporating groups left behind by formal economic growth in recent decades and stemming the flow of new workers into the growing pools of informality. Given the region's demographics, labor markets already stretched to their limits are going to have to absorb an even greater flood of workers. At the same time, democracy has provided, for the first time, a means to give voice to the disenfranchised, displaced, and traditionally ignored. In prior decades, protest based on unmet economic expectations might merely have been suppressed, by force if necessary. Now, democratic governments take such actions at their peril.

Populism, with its potential for irresponsibility and plebiscitarianism, is just one upshot of the new demographics of labor in Latin America. Another and still more risk-laden prospect is suggested by what has

unfolded since the November 2005 campaign of car burnings and assaults in France. The French system is good at protecting workers who already have jobs, yet these very protections make it much less effective at creating jobs for new entrants. Those who bear the brunt of the French rigidities are newcomers and those outside the traditional channels for education and recruitment of new employees—which in France means primarily minority and immigrant youth, the cognates of Latin America's recently urbanized indigenous peoples.

The reforms that the Villepin government attempted to adopt in order to help prevent more disturbances like those of November 2005 would have established a short probationary period for new employees in place of the old arrangement that put new hires on a fast track to guaranteed lifetime employment. Among the protestors who demonstrated so vehemently against this tepid proposal were university students and trade-union members who made it clear that they would accept nothing less than the coveted job-for-life guarantees of the existing labor system. In a country that prides itself on revolution and progress, the protests demonstrated a deep desire by French youth to preserve the past, at the risk of excluding the poor. Although reforms (albeit of an even more minimal nature) eventually passed, the price in turmoil and disorder that France had to pay highlights the difficult realities faced by Latin American leaders who would attempt to reform labor codes in any way that might reduce the benefits of the privileged. From highway shutdowns in Argentina to wildcat strikes and protests in Bolivia, Ecuador, and Venezuela, recent outbursts of opposition to Latin American governments have raised the possibility that the real threat may be less from the election of this or that irresponsible leader or government than from a long-term undermining of any government's capacity to govern democratically.

Democracy cannot be sustained if a majority of a country's populace stands outside its formal economy and political system. As the case of Peru shows, arguably the least that one can expect under such circumstances is extreme electoral volatility as a fluid mass of unattached, uncommitted voters swings wildly from one movement and one election to the next. The stable system of interest representation that helps democracy to become firmly established will have a hard time forming in such a fluctuating political climate.

Addressing this problem will stretch the bounds of traditional organizations and established political constituencies. The heterogeneity and diffuseness of the informal sector does not lend itself to easy organization or interest aggregation. There are few clear economic incentives that bind the various producers, retailers, and service providers who make up the informal sector. Indeed, as Ruth Berins Collier and Samuel Handlin have argued, the "particularistic nature" of the popular associations that represent the informal sector is more "conductive to

clientelism and cooptation” than the formation of broader movements for mass political representation.¹⁸

A Route to Reform

Despite these organizational obstacles, there may be a path for reform. A solution could lie in changes to law and policy that will grant workers, including those in the informal sector, better protection for core labor rights and access to social services in exchange for reductions in the burdens that employers must shoulder when making hiring and firing decisions. The former set of changes promises the possibility of improving the conditions for informal laborers at the same time that it would help them to integrate themselves politically as formal citizens. The latter set holds the prospect of longer-term change that will give Latin America’s labor markets the flexibility that they will need to cope with the influx of new workers and those currently shunted to the margins.

In order to navigate such a course, governments will first need consistently to defend the basic rights of labor. Securing full citizenship rights for organized and unorganized workers will require as an initial step that governments enforce the core rights of labor that are already on the books: freedom of association and bargaining, freedom from forced labor and invidious discrimination, and eradication of child labor. Throughout the region, these rights have received imperfect protection at best. Labor courts remain notoriously slow, corrupt, and politicized.

Second, governments should develop effective means of ensuring basic benefits (meaning among other things pension programs and health-care access) to workers—informal and formal alike—via a creative mix of private and public initiatives. As mentioned earlier, some employees opt for informality because they expect that the benefits promised by formal employment will never materialize. Along these lines, Lula’s administration in Brazil has launched an innovative program to grant limited benefits to employees in the informal sector. The effort has spawned some concern among labor leaders that the policy may lead to an attenuation of worker representation and collective power. Nevertheless, it represents one of the first serious efforts to incorporate the unorganized informals into the labor movement around the demand for public benefits. In Chile, the government of recently elected President Michelle Bachelet has outlined its own plan to extend benefits to informals.

While the idea of incorporation in Brazil is to bring informals under the umbrella of state protections—more than to bring them within the ambit of formal political representation per se—in many ways unions in Brazil and in the region are particularly well suited to undertake this form of representation and negotiation. The main job of Latin America’s unions has historically been that of persuading governments to give

greater benefits and wages to employees of the state and state-owned enterprises. Since economic reforms began thinning the ranks of such employees in the 1990s, many unions have found themselves struggling to craft strategies for dealing with private employers. The informal-sector dilemma plays in many ways to unions' traditional strength.

Third, the keystone of reform has to be the updating of outmoded labor codes, especially insofar as these make the cost of dismissing workers unreasonably and destructively high. Unreformed, these laws will continue to act as a deadly drag on new hiring, investment, economic expansion, and prosperity. Important change could be achieved by lowering or eliminating the sums that firms are required to pay in order to shed unnecessary workers and in several cases (where such provisions do not exist) allowing for economically motivated dismissals. Ultimately, the long-term path to creating more formal jobs for Latin American workers lies in this area. Without more freedom to make economically rational personnel decisions, firms will continue to be shackled by high labor costs, and more workers will continue to be forced into the marginal world of informal labor. Labor-law reform is by no means a panacea, but labor markets need the flexibility to be able to respond to the inevitable expansion and contraction of the market.

Fourth, new job-training programs must accompany any scaling back of job-security provisions. Studies show that when companies no longer face high costs for shedding workers, layoffs go up. The same studies indicate that time to reemployment is shorter when these costs are lowered (easier firing also means easier hiring).¹⁹ Training programs can provide a speedier route to new jobs and a buffer against the painful, even if relatively short-term, dislocations that labor-market fluctuations can cause.

What will unions get out of all this? For one, as established union leaders in countries such as Peru and Venezuela have discovered, politicians who base their popularity on the masses of unorganized, informal laborers will often find that traditional unions and their officials present tempting targets for populist attacks. In contrast, a broad reform of labor law promises to augment the ranks of formal-economy workers, and with them the recruiting and organizing prospects of old-line unions. They and their leaders could find themselves newly relevant—precisely at a time when the pressures and demands associated with globalization make stronger voices for workers' rights so urgently needed. But getting to such a point will require unions to sharpen their vision and rethink their traditional strategies and political positioning.

In Latin America, the politics surrounding labor issues have always been explosive. But the growing threats of populism and even graver political disorders should citizens' hunger for jobs not be met offer a real opportunity for governments to strike a politically innovative balance. The tradeoff would provide governments with the political capi-

tal to rewrite outdated labor laws and, by incorporating a new generation of workers, profoundly recast politics and labor relations in ways that would help the whole region steer away from the pitfalls of populist promises and protest.

Latin America may be approaching a historic turning point in the areas of political incorporation and labor relations. The levels of economic and social dislocation and political flux in the region are opening up an opportunity for creative, entrepreneurial leaders to change the direction of employment, labor rights, and politics for a new generation. Doing nothing will ensure only that the promising shores of opportunity become the menacing shoals of crisis as the unbending realities of demographics, globalization, and populist opportunism threaten the political and economic fortunes of the region.

NOTES

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1. While disagreements among experts about the precise meaning of economic "informality" make defining (not to say measuring) the phenomenon a tricky business, we use the term "informal" here to refer to firms and the self-employed that conduct their hiring operations (and perhaps all their operations generally) outside labor codes and other formal legal requirements.

2. At its most basic, the term "populist" generally denotes a movement that mobilizes those who feel themselves to be disadvantaged by socioeconomic and political dislocation, as well as a leadership style that draws on a sense of disaffection from the established political system and elites. For the evolving debate on the nature and definition of modern-day populism in Latin America see Kenneth Roberts, "Populism, Political Conflict, and Grass-Roots Organization in Latin America: A Comparison of Fujimori and Chávez," *Comparative Politics* 38 (January 2006): 1–39; Steve Ellner, "The Contrasting Variants of Populism of Hugo Chávez and Alberto Fujimori," *Journal of Latin America Studies* 35 (February 2003): 139–62; and Kurt Weyland, "Neopopulism and Neoliberalism in Latin America: Unexpected Affinities," *Studies in Comparative International Development* 31 (Fall 1996): 3–31.

3. World Bank Development Indicators database, Latin America and the Caribbean, Unemployment, total (percent of total labor force), 1989–2003. See <http://devdata.worldbank.org/data-query>.

4. In Colombia, Ecuador, Panama, Peru, and Venezuela, veteran workers receive a seniority premium not only if they are laid off, but even if they quit.

5. Víctor Tokman, "Integrating the Informal Sector in the Modernization Process," *SAIS Review* 21 (Winter–Spring 2001): 45–60.

6. James Heckman and Carmen Pages, "The Cost of Job Security Regulation: Evidence from Latin American Labor Markets," *NBER Working Paper No. W7773*, June 2000.

7. Heckman and Pages, "The Cost of Job Security Regulation," 29.

8. See for example, William Maloney, "Does Informality Imply Segmentation in Urban Labor Markets? Evidence from Sectoral Transitions in Mexico," *World Bank Economic Review* 13 (May 1999): 275–302; and Jaime Saavedra, "Labor Markets During the 1990s," in Pedro-Pablo Kuczynski and John Williamson, eds., *After the Washington Consensus: Restarting Growth and Reform in Latin America* (Washington, D.C.: Institute for International Economics, 2003), 213–64.

9. The growth rate in the informal sector was 3.9 percent while in the formal sector it was 2.1 percent. See International Labor Organisation, *Global Employment Trends Brief*, February 2005, 6.

10. Most research on the informal sector in Latin America places the total size of the sector regionwide at around or just over 50 percent of the urban workforce. The International Labor Organisation's 2002 Labor Overview calculated the rate at 46.3 percent. Nicolai Kristensen and Wendy Cunningham estimate the range throughout the region as 30 to 70 percent, and Tokman, citing International Labor Organisation numbers, says that the sector provides about 57 percent of total urban employment in Latin America. Nicolai Kristensen and Wendy Cunningham, "Do Minimum Wages in Latin America and the Caribbean Matter? Evidence from 19 Countries," World Bank Policy Research Working Paper 3870, March 2006; and Tokman, "Integrating the Informal Sector in the Modernization Process."

11. International Labor Organisation, *Global Employment Trends Brief*, February 2005, 6.

12. Economic Commission for Latin America, *Boletín demográfico: América Latina y Caribe—Estimaciones y proyecciones de población, 1950* (Santiago, Chile: United Nations, 2002), 38, Table 11a, "América Latina: Estimaciones y Proyecciones de la Población Total."

13. International Labor Organisation, *Global Employment Trends Brief*, February 2005, 7.

14. Jaime Saavedra, "Labor Markets During the 1990s," 246.

15. Ruth Berins Collier and Samuel Handlin, "Shifting Interest Regimes of the Working Classes in Latin America," *Institute of Industrial Relations Working Paper Series* (Berkeley: University of California, 2005), 7.

16. Anonymous interview conducted by Christopher Sabatini, Caracas, Venezuela, 25 June 2002.

17. Steve Ellner, "Organized Labor and the Challenge of *Chavismo*" in Steve Ellner and Daniel Hellinger, eds., *Venezuelan Politics in the Chávez Era: Class, Polarization and Conflict* (Boulder, Colo.: Lynne Rienner, 2003).

18. Ruth Berins Collier and Samuel Handlin, "Shifting Interest Regimes of the Working Classes in Latin America," 14.

19. Studies done for the Research Network of the Inter-American Development Bank have found a negative relationship between high barriers to firing and employment demand in Argentina, Colombia, and Peru as well as Barbados. See Research Network Working Papers R-388, R-391, R-393, and R-394 at www.iadb.org/RES/pub_List.cfm?pub_type_id=RNP. The most rigorous cross-country analysis of the effects of firing costs on employment concludes that a reduction in the costs associated with shedding workers reduces worker tenure but is also associated with a decline in the duration of unemployment. See Heckman and Pages, "The Cost of Job Security Regulation."