1. The 1990s Context

Both Canada and the countries of Latin America are in the midst of major choices and changes in the area of labour markets and related social policy. The decisions they make are or will be of potentially major significance for several reasons. First, important policy reforms are being implemented or are under consideration because of the belief, shared by many economists, that a number of existing or previous labour market institutions have been counterproductive and/or fiscally too expensive, and that greater labour market flexibility is important in today’s world of fast-changing technology. Second, many labour market outcomes—levels of unemployment, wage trends and levels of inequality, have been unsatisfactory over the last couple of decades in both developed countries (including Canada) and in many developing countries, including those of Latin America. Nearly everyone is concerned about something, either the labour market outcomes or the institutions. Some blame the institutions for what is bad about the outcomes; others feel that the reforms being proposed will make the outcomes even worse, and thus argue that those reforms are pushing the system in the wrong direction. Hard evidence on which to base professional judgments is scarce.

Most of the same policy areas are involved in the reforms being planned or implemented in Latin America and in Canada. Many of the factors inducing those reforms are also the same or similar, in spite of the considerable differences in income level, economic structure and past labour policies. A number of the options now facing Latin American countries in areas like unemployment insurance have a history of experience in Canada, which can be analyzed for its lessons. Some of the directions currently under discussion in Canada have been tried somewhere in Latin America; there has, for example, been an interesting range of experiments in the area of pension systems in Latin America. Accordingly, a comparison of the two experiences has much to offer for policy-makers both in Latin America and in Canada.

Canada’s experience is more relevant to Latin America than that of the more frequent comparator, the United States. As a small economy, Canada is forced to adjust to events at the world or hemispheric level in much the same way as the countries of Latin America must do. The U.S. is atypical, both in the region and in the world in being able to influence many of the rules, and in its level of independence from other countries. The United States is an outlier among developed countries also in the structure of its social support network—with relatively low levels of state involvement and above normal reliance on the market (e.g. in health care). Many countries of Latin America are inclined to approach these is-
sues in the more interventionist «European» fashion. Canada tends to fall between the America and the European models in this regard and is thus a natural comparator and source of learning, both because its position in this spectrum may be more congenial to Latin American thinking and because its experience gives some evidence on the problems and prospects of an intermediate approach. Finally, Canada’s federal system, under which the provinces play a large and increasing role in social policy, provides an interesting model for those Latin American countries presently pursuing decentralization of government activities in one form or another (Berry, 1995).

Labour Market Outcomes and the Worries They Give Rise To

Though output per capita and per worker has been rising over the last couple of decades in most developed countries, including Canada, that growth has not always brought with it the elements of performance more directly linked to welfare—rising wages, improving income distribution, lower unemployment, greater job stability and in general less economic worries on the part of the population. Instead there have been continuing high levels of unemployment, stagnant or falling wages for important categories of workers, especially those toward the lower end of the skill hierarchy, increasing inequality, and less job stability than before as the prevalence of part-time and temporary employment rises. Some authors have focussed on the implications for societal welfare of the widening earnings gap between younger and older workers observed in the 1990s vis a vis earlier decades, and of the greater job insecurity associated with higher unemployment rates and lower job permanence. Thus Osberg et al (1998, 57) conclude that Canada’s young workers in the 1990s can expect greater economic insecurity, as well as lower average earnings compared to older workers or to the youth of previous decades. They judge that the 1971-94 revisions to unemployment insurance in Canada with the substantial reduction in the generosity of the UI system produced decreases in economic well-being for all deciles of the income distribution, with these declines especially large in percentage terms for youth and for the poorest deciles.

Latin America’s recent economic history is of course much worse than Canada’s. The debt crisis of the 1980s had disastrous macroeconomic effects in the region, such that per capita income in 1990 was just 86.5% of the 1980 level and per capita GDP 91.8% of that level (ECLAC, 1995, 14). Growth over 1990-97 recovered to 3.5% per year, pulling per capita GDP back to 4% above the 1980 level and per capita income to about that 1980 figure. Open urban unemployment, had risen in most countries at the height of the crisis, though the regional average was only 7.5% in 1985, up from 6.2 in 1980, partly because the two largest countries, Brazil and Mexico registered no increase between those two years (in fact Brazil’s rate fell a little) and partly because the phasing of the crisis varied from country to country. The regional average had eased down to 5.8% by 1990, but has since shown a
positive trend pulling it up to 7.7% in 1996 (Table 1). Wage behaviour has varied widely across countries, again because their crisis cycles have been quite different. But the average, when national figures are weighted by urban population, shows continuing stagnation or perhaps a small decline (Table 2). Though the region’s recent (say, 1990s) performance is clearly not satisfactory, optimists see in the rapid growth and (until the last few years) falling unemployment in Chile the model for what might happen in the region as a whole when the sort of economic reforms pioneered by Chile have been successfully implemented region-wide. Others are less confident, arguing that Chile’s is an atypical economy, with its strong natural resource base, and that it has benefitted from a series of unusually positive conditions.

Related to employment problems and to the failure of wages, especially those of the relatively unskilled, to rise has been a general tendency for household income inequality to rise. This pattern has been especially marked in Latin America, but has also plagued the U.S.A., a number of other industrial countries, and in lesser degree (thus far) Canada. Most advanced countries have seen a worsening of both primary and secondary income distribution from around the mid-1970s, reversing the previous trend towards equality. Primary income distribution in developed countries has been affected negatively by several factors, a major one being an increased variance of wage and salary earnings (Corry, 1992). According to Corry and Glyn (1994, 214) the increase in earnings inequality was largest in the U.S.A., but «Sweden saw a reversal of strong earlier declines in inequality and in the U.K. a century of near stability in earnings dispersion gave way to a sharp increase..» Other factors contributing to the worsening distribution trend were a tendency for a rising share of profits and a falling share of wages, rising unemployment, which affected every OECD country; and the changing age-profile of the population, as the share of households with heads above retirement age increased. The net effect of these changes was a worsening of household primary income distribution in every country for which there is evidence. In Sweden, for example, the ratio of household incomes of the top 20% to the bottom 20% rose from 4.5 to 5.5 between 1980 and 1988. In the U.S. the top quintile of the population received ten times the average income of the bottom quintile in 1989 compared with a ratio of seven in 1967. In the UK this ratio rose from four at the beginning of the decade to nearly six in 1991.

In a number of countries the secondary distribution of income was affected by a fall in welfare expenditure as a percent of GDP—by at least 1% of GDP in the U.K., Germany and several other countries; but at least six countries showed a continued upward trend in social expenditure. There was a general move towards means-tested provision of benefits. Taxes continued to increase as a proportion of GDP in most countries, but their composition changed, with large declines in the ratio of direct to all taxes in several countries including the US, and with most direct tax systems becoming less
progressive as every OECD country except Switzerland cut the top rate. Boltho concluded that ‘despite continual increases in public expenditure, the combined effects of shifts in spending away from major social programmes and in tax policy toward a broadly regressive position meant that in the 1980s most OECD countries spurned or severely moderated the concept of the generous welfare state that had been current during the 1960s’ (Boltho, 1992, 18).

Blackburn and Bloom (1993, 260) cited Gunderson et al report that changes in family income distribution were quite different as between the U.S. and Canada between 1979 and 1987, with inequality among families clearly increasing in the U.S. while in Canada there was no clear change, perhaps a small decrease. One factor lay in the composition of families by type; in the U.S. but not in Canada, there was a shift toward female headed families with children. But inequality also increased within all categories of families in the U.S. except one and only increased in one in Canada. A striking contrast relates to the category female headed households with children; their economic welfare increased dramatically in Canada while staying constant or declining in the U.S. This suggests that income transfers played an important role since this group is a principal recipient of such transfers and such income increased much faster over this period in Canada than in the U.S.

Blackburn (forthcoming) reports that, judging by the coefficient of variation of per adult equivalent disposable household income, as of 1984-87 the level of inequality in Canada was relatively low (0.57)—higher than in Sweden (0.53) and the Netherlands (0.55) but lower than Germany (0.62), the U.K. (0.64) the U.S. (0.68), Australia (0.75) and France (0.76). Over 1981-87 Canada’s level of inequality was essentially unchanged by this measure, while that of a number of the other countries had increased (though France’s had fallen).

Subsequently, Canada’s distribution record has weakened, as many of the same factors at work in the U.S. and other industrial countries have made their presence felt. The Gini coefficient of the distribution of labour income among households (?) rose from 0.388 over 1987-89 to 0.400 over 1992-92 (Statistics Canada, 1998). Despite the country’s healthy rate of growth since the last recession, poverty rates are alleged to have risen continuously over that period (National Council of Welfare, 1996), indicating that the poor have not shared in the this economic expansion. In 1996, when the federal government replaced the Canada Assistance Plan with Canada Health and Service Transfer and cut almost three billion dollars from transfer payments to the provinces for health post-secondary education and welfare, the incomes of the poor dropped while for the top 40% of the families the trend was upward. Over this more recent decade, then, the worsening pattern has been shared by Canada, the U.S. and many other countries. The fact that increases in inequality are widespread in the industrial countries suggests a common set of factors at work. (from B and S).
In the U.S., inequality has been increasing for a longer period and more dramatically. Burtless (1996) notes that whereas in 1973 the 95th percentile income household earned 12 times that of a 5th decile person, by 1993 this gap had increased to 25 times. Though real mean consumption per person rose by 37%, real median family income was essentially the same in both years and real income per person fell for the bottom four deciles of people (Burtless, 1996, Figure 1).

The long period of increasing inequality in the U.S. has focused much attention on its underlying causes and in the process led to a lively debate. This debate has in part pitted those who attribute the increase primarily to technological change against those who argue that increased trade, especially with low wage countries, is substantially to blame. The steady, marked increase in relative wages of higher skilled to lower skilled workers since 1975 has been attributed to changes in demand within-industries that likely reflect skill-biased demand shifts [e.g. Berman, Bound and Griliches (1994), Levy and Murnane(1993), Katz and Murphy(1992)]. In the recent literature on trade and relative wages the Heckscher-Ohlin-Samuelson (HOS) framework has been used to link trade with relative wage changes. The increased level of imports of labour intensive goods from low wage countries is at the core of this view.

As for Latin America, the macroeconomic downturn/stagnation of the last couple of decades was accompanied in most countries by increasing inequality, with the result that the overall level of poverty rose markedly since 1980. After falling from about 65% in 1950 to about 25% in 1980 (using a poverty line suggested by Altimir, 1982) it jumped back to about 35% under the combined influence of falling average incomes and increasing inequality. The economic reforms—trade liberalization, labour market reforms, etc. have coincided systematically with severe accentuation of (primary) income inequality; the «normal» observed increase in inequality accompanying reforms is 5-10 percentage points as measured by the Gini coefficient of primary income; among LAC countries for which the statistical evidence is adequate to reach conclusions on this issue, the only probable exceptions to this generalization seem to be Costa Rica, Jamaica and Peru (Berry, 1997). As with many industrial countries, it seems that the increases in inequality are typically the result of a jump in the share of the top decile, with most of this accruing to the top 5% or perhaps the top 1% (as in the cases of Colombia and Ecuador households) while most of the bottom deciles lose. Insufficient data are available to judge whether the distribution of secondary income (after allowing for taxes, transfers, public provision of goods) has moved differently from that of primary distribution. Effective targeting has made a positive impact in some cases, but the reduction of government activity may have had a regressive effect, as may the changes in tax systems toward the greater use of indirect taxes. Too little research has thus far been done to establish causality between the increases in income concentration and specific reforms or other changes (such as rapid technological change).
coming along with them. The economic cycle appears to have played a role but it cannot in any obvious way be held accountable for the large, lasting (at least to date) shift toward inequality. Other possible factors include both technological change and the elements of globalization—more open trade regimes and increasing foreign investment, together with the associated market-friendly reforms—the dismantling of labour institutions, and the «socialization» of debts (whereby the state makes itself responsible for certain private debts which might otherwise threaten macroeconomic or financial stability). Trade and labour market reforms have been consistent elements of the reform packages instituted in the LAC countries where distribution has worsened significantly. Among the alternative theories put forward to explain the association between the removal of trade distortions and increasing inequality, several (e.g. Wood, 1994) assume that the labour involved in producing exports is relatively skilled, with the result that intensification of trade widens earnings differentials by level of education. Others involve «skill-enhancing trade» (Robbins, 1995a); increased capital goods imports associated with trade liberalization can increase the returns to skilled labour, which is complementary to capital goods (Hamermesh, 1993, Stokey, 1994). It has also been widely noted that globalization tends to favour the «large-scale sector» of the economy—large firms, large cities, the more developed regions within the economy, etc. The dominance of large firms in the production of manufactured exports implies less employment creation than would otherwise be expected (Berry, 1992). Since earnings differences associated with firm size (including those across the formal-informal sector divide) and with region are often large in developing countries, an accentuation of this tendency constitutes a real risk. Although optimists have argued that the opening up of trade should raise the relative incomes of agricultural workers, the evidence on this point too is unencouraging. In a number of countries (including Mexico) it appears that a significant part of the agricultural sector cannot compete easily with an onslaught of imports and that its labour resources are not easily mobile to other sectors. Some policies which countries choose as complements to liberalization (of trade and foreign investment) may also contribute to increased inequality; three such are privatization, financial reform and labour market reform.

The Macroeconomic and Other Contexts

What were the contexts in which these (mainly) labour market outcomes emerged in Canada, other industrial countries and Latin America? Several common points of context stand out between Canada and Latin America: fiscal stringency (real or perceived or implicit in the greater weight now placed on avoiding inflation); the trend towards globalization and freer trade and investment, and the associated weight placed on achieving international competitiveness; the high level of dependence on one main, powerful trading partner —the United States, although this dependence varies considerably among the countries of Latin America and is less marked for
some of those in South America; and the recognition/belong that the world is in the middle of an important wave of technological change, of which information technology is a key aspect. Partly underlying some of the above trends in policy and partly a separate contextual factor is the neoclassical revival in economics and in national and international institutions; its presence and effects on policy are clearly apparent both in Canada and in Latin America.

For Latin America as a region the 1980s was a very difficult period—often referred to as the Lost Decade»; though the timing varied somewhat from country to country nearly all suffered a major economic downturn/crisis at some time since the mid-1970s. The Southern Cone countries (Argentina, Chile and Uruguay) were already in difficulty by the mid-1970s, while for most of the others the onset was signalled by the international debt crisis of the early 1980s. GDP per capita national income fell by about 13% over 1980-85, fluctuated with no clear trend over the rest of the decade, then eased up by a few percent over the first half of the 1990s. With this sort of macroeconomic performance it was obvious that there would be many «losers» during this period. In most cases workers fell into that category; in Peru real wages fell by more than 50%.

The debt crisis provided the push to induce and/or oblige the region to jettison its trademark import-substitution strategy for a more liberalized trading system, as well as to move towards adoption of the other elements of what is now a standard package of reforms to labour markets, financial markets and the public sector. Some countries, including Colombia and Brazil, had already taken significant steps away from the traditional combination of protectionism and overvalued exchange rates and the resulting bias against trade. Chile went much farther in the mid-1970s as the Pinochet regime introduced the most free-trade free-market system in the region. Other countries moved sharply in this direction in the two decades which followed, some as early as the 1970s, others as recently as the 1990s. In nearly all cases significant labour policy reforms were part of the package implemented or considered.

Canada’s economic fluctuations in the 1980s and 1990s have been much less marked than those of Latin America, but notable nonetheless. The recessions of the early 1980s and the early 1990s were both relatively severe and both left a legacy of high unemployment and other potentially worrisome labour market outcomes, such as an increasing prevalence of part-time employment. Growth during this period was also somewhat weaker than in earlier decades—GDP grew at about 2.9% (check?????) over 1980-97 and GDP per capita at 1.6% (Table 3), but a combination of factors produced a situation in which in spite of a reasonably good growth performance the wages of many categories of workers and the median wages of all workers no longer rose. Unemployment, normally relatively high in Canada partly
for structural and institutional reasons, has shown an upward trend, which takes the form of an increase in each recession with limited decline in the intervening periods of growth. As a result there has been widespread dissatisfaction with labour market performance in Canada, albeit for somewhat different reasons than in Latin America. An aspect of the dissatisfaction is the increasing prevalence of part-time and temporary work; a cliché of the times is that the typical person can no longer aspire to a stable well-paid job. Students of higher education no longer have the relaxed expectation that they will quickly find such attractive jobs as before. Graduates anxiously expect that technological change will cost them their jobs or force them to learn more than used to be the case in order not to. The earnings of male youth under 35 have fallen over the last couple of decades, with the gap between them and older males widening substantially (Statistics Canada, 1998b).

A number of the above features constitute parallels with many Latin countries. Overall, in both cases there has been a general perception that the labour market is either not performing adequately or is not reflecting good performance on the part of the economy as a whole. One manifestation of this is an increasing concern with the training system, both as an adjunct to avoiding chronic unemployment and also as an important aspect of keeping human capital aligned with the changing technology. Pessimism with the existing success and performance of the training systems has been accentuated in most countries over the last decade or so; some, including a number of Latin countries, have initiated major reforms.

In the common regional experience of crisis and stagnation during the last couple of decades, Latin America’s recent history differs from Canada’s. In spite of this striking contrast, it is worth noting that the post-war period has witnessed convergence in a number of respects, some of which form the basis for a useful comparison of experiences and mutual learning between the two. Although it was truncated during the 1980s, the post-war period as a whole saw considerably faster growth and structural change in Latin America than in industrialized countries like Canada or the United States. Over 1950-1980 per capita income grew at 2.6% per year in Canada compared to 3% in Latin America (Table 4). Whereas Canada’s employment structure—in terms of sectors and occupations—changed modestly . . . . that in Latin America was altered more radically. Latin America’s level of urbanization advanced markedly over this period to reach 74% by 1995 (WDR 1997, 231) compared to 77% in Canada (although the definitions of «urban» may not be fully comparable). Finally, and quite relevant to our present interests, the social structure of the two societies converged markedly, especially since about the 1950s. At that time Latin America was characterized by the fastest population growth in the world, at about %, compared with Canada’s %, much of which ( ) was attributable to the country’s high rate of immigration. Latin America’s population became notoriously young at this time. Since then the birth rate
and population growth have fallen radically. Although the current age structure still reflects the large families of previous decades, the region is now well into a fast socio-demographic transition (Magno de Carvalho, 1995) in which the small, urban nuclear family becomes the norm, female headed households become much more common and, eventually, the age structure moves to one in which the social net for the elderly becomes important because families no longer play such a dominant role and the elderly are a much larger share of the population than before. The major demographic transition and the rapid change in population structure which will occur soon, together with a social transition which is moving rather fast—female headed households etc., suggest that in some respects the need for the social net will increase in Latin America, even though poverty should continue to fall in most of its dimensions. By 1990-95 Latin America’s rate of population growth, at 1.7%, was only a bit higher than Canada’s (1.3%), with the latter substantially due to immigration. A new aspect of their trading relationships for Canada, the U.S.A. and Mexico, and eventually for some of the other Latin countries is entry into a free trade area which includes both developed and developing countries and thus raises both the opportunities and the perceived dangers of such arrangements.

Interest in, expectations of and concern for small and medium enterprise has risen both in Canada and in most countries of Latin America. There is the same concern/awareness/uncertainty as to whether this sector will get more important, as suggested by the flexible specialization ideas and the push factor from downsizing of government and large private institutions. The recognition of the employment role of this sector has raised its profile in the eyes of policy makers around the world. At the same time there is widespread concern that many SME will have difficulties in the new more competitive international market place and the transition to it. Any loss of GDP share by the SME sector could provide another mechanism pushing inequality up. The recent Canadian experience with SME provides several results of special interest from the Latin perspective. The widespread expectation, common also in developing countries, that freer trade would bring a size structure tilted more towards the large end of the spectrum, has not been borne out (Baldwin, 1996; Berry, 1996, 69-70). The continuing tendency for much growth to occur in SME may suggest an important potential role for this sector in other countries as well. It may be, however, that absence of some of the factors contributing to that growth in Canada (access to credit and sources of technological information, a generally stable economy, gradual policy change) will seriously impede a similar outcome in LAC countries. A fuller understanding of the roles they have played in Canada would be very valuable for the latter countries. It is not yet known in detail how SME have fared in the context of crisis and structural adjustment in the countries of Latin America.
2. How the Context Shapes the Labour Policy Issues

Table 5 summarizes some of the major factors affecting the consideration of labour policy issues in Canada and Latin America. Some of these factors relate primarily to specific labour issues, while others have sweeping, general effects of all or nearly all of the details of labour and social policy. Among the latter, four or five interrelated issues/areas appear to stand out: the need for fiscal prudence; the desirability of international integration together with the difficult challenges of competitiveness which it poses; the importance of taking advantage of the major technological changes occurring and the difficult challenges which these pose; the importance of well-functioning markets and the presence of many policy-induced impediments to that functioning (related to the strong neo-liberal drift of economic thinking in the past couple of decades); and a concern with employment and income distribution given varies types of evidence to the effect that there are problems in these areas. It is useful to review briefly the nature of the discussion in each of these areas.

Fiscal Prudence

Most industrialized countries have seen their debt to GNP and debt service to GNP ratios move up over recent decades (Table 6). Social security systems, while technically often not counted as part of the fiscal system have also moved inexorably towards crisis, many having been designed in a pay-as-you-go format which is open to the possibility (likelihood) of crisis when the age structure changes (a higher share of people retired and receiving benefits) and/or the growth of the economy slows down. The natural course of the political process with respect to deficits may be taken as one in which the political benefit/cost calculus of letting things slip a little longer is often preferred to that of attacking the problem frontally. In the case of Canada and its provinces the external signals from bond raters had a bracing effect (McQuaig, 199??). Eventually governments come along who claim they will and sometimes do confront the issue—the last couple of administrations at the national level but especially the current Liberal government, and several of the provincial governments, including the Liberals under McKenna in New Brunswick, the Conservatives under Klein in Alberta and the Conservatives under Harris in Ontario.

Recent economic literature has featured a number of estimates purporting to show the serious negative effects of high levels of taxes. The Laffer curve and supply side economics are the natural reverse image of the most simplistic Keynesian economics. The Keynesian proposition that achieving growth, stability and full employment was mainly a matter of demand management was built on the (often implicit) assumption that the supply conditions for growth tended to be there or to take care of themselves; thus technological change could be considered exogenous to most economic policy (certainly to macroeconomic policy) while investment was either endogenous or influenced by demand management. The extent to which many industrial economies corresponded to
these assumptions over an extended period of time is an empirical question. Keynesian policy-makers were not of course denying (or did not need to deny) that there were important supply conditions to be met; their essential position was that it was effective management on the demand side which mainly determined how well the economy would perform, i.e. that the demand conditions were less easily or automatically met than the supply ones. Some Keynesian views were no doubt excessive in their disregard for supply issues, costs of high budgetary involvement, lack of flexibility in the management of the demand instruments and so on. It may also have been true that structural trends in the economy and diminishing policy flexibility made effective demand management less feasible over time in quite a few countries (see Bruno and Sachs).

The more extreme and some of the better known supply side statements seem also to have had more to do with wishful thinking related to strong ideological proclivities than to empirical evidence. Qualitatively speaking, all of the arguments put forward have no doubt had some validity in some situations. Based on the accumulated experience thus far it appears that the Laffer curve proposition has seldom if ever been borne out; countries which have cut certain taxes which allegedly had seriously negative inducement effects have not had the predicted bursts of economic activity and growth. Probably the argument for slowing the growth of the public sector as a share of GDP lies more with the facts that (i) a considerable amount of public spending may have low social value (just as much private spending no doubt does), (ii) some activities are administered less efficiently by the state or by parastatals than they would be in the private sector, (iii) a heavy debt overhand diminishes policy flexibility, and ultimately (iv) that there is probably no serious argument for further borrowing from the future. It is of course unfortunate if reduction of public spending leads to unemployment and recession through the smaller public sector employment and the inability to stimulate certain private sectors quickly. To the extent that this becomes a serious problem, it will be increasingly important for economies to learn how to lower wages in place of lowering employment. There is no reason to believe at this time that there would be a serious employment problem if wages and salaries were sufficiently downward flexible. The problem with that approach to resolving fiscal/recession problems is the possible implications for income distribution, which in any case is tending to move in the wrong direction in most industrialized countries and in most countries of Latin America it has moved that way.

In the area of fiscal prudence, it is hard to argue against the proposition that major deficits (i.e. those big enough to keep debt/GNP ratios rising when they are already high) must be combatted. The question is whether a society can find efficient ways to combat them, ways which do not give up growth, employment of equity. This appears to be a tall task.
International Integration and Competitiveness

The trend of recent times towards increasing openness of economies has been world-wide and has touched both Canada and the Latin American countries, in different ways. The logic of this shift may be more political than economic, just as European integration was more political in origin than economic. A few serious estimates of the gains from closer economic integration do exceed the «small Harberger triangle» dimensions but the imprecision of prediction in this area is impressive. In the case of Canada’s entry into a free trade area with the United States (over a decade ago) most estimates of gain were a few percent (e.g. a couple) of GDP. Economic science could not discount the possibility that the net effects would be negative, e.g. if enough firms elected to move from Canada to the U.S. since it was better to be nearer the big market and no longer important to be located in Canada in order to access that market. In any case the best guess with respect to developed countries like Canada is that the degree of openness is not one of the major determinants of medium and long run performance.

In the case of the Latin American countries both economic theory (at a simplistic level) and political expectations have supported the view that entry into free trade areas (NAFTA, MERCOSUR) would have a larger impact than in the Case of Canada, which was already a quite open economy judging by trading ratios and one with relatively good access to the U.S. markets. Here the debate is complicated and impossible to summarize in a way which does justice to the various positions and at the same time comes to anything approaching a conclusion. The pro-outward orientation view is that the main drag on the economic performance of the region in the post war period and an important contributing factor to the economic crash/crisis of the 1970s/80s was the set of inefficiencies related to the inward-looking ISI policy (Corbo, 1988). On this basis it would be reasonable to expect that a major shift to the outward oriented approach to development would lead to a big increase in growth. Analysts like Krueger (1988) have also argued that the distributional impact of such a shift would also be positive, something which is apparently consistent with the American fear that freer trade with Mexico and with lower wage developing countries in general would push wages down in that country and thus worsen distribution. The strong growth performance of Chile since the early 1980s recession is the most supportive empirical evidence for these optimistic expectations. The most serious competing views rest on the argument that the ISI regimes could not have been damaging to growth as their critics often portray them as being, since regional growth over 1950-80 was an impressive 5.5%; that other factors than the «running out of the ISI model», and in particular the international debt crisis, accounted as much or more for the debacle of the 1980s; and that the optimistic expectations for the more open regimes are not being fulfilled very quickly or very generally around the region (average growth over 1990-97 being just 3.5%). Though growth was strong from the end of World War II until the 1980s and
was strongest in Brazil, the most closed of the region’s economies, various cross-country analyses have shown a correlation between export growth and overall economic growth. The degree to which this relationship provides support for an outward-oriented policy is unclear. Much evidence points to the key variable in trade success being the exchange rate; it is also important to note that encouraging exports is not the same as trade liberalization—the great success stories of East Asia did not open their markets. Growth in the 1990s, with nearly all countries now having shifted strongly in that direction remains well below that of the pre-1980 ISI phase and unsatisfactory in absolute terms. One of the issues at this time is the extent to which that performance will improve when the governments «get some of the wrinkles» out of the new design for growth, in particular when they learn how to live more successfully with surges of short-term international capital with which they did not have to confront in the old regime. The other concern now taking on greater weight with respect to the effects of more open economies is the timing coincidence of worsening distribution in most of the Latin American countries which have opened their economies, or more precisely, which have undertaken the modern package of economic reforms, including those to the labour market. It is likely that only after more time has passed will the payoffs to the new model become clearer.

The debates around openness and international competitiveness bear on the labour policy issues which are the focus of this volume in two main ways. First, the concern with income distribution trends and whether they are causally related to opening up provides a worrisome backdrop to policy decisions. Second, it is recognized by all that labour policy affects firm competitiveness; often SME are recognized to be in a particularly delicate situation in this regard. The most worrisome view with respect to how the current drift in economic policy affects labour issues holds that the decision to go international removes from national governments various instruments for improving the lot of their labour forces and their populations (in terms of social policy), since excessive wages or social expenditures wreck a country’s international competitiveness. The «need to compete» policy syndrome can affect fiscal policy, all types of labour policy and social expenditures; the key is to leave business as unfettered as possible to get on with the task of competing. Both many supporters of an outward-orientation and many critics tend to accept the view that high labour costs damage a country’s competitive performance. For the former group it is something to be accepted if the benefits of globalization are to be reaped; among the latter there is a natural fear that this policy competition will have a tendency to pull all countries down to the lowest common denominator in terms of labour protection, etc. In Canada this debate was important in the lead-in period before the signing of the CAFTA.

The most intriguing aspect of the competitiveness discussion is the questionable economics which underlies much of it, including the failure to take due account either of the basic princi-
ple of international trade theory, comparative advantage, or of the dominant role of the exchange rate in determining the international competitiveness of a country’s industries. While this frequent major misunderstanding has been identified clearly enough by some economists (e.g. Krugman) it has not received nearly the recognition that one might expect of such an obvious flaw in the popular thinking on the issue.

Canada and Latin America share much in the context of this integration/competitiveness question, since the countries are «smaller partners» in their main trading/investment relationships. Whatever the truth about the ways in which doing well in the international economy impacts on feasible and optimal labour market and social policy, such smaller partners are always in a different position from the «centre country,» in this case the U.S. For the latter, the question is not whether its trading partners will push its labour and social policies strongly in a particular direction. As a relatively closed economy even after the surge in trade over the last years, it is not in a situation where adjustment to the ways of other countries is likely to be in the cards. (Even if it were, a strong American predilection would be to close up again rather than give in to those foreign ways.) Although it is in many respects not a major aspect of American policy, the market itself generates a certain amount of aggressive proselytizing for the American way of doing things, as where American health care companies claim equal rights with Canadian firms to operate in the Canadian market. But both Canadian and Latin companies are and will be expressing concern when any social levy puts them at a competitive disadvantage with the American competition. Canada is thus the natural parallel and comparator for Latin countries within the Western hemisphere.

**Technological Change**

It is widely acknowledged that the world is in the midst of a major burst of technological change. On the surface, this recognition may seem obvious—the layman also is very aware of such change, what with the information revolution and robotics. Paradoxically, most economic measures of the overall contribution of technological change to economic growth suggest that since the mid-1970s industrial countries have been in a period of low contribution (Bruton, 199 _). This apparent paradox has several possible elements. One is the lag between the first appearance of new ways of doing things and their general acceptance across potential uses—the time when their quantitative impact reaches a maximum. The fact that because technological change also creates unemployment and thus to push an economy below its output potential may also help to explain why for some time its impacts show up only at the micro but not at the macro level and hence not at the societal level.

Whether and under what circumstances a wave of technological change redounds strongly to society’s benefit, it is clear that business and governments have responded strongly to it, placing great emphasis on its importance if a firm, industry or nation is not to be left behind in international com-
petition—with the above cited theoretical error showing up here as well. Since technological change is one of the most unplanned processes of an economy, there must also be serious concern, as indeed there is, that the process is contributing importantly to increases in income inequality which have been so frequently observed around the world. The debate in the U.S. in fact focuses on this as one of the two main hypotheses, the other being that imports of labour intensive goods are at fault.

**Getting Markets (Including the Labour Market) to Function Effectively**

The new economic views place great weight on effective functioning of markets; they correspond to an increased sensitivity to the weaknesses of governments and the possible costs of market imperfections. The general expectation that interference with international trade and investment will have negative effects is a manifestation of this general concern in that particular domain and the view that interference in the labour market will likewise drag down overall performance is similar. Ironically, at about the time that this neo-classical focus on the avoidance of imperfections was reaching a high point of popularity among many policy-oriented economists, theory was generally moving to another level of complexity (which may be loosely termed the «theory of the second-best»), within which a general recognition of the fact that most markets do not operate at close to perfectly competitive levels decreases the power of economics to say anything about the impact of any specific ‘distortion’ on societal welfare. Theory was thus drawing back from an simple pro-market view at the same time that the view in the trenches was shifting towards that position. While theory, whether the simpler models or more complicated ones, is always useful in providing hypotheses as to how a part of the economy may function, and in suggesting empirical tests to better understand that functioning, one of the lessons of time has been that simple models often do not predict well, suggesting that they do not represent reality very well, and that more complicated ones are so hard to test that it is a challenge to learn much from them. As a result our understanding on many aspects of economic functioning, including many in and around the labour market area is very partial. Basic theory is normally too simple to be persuasive, while empirical verification is incomplete. This has remained true with respect to most of the key elements of labour market policy, but the popularity of the neoclassical model over the last couple of decades has led to its predictions/interpretations being taken quite seriously, probably too much so. The intellectual over-simplicity of this strain is immediately evident in those many discussions where the concept of «economic efficiency» is taken as self-evidently the criterion par excellence to be adhered to. What is almost always meant by this term is the maximization of total dollar value of surpluses (which a perfectly competitive economy would do in the absence of any imperfections, externalities or inefficient provision of public goods), rather than the theoretically more persuasive Pareto optimality or maximization of some more interestingly defined
social welfare function. Given the practical difficulties of claiming one is applying either of the latter two criteria, we fall back on economic efficiency, which as defined assumes implicitly the same marginal utility of income for everyone and gives no weight to considerations of income distribution. To assume that an economy is living up to the highest expectations if it maximizes total income so defined is clearly very naive. Theoretical oversimplicity, which often accompanies strong ideological bents, and thus leads to the unfortunate results just alluded to, has its counterpart in weak empirical analysis. As discussed below in the context of the various policy issues considered here, and in the Chapters which relate to them, the range of conclusions from the empirical studies on most issues appears to be about as wide as the ideological or theoretical predispositions which have probably greatly affected them. This problem makes the empirical literature doubly difficult to interpret; it is often sparse to start with, and may suffer from data and specification problems; when to this is added what is all too often the greatest biasing factor of all—the expectations of the researchers, it is a foregone conclusion that the literature must be read with much care to extract the value that it has. These are often ideologically charged issues.

Employment, Wages and Income Distribution

Each of the other background factors just discussed implies a danger that there would be problems in the domains of employment, wages and income distribution. And indeed there is much direct ex-post cause for such a concern as well in the behaviour of both the Canadian and the Latin American economies over the last couple of decades. Although Canada has the increase in inequality in Canada began later and has thus far been less severe than those of the United States, the United kingdom and a number of other industrial countries, it has nevertheless become a worrysome issue. As for Latin America, the bulk of the countries in the region have suffered moderate or severe increases in inequality over the course of the last couple of decades, usually around the time of the implementation of economic reforms in trade, labour markets and other areas.

3. Background to the Analysis of the Major Labour Policy Issues

The four labour policy issues treated below are unemployment insurance, minimum wages, labour taxes & the social safety net, and training. The Canadian experience is, for reasons noted above, of considerable relevance to the countries of Latin America, in principle more so than that of the United States, because these countries share with Canada the role of signal taker rather than signal giver vis a vis their main trading partners. Brazil is a partial exception in this regard.

Labour policy has as one objective to protect the worker from a variety of threats to his/her economic welfare through the labour market. One is against very low wages; the minimum wage is the instrument designed to guard against this outcome. Another is unemployment, for which the unem-
ployment insurance system is designed. A third, against job-loss, involves legislated limits on the conditions under which a worker can be fired, an issue not dealt with in this paper. Each of these policy areas has the challenge of achieving a good balance between the welfare of the protected workers on the one side and that of employers and unprotected workers on the other.

Worker training programs fall into a different category. While they help workers they also directly help employers. In addition, they interface with unemployment insurance systems; a good retraining programme should and is perceived as alleviating the problem of unemployment, from both the workers’ and the society’s point of view (represented in part by the fiscal costs). Such programs are viewed as especially relevant in periods of fast technological change like the present one. And although it is known that large firms, especially in industrial countries, do a great deal of in-house training and that other firms do a fair amount of it too, it is recognized that SME do not have the same chance to take care of retraining, for various reasons. Thus an effective system is likely to be important in a country where SME is important and especially when it too is confronting change and its implications.

Another aspect of labour policy interfaces with social policy more generally. Labour taxes on workers and employers finance (in ways which vary according to the case) various worker benefits including retirement pensions.

More generally, the most complicating aspect of labour market policy is a result of the fact that it is, inevitably, part of the battery of social policies. One objective is to make the labour market work better, improve labour mobility when that is important to the functioning of the economy and the long-run welfare of the workers; the other, inevitably, is at the same time to play a special sort of income maintenance role—holding up the incomes of low wage workers (minimum wage), holding up the incomes of those prone to unemployment (UI), raising the productivity of those whose skills are becoming obsolete (retraining) and so on. The challenge, with respect to most of the important components of labour policy is to achieve the specific goal (e.g. protection against the uncertainties associated with unemployment) while not inducing an excessive degree of negative side-effects and meshing helpfully with other elements of the income maintenance system (the social net). Because what really matters is how well the system of labour market-social institutions works as a whole, no single component can be judged definitively without reference to the total system.

There are three essential grounds for public intervention (plus a few sometimes relevant ones) in labour markets of the sort under discussion here. One is redistribution—the main reason for public general education, for the welfare system, etc. The second is insurance against uncertainty and perhaps against risk. Unemployment insurance falls into this category. If its incidence were fairly easily predictable it might be an appropriate object of private insurance schemes, if it were felt that
the private sector could run these more efficiently than the state. Other interventions, such as minimum wages under conditions of monopsony are essentially designed to reduce imperfections in the labour market, a third objective. Other goals may be to soften the tension between employer and employee by being involved in some of the decisions—a system which sets many wages—not just a single or a few minima, may perform this function in certain situations.

4. Unemployment Insurance (UI)

The experience of unemployment insurance in Canada highlights the delicate challenge of providing a good level of insurance against unemployment and the associated contribution to overall income maintenance, while inducing as few negative side-effects as possible. The system has recently been undergoing a process of reform in order to alleviate some of its major perceived weaknesses. The proposal made by Cortazar (1996), in the context of Chile is designed to skirt a number of the problems which have come to plague the Canadian system. The record of Canada’s UI system illustrates most of the common fears one might have with respect to negative side-effects, at least in a qualitative sense, though it is hard to judge whether or not these effects are quantitatively large. As described in detail by Gunderson and Riddell (1996a), the historically generous (since 1971) system has certainly alleviated the social costs of unemployment, but has at the same time:

(i) contributed to a somewhat (perhaps 1-1.5 percentage points) higher unemployment rate, with regionally extended benefits (relevant mainly to Atlantic Canada) helping to sustain chronically high rates and high levels of seasonal unemployment, though perhaps not a lower employment rate;
(ii) deterred interregional movement, especially because of the regionally extended benefits;
(iii) possibly discouraged human capital formation, as where the easy availability of short-term jobs cum UI leads to early school leaving;
(iv) possibly slowed income convergence between the higher and lower income regions; and
(v) possibly increased significantly the extent of the underground economy in Canada and especially in the regions of high unemployment.

Some of the negative side-effects of the system are related to the fact that since this is a federal programme it is in the narrow interests of provincial governments to shift as much of the overall income maintenance expenditures to the national level and to «collaborate» with business and workers in the development of a system which might be described as «milking» the federal government. The UI system clearly encourages certain types of employment (e.g. seasonal) while also encouraging unemployment, so its net effect on useful employment is hard to establish. Its fiscal dimensions are significant; between 1966 and 1993 the effective payroll rate of this charge rose from 1.11% to 5.15% (Nakamura, 1996, Table 3) or from 0.54 to 2.57% of GDP.

Whether this is excessive depends on whether the importance of the insuran-
Since it has been hard to settle the issues surrounding UI on the basis of the microeconomic evidence, it is useful also to assess the programme by keying on effects which may be measurable at the aggregate level. Such assessment is relevant to the extent that it is argued that this programme, perhaps together with other of the Canadian labour institutions, have serious effects on overall economic performance, e.g. they not only raise unemployment but also slow economic growth (through any of a wide variety of mechanisms which have been proposed in this connection), slow regional income convergence and perhaps have other negative influences (like lower educational attainment) whose impacts on growth or society may be more delayed than others. The evidence thus far suggests that such effects are not clearly identifiable, which in turn suggests that they are not large. To the extent that one uses the U.S. as a reference point, with its substantially less generous UI system and less complete social net, the fact that the Canadian economy has grown faster, e.g. since 1971, when Canada’s UI system more or less took on its very generous format, is reassuring. The growth advantage has narrowed and disappeared over this period however, falling below the U.S rate in the 1970s, after outperforming that economy in terms of GDP per capita by 3.0% per year to 1.95% per year over 1970-90 (Table 6). And though some studies have estimated that regional income convergence within Canada is slow and has been hindered by the income maintenance system—taking about 15 years to close half of the gap (cite???)—others might argue that it is impressive that the gap has narrowed at all, given various resource and locational disadvantages of the lower income provinces. The impacts of the social net will no doubt remain somewhat speculative, since it is not possible to identify them among the large number of factors which affect economic efficiency, growth and distribution. Perhaps the only fairly firm conclusion is that, if the convergence and efficiency costs of the system have been significant, they have not been important enough to greatly slow national growth or to prevent what others might consider to be a reasonably fast income convergence.

Another major question, unfortunately not yet answered very fully in the literature, is the extent to which the differential shifts in income distribution between the U.S. and Canada since the late 1970s is related to the social net and the way it has functioned. As noted above there was a striking contrast over the period 1979-87 in that the economic welfare of female hea-
ded households with children increased markedly in Canada while staying constant or declining in the U.S., suggesting a significant role for income transfers.

As Cortazar (1996) notes, the traditional approach in most Latin American countries to protecting workers against the negative effects of unemployment is by restricting the firm’s freedom to fire them, through a combination of tight regulations on dismissal and high severance payments. Unemployment insurance or other forms of assistance to the unemployed have not been part of the package until their recent introduction in a number of countries. Coverage remains low or modest where the systems do exist. The typical system has thus provided strong protection against unemployment (at least when the legislation was vigorously enforced) for a usually relatively small insider group (though larger in the more developed countries of the region like Argentina and Uruguay) while providing none for what is usually the majority of workers who are outside the formal sector to which such protection is provided. This system has come under serious criticism for providing protection on a rather regressive basis (i.e. it protects mainly the better off), reducing total employment in the modern sector (by increasing the employer’s costs/risks in hiring, and reducing the mobility of the labour force, which may be especially damaging in middle income countries in the process of integrating themselves in the world economy. Few in depth studies have tried to quantify these negative effects related to the degree and manner in which formal sector workers are protected, or even undertaken a careful assessment of the de facto coverage of this system. Still a strong enough prima facie case has been made to send analysts and policymakers in search of something better. Since it seems implausible that a worker-protection system can be very effective on behalf of a large number of workers by impeding firing, it seems clear that a system must found which gives employers greater freedom while still protecting workers against the full vagaries of the job market. Such unemployment insurance systems as do now exist in Latin America are recent attempts to confront this need. None has yet achieved a level of coverage anywhere near what is standard in the countries of Western Europe, the U.S. or Canada. The proposal put forward by Cortazar is designed to get around the problems of implementing standard industrial country unemployment systems in lower income countries where informal sector employment is more the rule than the exception. This fact makes it difficult to avoid serious abuse of any system where there is a private incentive to claim unemployment while continuing to work. Spain, with its very high reported levels of unemployment, may be an example of this problem. Cortazar’s proposal involves a system which avoids these negative incentives by essentially making the worker pay for his/her own unemployment insurance through a fund which accumulates when the person is working and can be drawn on or borrowed from when unemployed. It is the equivalent of private insurance against any other risk. Various other proposals are also on the table or in their trial phases at
this time; most can be thought of as hybrids between the Cortazar plan and the standard industrial country model, in the degree to which they combine individual self-insurance against this risk and insurance which pools risks across workers but also has incentives to abuse and leads to the allocation of too much labour and other resources to industries in which average unemployment rates are high.

The choices facing countries like those of Latin America can be thought of as falling within a triangle of options defined by the three systems just described. Both the industrial country and the Cortazar models have the potential to foster desirable labour mobility by spreading the cost to the displaced workers—either to society (in the industrial country model) or over time (in the Cortazar model). The industrial country model may have advantages of spreading the costs of unemployment or acting as a progressive transfer system towards poorer workers, provided that it does not lead to too much moral hazard. In the context of labour markets with large informal sectors, it is implausible to assume that all workers can be covered, so a major issue is the extent to which the system can be selectively applied to a part of the labour force where it is useful to the workers as well as the firms. The relative merits of these three alternatives thus depend on a number of features of the labour market and the institutions which affect its functioning.

(i) the extent of the employment-reducing and other negative effects of strong regulations against firing of workers;
(ii) the value of the job protection to those who are protected;
(iii) the practical difficulties of implementing an industrial country-type unemployment insurance system;
(iv) the efficiency gains from greater labour mobility through avoiding the incentive against firing or leaving the job voluntarily;
(v) the extent to which socialized insurance can avoid the moral hazard of abuse.

It is tempting to conclude that the industrial countries model itself holds little interest in Latin America given the level of moral hazard and the unlikelihood that it could act as an instrument to redistribute income (income maintenance for the poorer groups). On the optimistic assumption, however, that the LAC countries will proceed fairly rapidly toward the status of developed industrial countries with relatively small informal sectors (some are close to that status already—see Table 7) the planning of UI systems should take this into account. The best option would be one which can both serve a useful function at present but which with reasonable adjustments could in future take care of the worker needs more typical of an industrial economy. The current pioneering attempts in the region include those of Chile, Brazil and Argentina; it will take some time before their performance can be fairly judged.

5. Minimum Wages (MW)

As Benjamin (1996a) observes, the main objective of minimum wage legislation in industrial countries like Canada is as a tool against poverty, by raising the labour incomes of relatively poor people, or more precisely of
members of relatively poor families. How well it may be expected to achieve this goal depends on whether it does in fact raise a significant number of incomes and whether most of the earners so affected are found in poor families. The other main issue in the evaluation of MWs as a policy tool are the extent of any negative side-effects, in particular whether it leads to less jobs (especially for poor family members) and slower economic growth through its leading to efficiency (dead weight) loss. The extent of dead weight loss, if any, depends on the nature of the labour markets in which people whose incomes are around the minimum are found. If a significant share face monopsony employers (e.g. domestic workers, workers in one-industry towns, etc.) then increasing their wages via a legislated minimum can in fact reduce rather than increase this efficiency loss at the same time that it raises the workers’ incomes. In more competitive markets the issue is the elasticity of the demand for the labour of the workers in question; if quite elastic, the dead weight loss tends to be large and the total income going to the poor can fall; if quite inelastic the opposite can be true—the dead weight loss low and the income gains to workers high. Since long run elasticity is normally significantly higher than short-run elasticity, it is common that short run gains may be achieved, but these may be followed by longer run losses.

At a second level of static analysis is the question of whether a higher minimum wage has the effect of shifting the rest of the wage structure up, at least parts of it. In some countries of Latin America, wages which are not at the bottom of the structure are sometimes denominated in terms of the minimum wage, which automatically gives it a more prominent role in affecting wages in general (Riveros, 1996). And even where the link is not a formal one, it is known that bargaining often occurs with the MW as the benchmark unit, and that through this mechanism the MW may have a greater effect, at least on the overall nominal wage structure. If all wages move up in line with the MW, however, the main final outcome may be inflation which at the limit can cancel out any increases in real wages—for the lower income workers and everyone else, while the fact that all wages rose means that there was no redistribution within the wage system either. Most countries of Latin America have had not just one basic MW but a number for different categories of workers. In Costa Rica, for example, this system was very detailed (Gindling and Berry, 1992). The relationship between movements in this minimum wage structure and inflation has been widely recognized in the context of the high levels of inflation which have characterized many Latin countries. On the one hand it is clear that a nominal wage which is automatically adjusted for past inflation will tend to perpetuate the inflation; on the other hand it is clear that if this is not the case, inflation can push real wages down sharply and contribute to large increases in the level of inequality.

Canada’s experience with MWs is that of a country without a high level of inflation (defined, say, by annual price increases of 25% per year or more)
and with a «modern» labour force structure—few workers in agriculture, nearly all de facto covered by the legislation, a very small informal sector and a considerable number of families with no income earners (due to unemployment, single parent families on welfare, etc). Against this background, Benjamin (1996) finds that minimum wages have only limited scope for improving the welfare of the lowest income households, since most of these families have no full-time earners; many of the benefits of higher minimum wages are transferred to teens who are distributed relatively evenly across the income distribution. Nevertheless, the benefits would flow somewhat disproportionately to poor working adults. When the estimated disemployment effects of minimum wages are also taken into account, and if estimates from the high end of confidence intervals are chosen, the loss of jobs may be great enough to actually reduce the wage bill received by low wage workers as a group. Whether this extreme outcome holds or not, it is important that this instrument be compared with others whose objective is to improve income distribution. Benjamin notes that there have been too few attempts to compare the efficiency of minimum wages on this distribution front to those of such alternative instruments as a negative income tax; more research on such comparisons warrants emphasis. As with UI, the static economic question of how minimum wages are likely to affect welfare, redistribute income and change the total size of the pie, the issues are empirical.

As Riveros notes (1996) the minimum wage (MW) has traditionally been considered to be an important policy instrument in Latin America. Begun in the pre-WWII period, MWs were used in the 1950s and 1960s to intervene in private wage setting by providing a floor for the wage structure, in the context of protected economies. Periodic revision of its level and the maintenance of suitable enforcement machinery have been widely deemed to be crucial in the attempt to attain a better income distribution. But at present there are many who consider MWs a serious labour market distortion, with few if any positive effects, especially as countries strive to consolidate their trade openings and feel that it is important that wages be flexible. Under the 1980s and 1990s wave of privatization, liberalization and encouragement of trade, government wage and price intervention have no longer been considered suitable policies, and MWs have thus lost their traditional importance. The tendency of MW laws in Latin America has been to formally include all workers regardless of gender, age, geographical context, skill or occupation, in spite of the obvious existence of labour market segmentation, and the possibly negative effects of their presence on the less skilled, through job destruction. Although the laws have stressed need as the criterion for setting MW levels, it has been rare to impose uniform rates based on empirical studies of those needs, so that, by and large the criteria have been dominated by political assessment and expediency. The MW-setting machinery shows remarkable variation across countries, and in some cases has become very complex, with labour/management participation as well as central decision-making authorities. Auto-
matic indexation of MWs to inflation is included in the laws of several countries, though in most, particularly those characterized by relatively high inflation, real MWs have been eroded as a result of an imperfect indexation system, combined with adjustment policies aimed at lowering fiscal expenditures and labour costs.

The complexity of sorting out the determinants of wages, employment and poverty make it a major challenge to understand how MWs have affected these variables in Latin America. Riveros notes that there have been few studies of the impact of MWs on employment in Latin America. Conclusions vary considerably across studies. It seems quite credible, as Lopez and Riveros (1989) report, that the MW capacity to protect the poor is quite questionable, given the context of labour market segmentation and the resulting modest level of coverage of the instrument. This is less obvious for the more industrialized countries of the region like Argentina, and will hopefully become gradually less the case with time as labour markets become less segmented and potential coverage of the MW rises. As the latter aspect of more developed economies more and more characterizes the Latin American countries, however, another feature may also come into increasing play—the frequency of households with no earners. In that case, as noted for Canada, there are many poor families which cannot be assisted by MWs.

During the experience of the economic crises of the 1980s (mainly), real wages fell sharply in most countries, partly as a direct effect of accelerating inflation. Several authors have suspected that MWs helped to cushion such declines and possibly also the downward spirals of the economies as a whole though this is very hard to prove in a conclusive manner. Thus, Morley (1995) suggests that a MW can be especially useful in conditions of recession where the usual trade-off between the wage and the number of jobs in the formal sector is weakened since the job opportunities in the formal sector are declining in any case. He observes that during the 1980s in Latin America, movements of the real minimum wage were correlated negatively to movements in poverty, after allowing for the growth of per capita income. The other side of this coin is the argument that the failure of the legislation to hold up low level wages contributed to the sharp observed increases in inequality in such Latin countries as Chile and Brazil.

6. Payroll Taxes and Social Security

Payroll taxes are the source of about half of the income security benefits paid to Canadians (as of 1992-93). Nakamura and Wong (1996) distinguish four basic reasons for the existence of social security programmes: the inability of some people to take care of themselves at certain times; the fact that personal risk can sometimes be dealt with more cost effectively by group risk pooling arrangements; externalities associated with keeping people healthy or out of poverty; and the importance of a broad middle class. The main programmes constituting the social security network in Canada are
the unemployment insurance system, workers’ compensation programmes, the Canada Pension Plan and, in some provinces, health and education taxes. The payroll taxes as a percent of GDP have risen from 2.0% in 1966 to 5.8% in 1993, and of wages from 4.2% to 11.6% (Nakamura and Wong, 1996). Most of the controversy around payroll taxes involves their indirect costs through incentive effects, either on those who pay high marginal tax rates or those who take advantage of the allegedly generous and easy access public income support programme including the UI and workers’ compensation which are paid for in part through these payroll taxes. There is little dispute that the programmes do have real benefits to many beneficiaries. The impact of the taxes on hours of work for those working, whichever the direction may be, is agreed to be small, especially for men. There is clear evidence that at least some workers adjust the number of weeks they work in response to changes in the number of weeks of UI covered work that are needed to qualify for benefits (Nakamura and Wong, 1996, 39). Green and Riddell (1993) conclude that many workers would not be in the labour force at all but for the UI program and that it tends to increase the number of weeks of work by the more poorly qualified and unemployment prone workers. As for the demand side, estimates of the labour cost elasticity of demand tend to fall mainly in the range -0.5 to -1.0 (OECD Jobs Study, 1995). To predict the impact of lowered labour taxes on the demand for labour, however, one must allow for the fact that labour costs will fall by less than the labour taxes do, so the labour tax elasticity of labour demand could be just a fraction of the above figure (see below).

One of the trickier aspects of the question of payroll taxes rates to their impacts relative to that of other ways of raising the funds used for pensions, UI, etc. Kesselman (1996) undertakes a comparison of these taxes vis-à-vis other ways of raising funds to financial social security. He finds that most or all of the short run employment effects of such taxes dissipate in the longer run as the tax burden is shifted into lower pay, and concludes that payroll taxes are well suited to financing social security, though benefit-tax linkages may need reform in some programs. The key point is that, though in the perception of the individual employer it appears that these taxes raise the total cost of labour, that impact is smaller than it appears and could in the limit be zero. Kesselman (1996, 18) reports empirical findings on which there is full shifting of the taxes onto the workers. Payroll taxes are simple and easy to operate and are a relatively efficient form of taxation, at least compared to taxes on income or capital. When tied to benefits in a well-designed program of social security, they offer the additional advantage of posing minimal distortions to labour market and other economic behaviour. He concludes that energies in reforming social security might best be directed at improving benefit-tax linkages, while recognizing the underlying social objectives of the program.

Payroll taxes have tended to be very high in most Latin American countries relative both to developed countries and to other LDCs (Riveros, 1996;
Guasch, 1998). Further, the context is different from that of Canada or other developed countries, since coverage is partial and does have the effect of creating a wage gap between the modern and the informal sector. Thus much of the issue about the value of such taxes depends on one’s views as to the impact of that wage gap. It also depends, of course, on how one sees the benefits from the social security systems. The currently ongoing reforms are lowering these taxes and, with respect to the pension component of them, creating the option of the funds being invested in private sector institutions. To the extent that the switch from pay-as-you-go funding of pensions in the region to the fully funded system raises national savings, this could be a major boon. Chile’s fully funded system appears to have contributed importantly in this way. The impact on modern sector employment is, as noted above, much harder to predict and in any case the overall benefit from shifting employment from the informal to the modern sector (possibly the main source of the higher modern sector employment) may not raise overall economic efficiency if the modern sector continues to benefit from imperfections in the product and capital markets, imperfections which have been to date partially offset by the costs advantage of the informal sector.

7. Training and Retraining

Training is recognized as crucial to employers, workers and any government which is concerned with a strong performance from the economy and with avoiding the social consequences of serious mismatches between the supply of skills available and the needs manifested by the economy. Globalization and the rapid pace of technological change are generally believed to make effective and life-long training more important than before. In developed countries like Canada, labour markets are facing severe adjustment consequences of these and other phenomena such as just-in-time delivery, privatization, etc. Other factors necessitating the increased emphasis on training are new workplace and human resource practices, together with demographic and other changes in the workforce. Despite this general recognition, it is hard to pinpoint just what needs to be done and by whom. There is logic to a certain amount being done in institutions (for more general training), some at the firm level to take advantage of inside knowledge as to the needs, and some at the industry level, to respond both to knowledge of needs and economies of scale.

Canada’s training system is, by most assessments, relatively small in terms of total resources expended, but at the same time rather complex. For Ontario, Canada’s most industrial province, an estimate for the late 1980s indicated that about 5% of full-time permanent workers received at least two weeks of formal training over the course of the year, with 2.7% being trained in the firm and 2% in federal government sponsored programmes (Meltz, 1990, 300). These figures overstate the relative role of the firms in formal training since duration is much less (see Gunderson and RidderIll, 1996b). Around 25% or so of such workers received some training over the year, with the average weeks per
worker (including also those receiving no training) was about 1.5. For Canada as a whole the figures would presumably be somewhat lower.

Canada has emphasized passive income maintenance programmes like UI rather than active ones like training. As indicated in by Gunderson and Riddell (1996b, Table 2), as of 1994-95 Canada was spending a little over 2 percent of its GDP on all labour market programs, but 71 percent of this was on passive income maintenance programs, notably transfers from unemployment insurance (the passive component would be much larger if social assistance were included). Of the 29 percent of expenditures which went to active programs, most was for training, with smaller amounts going to employment services, job creation and subsidized employment. Canada is categorized by the OECD as one of the «weak» countries in terms of combined employer and government support for training in industry (Economic Council of Canada, 1991). It ranks as average or above for public support, implying that employer support is quite weak by international standards. This has led to statements that Canadian employers lack a «training culture.» As argued by Betcherman (1993, p. 22) «available data offer a strong sense that Canadian firms do train less than their counterparts in other major industrialized countries.» Extensive reliance on immigration as a source of skilled labour may have deterred the development of an indigenous training system (Meltz, 1990). The training system in Canada is also described as not being well-linked to the education system (Gaskell, 1991), in part because of the low status attached to vocational education, a quality shared with most countries of Latin America.

As Gunderson and Riddell (1996b) point out, there have been many task forces and Royal Commissions on this issue in Canada, reflecting, among other things, its complexity. The web of programmes in Canada is difficult to understand, one reason that neither employers or employees are typically well informed on them. Their names and nature change a lot, partly reflecting changing needs and partly their use to political ends. The history of much wrangling and blame-shifting between the federal and provincial government suggests that divided or ill-defined responsibility may often lead to no responsibility.

The measurement of benefits (whether gross or net) from training programmes is notoriously difficult. Evaluation studies generally but not always find that training does pay, usually more in the form of greater employability than of higher wages. The largest usually come from employer-based training combined with work experience, rather than from basic or institutional training. Gunderson and Riddell (1996b) also note that the measured impacts on earnings and employability have increased over time, perhaps due to better program design (as worse programs were abandoned and better ones expanded) or perhaps because the returns to training increased for other reasons, such as the speed and character of technological change. While institutional, classroom training only has modest measured effects, it tended to work best for youths and fe-
males re-entering the labour market. Gains from training are greatest in a more buoyant labour market, highlighting the importance of available employment opportunities.

A number of aspects of Canada’s experience with training suggest a trade-off between efficiency in raising overall productivity of the labour force and the distributional effects. Most notable is the fact that formal training is more likely to be received by employees who are already more highly educated and well-paid. Also, though unemployed workers are more likely to take training than others, within the unemployed those most likely to experience difficult adjustment problems are less likely to take training (Picot, 1987).

Various of the results cited seem to have had an impact on the re-orientation of training over time since the changes tended to be in line with those suggested by the evaluation studies. That is, there has been a redirection from basic and institutional classroom training and towards training provided at the private sector workplace and combined with work experience. Increased emphasis has been placed on higher-level training for emerging skill shortages, and on the involvement of employers in the delivery of training. This is especially the case with respect to the recent re-orientation of UI from passive income maintenance and towards more active adjustment assistance, as UI funds are increasingly used to enable recipients to receive training at the workplace and to garner work experience.

In Latin America the training needs have also been changing significantly over recent decades, first as the economic crises—in most countries centred around the 1980s, slowed growth and cut the demand for many types of skills, then as the recovery tended to be accompanied by trade openings and a burst of imports of machinery/equipment and the associated technological change.

By the onset of the economic crises in the early 1980s, the majority of LAC countries had well-established and relatively large national training institutions which dominated much of the training scene. They shared the stage with the vocational secondary schools, technical institutes, a modest number of private training institutions, and a generally limited amount of in-house training carried out by firms. In spite of these various sources of training, it appears that most non-agricultural workers in blue collar activities had (and probably still have) received little if any training apart from informal on-the-job help from co-workers or supervisors. It was less evident how serious a failing this constituted, especially in light of the generally rapid economic growth of the region during the import substituting [phase of growth, led by Brazil with the highest growth rate but the lowest level of average educational attainment among the major LAC countries. A reasonable guess, however, is that the region did suffer somewhat from its various problems and weaknesses on the training side even under the import substituting industrialization phase of the pre-crisis period. It is likely to suffer a good deal more under the new circumstances which obtain in the 1990s and beyond, un-
less substantial improvements are undertaken.

Formal training still seems to be the exception rather than the rule among urban workers in most LAC countries. Arriagada (1989a, 11, 16) finds that as of 1985-86 about 20% of urban employed males in Peru had received some training, with 44% of these being job-based (on-the-job, in occupational training institutions or in the military). Perhaps 7-8% of employed urban males had their main training experience from the national training institute (SENA TI) while a similar number were trained in private institutions. Data from urban Colombia as of 1980 suggest that perhaps 40-50% of male workers had had some structured training (Berry and Mendez, 1998, 17), with around 10 percentage points or a little more having taken SENA courses (Horn, 1987). Of those without SENA training, other institutional training was the main source in most of the occupations, with secondary vocational important in some female activities and «practical» (i.e. in-house structured training) received by about 13-14% of males and about 6-7% of women. One may assume that the share of the labour forced with some formal training is higher in Argentina, for example, than in Colombia.

As noted above for Canada, the extent of training appears to be positively related to the formal education of the individual. Figures for urban Peru in 1985-86 show a strong association of this sort; though part of it is probably a «cohort effect» (more recent cohorts get more education and more training than older ones), there is almost certainly also a true «level of education» effect. If this pattern is as strong in other LAC countries as in Peru the risk that unequal access to training will continue to be a significant source of earnings inequality is a very serious one. Data from Colombia on the family income levels of SENA trainees in 1992 paint a more positive picture; the distribution of the subsidies associated with SENA programmes was progressive in the sense that it was less unequal than was the distribution of per capita family incomes. Though the third and fourth quintiles received the greatest per capita benefits in absolute terms, the second and fifth somewhat less and the bottom quintile the least (Molina et al, 1993, Cuadro 4.19), when these benefits are related to family incomes they rise from about 0.08% of income for the top quintile to about 0.52% for the bottom one.

Chile is among the countries with interesting training programs for the poor, many or most of whom would normally be expected to wind up in the informal sector. Chile Joven (Youth Chile) attempts to improve the labour market access of low income youth, especially those affected negatively by the 1982-83 crisis. Many other countries have interesting experiments in this area. Careful consideration of which ones are working better is a needed next step in this area, including the difficult question of whether they result in net positive job creation or mainly resuffle jobs among labour force participants.

Though little quantitative information is available on in-house training, the consensus is that Latin American businesses, like their Canadian counterparts,
have not been in the habit of doing much of it, and will need to do more in future. A recent World Bank study providing the most detailed evidence available to date for manufacturing firms in Colombia and Mexico as of the early 1990s confirms this surmise, though it may also suggest that firms may be at least rearranging for more training than has been guessed though much of it occurs outside the firm. Over 50% of Colombian small firms and about 80% of the medium and large ones indicated that they had provided formal or structured training over the past year, either in-house or externally; in Mexico the figures were somewhat lower—40-60% for all size categories (Tan and Batra, 1995). The role of internal formal training was low in Colombia (3.7% of all sampled firms vs. 48.7% providing formal training outside the firm (Table 8). In Mexico although slightly more firms undertook in-house formal training (5.8%) than in Colombia, very few arranged for external training (7.9% vs. 48.7% in Colombia).

The training picture in Latin America has been in a process of considerable change for some time, fuelled by the macroeconomic problems and trends noted above, the increasing scarcity of public funds, and the increasing doubts about the competence of public institutions in general which have come with the neo-liberal wave of thinking about economic policy in Latin America and elsewhere. Alternative sources of training have been growing relatively fast. Varying policy responses have emerged across the region, with Chile pushing as much of the management and resource allocation decisions as reasonably possible into the private sector while other countries, though moving in the same direction, have not gone as far. As a result, there is within the region a useful range of experiments underway on the alternative ways of handling training. Ducci (1996) highlights some of the key trends in the activities of national training institutes:

(i) pre-employment training (including apprenticeship) has declined in importance relative to in-service training;
(ii) training activities are increasingly organized by economic sector, either through internal compartmentalization of the VTIs or by their breaking up into sectoral VTIs.
(iii) training delivery is being increasingly transferred to enterprises, with Chile the pioneer in this process;
(iv) efforts on behalf of small enterprise focus increasingly on management training and stress the exchange of experiences and networking among small ones;
(v) technical assistance is increasingly provided together with training.

Taken together, these trends involve a shift of focus from the individual trainee to the firms and a broadening of activities to include other productivity-related services as well as training. In terms of clientele there has been increasing recognition of the importance of small firms though the question of just what package of services most benefits them and how it can be delivered remains to be resolved.

As for the vocational schools, they have in most countries undergone less change than have the VTIs or the informal training systems as a whole. In Chile, however, a major experiment has transferred their management to
non-profit organizations, with interesting results which deserve the attention of other countries in the region. There is widespread recognition of the dangers of being too academic or too isolated from the business sectors which will hopefully employ the graduates.

Though organized data are usually not available it is likely and generally believed that private and NGO involvement in the training area has been rising rather rapidly. Certainly this is the case in Colombia, noted for the strong business involvement through associated NGOs in support of microenterprise.

As Ducci argues, there is no doubt that substantial public sector involvement is needed for effective training in Latin America. The needs are changing with time and with shifts of macroeconomic context, and better training support for SMEs is pivotal. There is need for a well thought-out, activist strategy, based on a continuing reevaluation of the skill needs of the economy with focus on the unmet needs and the surpluses. The extent to which the public sector should be a funder rather than a direct provider of training is under debate.

The LAC region faces the challenge of recovering its growth performance of the pre-1980s decades in a context where this is likely to call for a substantially improved human capital base, in order to raise productivity in a world involving increasingly complex technologies. At the same time the evidence of sharply worsening income distribution in most countries of Latin America in the wake of the 1980s crisis and the economic reforms which accompanied or followed raises the challenge of assuring that the increases in human capital are broad-based enough to allow those who have been losing ground over the last decade or so to recover some of it or at the least not to lose more. On grounds both of productivity and of equality it is pivotal that quality and access be improved at the primary level and that training systems play an increasing role in raising and maintaining productivity potential of as large a segment of the labour force as possible. Direct evidence of the low quality and incomplete coverage of primary schooling in a number of countries (most importantly Brazil) is complemented by the views of employers and the statistical evidence indicating that most vocational training is received by people with completed primary (probably good quality primary also). The increasing pace of technological change, together with the increasing need for worker flexibility, is raising the need for systematic training over the working career, which puts a new onus on training systems.

With respect both to the overall systems and to their VTI component, a key issue is their capacity to meet the training needs of SMEs. Most have been taking this challenge reasonably seriously in the last decade or so, but the evaluations are so few and sparse that it is hazardous to even guess at performance in this regard. It is clear that most training in this area must be subsidized, especially at the start. Whether VTIs, with extensive participation in their management by employers’ associations will in most cases be the best option, or whether subsidized private provision (prevalent in Chile) will
be superior remains to be seen. Careful up to date information and assessments are needed in this area. Effective training and other support for emerging clusters involving large numbers of SMEs may be particularly important; public involvement will often come from local institutions in such cases.

8. References


- Blackburn and Bloom (1993)
- Gunderson, Morley and W. Craig Riddell (1996a) «Unemployment In-
- Statistics Canada (1998b), Canadian Social Trends.

1 As witness the recent conference at the International Development Research Centre in Ottawa on «Pension Systems in Crisis: What Can Canada Learn from Latin America?», Ottawa, Nov. 10, 1997.

The primary distribution of income is that which emerges from the functioning of the market, before the impacts of taxes and transfers are taken into account. The secondary distribution includes the effects of those taxes and transfers.

Estimates of the total fertility rates for the region presented in CELADE (1994) show a dramatic drop from 5.6 in 1965-70 to 3.4 in 1985-90 and a further predicted fall to 2.5 by 2006-10. Magno de Carvalho (1995, 7) points out that the decreases now occurring in Latin America are much more condensed in time than the parallel historical declines in England and Sweden. Between 1970 and 2010 the child (0-14 years) dependency ratio is predicted to fall as their share of population declines from 42.4% to 28.2 while that of the elderly (65 and over) will rise from 4.1% to 6.5%. The major increase of the latter ratio will occur over the following 20 years, to reach 11.2%.

The many impacts of rapid demographic change in the Canadian context are analyzed by Foot (1996).

The politics of this process is, perhaps not surprisingly, complex. In Canada, where the federal system of government has involved high levels of fiscal transfers from the central to the provincial governments and from these to the municipal ones, the overall process of expenditure cutbacks involved the slashing of these transfers (downloading) with the level cutting back its transfers naturally taking maximum credit for fiscal responsibility when in fact to a large degree just shifting the burden of adjustment to the next level down. The pattern of quiet collaboration among levels of government has been under much pressure during this process. In this respect the process seems to have been simpler in cases like the United Kingdom under Thatcher.

Harberger triangles are named for Arnold Harberger,...

If it were, one might have expected the natural large free trade areas constituted by big countries, especially the U.S. with by far the biggest economy in the world, to have grown faster than those which by not being fully integrated into a really large economy must be suffering from the corresponding losses. Over the last several decades Canada has fairly systematically grown a little faster than the U.S. The point is not that such a simple comparison indicates that there are no fairly important gains from more open trade and investment, but rather that the additional gains which might come from complete as opposed to partial integration are apparently not important enough relative to other determinants of economic performance to show up clearly in comparative growth figures.

It may be that the sort of ISI strategy implemented in the region was most congenial in Brazil because of the size of the economy. The policy implications of the cited correlation between export growth and overall growth are unclear since, among other things: (i) direction of causation could be from overall growth to export growth rather than the opposite, and formal intra-country tests find unidirectional causality from exports to output in only a minority of cases (e.g. Bradford, 1994, Sharma and Dhakal, 1995); (ii) the cited correlations
do not take account of the fact that export growth by one developing country can hurt others (through downward pressure on the product's price). The extensive discussion around the «East Asian Miracle» includes both the World Bank's interpretation (World Bank, 1993), in which outward-oriented policies come in for much praise, and quite different views which put the emphasis elsewhere, e.g Rodrik (1995) who stresses the high level of investment and Wade (1990). Too much of the literature (e.g. World Bank, 1996) have been at an unacceptably low technical level. The error is to confuse what helps the competitiveness of a firm (any way to keep costs down, including low labour costs) with what determines the competitiveness of a country (the exchange rate).

Some regions of the U.S. and some industries are in situations comparable to that of the «small country» but these do not often dominate U.S. thinking or policy making. The term «imperfection» refers usually to any deviation from of conditions which collectively produce an economic optimum in the limited sense of a maximization of output. In this case the imperfection in question is the absence of competition, allowing the buyer of labour services to achieve a very low price. i.e. how much subsidy is passed from the workers who do not make use of the insurance to those who make extensive use of it. Premia are adjusted so that the system is self-financing, with government funding having ceased in the 1990 amendments so that there is now no subsidy from the general tax payer (Gunderson and Riddell, 1996a).

Over the period 1964-95 gross product per capita grew by 93% in Canada but by 152% in the Atlantic region. As a result the ratio of average income in the region to the national average rose from 55% to 72% (Ahluwalia and Berry, 1996, 60).

A similar result is reported by Lustig and McLeod (1997). Also noted by Gunderson and Riddell (1996b) are the facts that about two-thirds of private firms provide some informal or formal training, with about one-third providing formal training; about 56 percent of employees indicated having received some informal or formal training over the previous two years, although only 7 to 19 percent indicated they received formal training; on average, firms spend about 250 dollars per employee on formal training. Training is more prevalent in firms and industries experiencing rapid technological change.

The special development component of the UI benefits that includes training courses and supplementary allowances for training is less than 4 percent of such UI expenditures (Human Resources and Development Canada 1994, p. 14).

There is no consensus on the extent to which firms are reluctant to provide training because they are afraid that they may simply lose their trainees to other firms that do not provide training (i.e., the poaching problem). The constitutional division of powers in Canada are such that the federal government has responsibility for the state of the economy and the provincial governments have responsibility for education. Since training relates to both the state of the economy and education, it falls under both federal and provincial jurisdiction. This joint responsibility has given rise to federal-provincial disputes over how training should be administered, with each party often blaming the other for shortcomings in this area (Gaskell, 1991; Gunderson and Riddell, 1991; Meltz, 1990).

Both the periodic finding of no benefits and the smaller identified benefits associated with institutional training could easily be the result of measurement problems. In the latter case one of the problems is that benefits may be more easily identified in the immediate post-training period in the case of training which is specific and undertaken in the firm, while the benefits from the more general training imparted in institutions might well be distributed over a longer period of time and hence be harder to sort out among the other determinants of productivity or earnings.

The lumping together in these data of all «job-based» experiences means that one cannot deduce exactly how much training occurred in SENATI.

Lack of data on hours of training leaves some ambiguity as to the economic meaning of these figures.
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## Table 3

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<sup>a</sup> Manufacturing, construction and public utilities.

<sup>b</sup> Definitions vary as between Canada and Latin America. In the former, ....... ....For Latin America the estimate is from Barry (1997,) who applies (roughly) the poverty line used by Altman (1982) to compare the countries of the region.

### Table 5
Elements of the Context for Labour Market (and Related Social) Policy

<table>
<thead>
<tr>
<th>Contextual Element</th>
<th>Relation to Policy</th>
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</thead>
</table>
| **Fiscal Conditions**              | 1. Limits possible expenditures on unemployment insurance, training/retraining, and other potentially expensive elements of labour policy.  
2. Puts premium on the sort of pension system which most benefits the budget, which may be pay as you go in the short run but will eventually be fully funded system.  
3. Puts pressure to avoid large fiscal drains through money-losing public enterprises, as well as to control wasteful public activities and make work hiring. |
| **International integration and competitiveness** | 1. Possibility that competitiveness depends on maintaining low labour costs, and guarantees against strikes and other forms of labour action. As part of this, possible need to keep labour taxes low. Level of labour costs may, however, not be relevant as long as the real exchange rate can be used to achieve balance in international payments.  
2. If outward orientation inevitably worsens income distribution through pushing unskilled wages down, other policies to benefit workers may take on greater significance. |
| **Technological Change**           | 1. Where it threatens wages of broad groups and hence the country’s income distribution, it may put a premium on encouraging firms which have employment generating capacity, usually smaller ones (microenterprise and SMEs).  
2. Attempts to prevent use of specific technologies have not been common in Canada or Latin America, except on environmental grounds in the former. |
| **Adequacy of Market Functioning** | 1. If the labour market, when unintervened, can function well in terms of its labour allocation and income generating functions, the grounds for such intervention are weak. Some interventions are commonly believed to be beneficial to workers on one count (usually labour income) even when damaging on the allocation/efficiency count. But careful analysis is usually necessary to identify such impacts. Often interventions help some groups of workers at the expense of other groups, the latter usually being the poorer.  
2. Some labour market imperfections are generally accepted as the basis for interventions, in the form of unemployment insurance of some sort, constraints on certain behaviour by employers, etc. |