

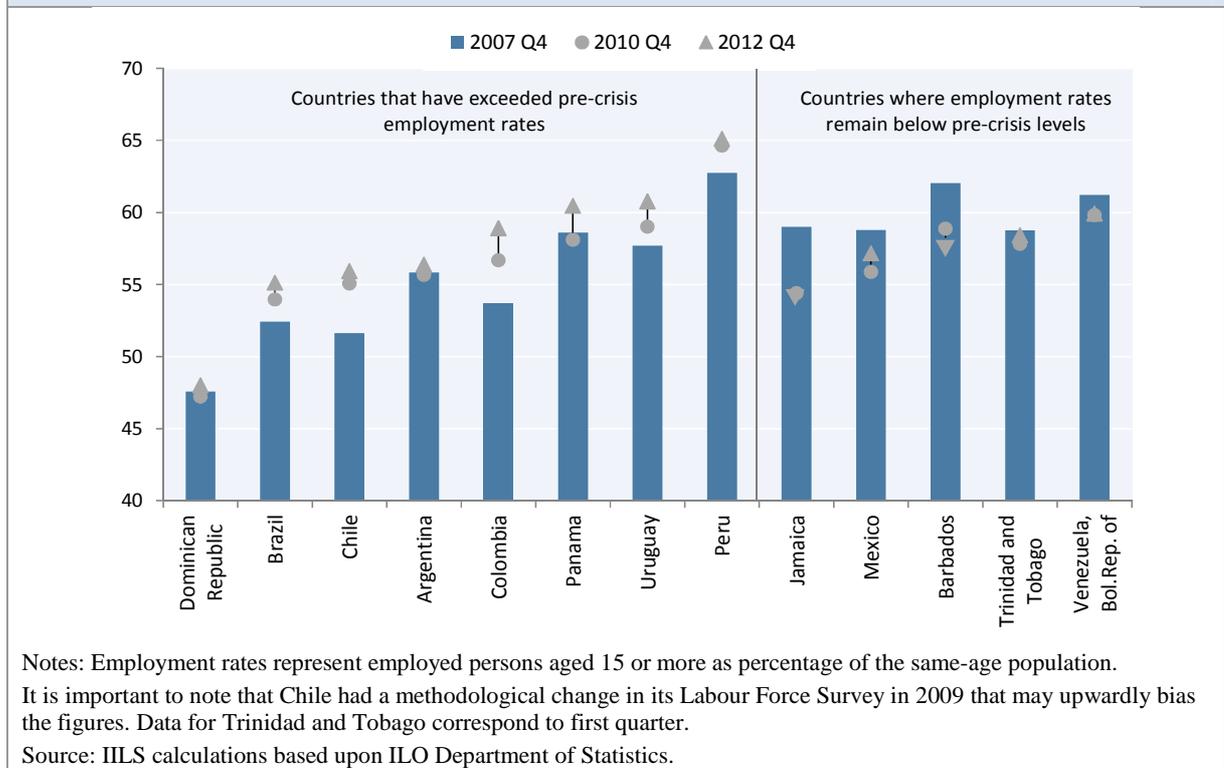
World of Work Report 2013

Snapshot of Latin America and the Caribbean

Employment in Latin America continued to improve in 2012...

- The employment rate in Latin America and the Caribbean as a whole, at 57.1% in the fourth quarter of 2012 is a full percentage point higher than before the crisis (Figure 1). However, the employment outlook at the country level is rather heterogeneous:
 - Employment rates in 2012 surpassed pre-crisis rates in 61.5% of the countries with available information and in some countries, e.g. Barbados, Jamaica, and Mexico, they remain well below pre-crisis levels.
 - Some countries such as Colombia and Chile have managed to increase their employment rates by more than 4 percentage points since 2007.

Figure 1. Employment rates in the fourth quarters of 2007, 2010 and 2012 (percentages)



...which has accompanied growth in the middle-income group.

- The Report shows that the middle-income group in Latin America has grown over the past decade due to economic growth, quality job creation and improvement in inequalities. In the majority of Latin American countries the increase in the middle-income group outpaced those living just above the poverty line. The increases in the middle-income group between 1999 and 2010 were particularly acute in Brazil (15.8 percentage points) and Ecuador (14.6 percentage points).¹
- The report also highlights that the region experienced a decline in the risk of social unrest between 2007 and 2012. In fact, the decline (more than 3%) was one of only three regions (among 8 with available information) where the risk of social unrest actually fell over this period.

¹ In the report, the middle-income class in these two countries is defined as those earning between USD10 – 50 per day. All data are derived from World Bank Povcal database in 2005 purchasing power parities.

Yet, some challenges remain...

- *Informal employment:* The incidence of informal employment remains high: in 2011, close to 50% of non-agricultural employment was informal. The situation is particularly problematic in countries such as Bolivia, Honduras, and Peru where informal employment accounts for around 70% of non-agricultural employment.
- *High inequality:* In addition, although income inequality is trending downwards, it remains elevated by international standards. In most countries in the region, Gini coefficient is over 45 and increases to more than 55 in some countries such as Colombia and Honduras.
- *Wages:* Positive developments as regards real wages are observed in the region, albeit with wide differences across countries. In 2012, average real wages increased more than 4% in Brazil and Paraguay, while the rise was around 1% in Colombia and Mexico. Likewise, although most Latin American countries have carried out a policy of raising minimum wages over the last decade, the results are rather heterogeneous across countries. While there was a substantial rise of real minimum wages in, for example, Brazil and Uruguay, the minimum wage gains had a neutral impact on the purchasing power in some countries such as El Salvador, Mexico and Panama, where the increase in wages has barely outpaced rising inflation.

...which can be addressed through a well-balanced policy strategy.

- *Continue to foster a more balanced approach to growth.* Given the weak growth prospects in the Eurozone, Latin American countries may consider relying more on regional trade and domestic sources of economic growth. Policies in this domain include boosting domestic demand, complementing it with better enforcement of core labour standards and measures to avoid destabilizing capital flows.
 - *Narrow the gap between wage growth and productivity gains:* Across countries, rising labour productivity gains have not been distributed equitably between profits and wages. In fact, stagnant wage growth can be counter-productive during periods of weak aggregate demand. Improved earnings from workers will help boost domestic sources of demand and growth.
 - *Stimulate investment activity:* The Report also points to the important role of government support for public and private investment. In order to ensure maximum employment effects, measures to kick start investment (e.g. tax breaks) can be targeted towards capital assets that are known to be employment-intensive or meet other goals such as investments with energy-saving characteristics. Moreover, public investment can crowd in private investment, especially in areas where there is a need to invest in basic infrastructure.
 - *Reinforce income support measures and minimum wages.* Income support via social protection measures can contribute to reducing vulnerability and poverty and boosting equitable growth. In this respect, minimum wages can serve as a social floor for wage adjustments and can act as a fiscal stimulus by boosting consumer spending. For instance, in Brazil, a stronger national minimum wage and “Bolsa família” – a conditional cash transfer programme – are two of the most widely credited tools lifting poor households out of poverty. Moreover, the right balance between social protection and active labour market programmes is desirable. While a social protection floor keeps incomes and individuals protected, active labour market programmes prevent an increase in long-term unemployment by updating skills and matching jobs to workers. Some countries in the region have social protection programmes combined with activation measures such as Empléate in Costa Rica and Jóvenes con Más y Mejor Trabajo in Argentina.

- *Promote formal job creation and improve the working conditions of informal workers.* Unfavourable institutional settings have played a role in explaining the incidence of informal sector employment in the region. Simplifying the process and overcoming financial barriers of formalization (e.g. reducing the administrative and tax burdens on small businesses) can facilitate a progressive movement into the formal sector. Moreover, a high incidence of informal employment has several repercussions for workers and their families and has become a central determinant of poverty and income inequalities in many countries. Indeed, informal employment not only influences poverty, but persistent poverty is limiting the potential of the region to reduce informal employment. Latin American countries could take advantage of some good practices observed in the region, such as Argentina's efforts to reduce informal employment through a comprehensive strategy which includes programmes and measures of an economic, social and labour nature.

World of Work Report 2013: Repairing the economic and social fabric is available at (www.ilo.org/INST). For further comments, journalists are invited to contact Raymond Torres (tel: +41 22 799 7908; email: torresr@ilo.org), Director of the ILO's International Institute for Labour Studies.