

Why are there so many **low-quality jobs** in Latin America and the Caribbean?

Why do workers **change jobs** more frequently in the region than they do in more developed countries?

Is **informality** an inevitable evil?

Given the changes in the region's economic context and its low growth projections, are the **jobs** and the **social progress** achieved over the last two decades in danger?

**JOBS for Growth** offers new evidence on the functioning of the labor market in the region and proposes a menu of policy options oriented toward the promotion of workers' development through successful careers paths, on the one hand, and of the region's economies through the achievement of better jobs and increased productivity on the other.

## JOBS FOR GROWTH



*'This is a book with provocative ideas, with a comprehensive vision and a wealth of information on labor markets in the region, which will feed the debate on labor policy.'*

**Hugo Hopenhayn,**  
**UCLA (University of California, Los Angeles).**

*'The authors advocate overcoming a presumed dichotomy between the welfare of workers and the productivity of the economy.'*

**Guillermo Cruces, CEDLAS,**  
**National University of La Plata.**

# JOBS for Growth



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minutes

# The labor market in Latin America and the Caribbean

## The low quality jobs trap

Despite the economic and social progress achieved during the last decade, in Latin America and the Caribbean jobs continue to be generally of low quality due to:

- **Informality.** 55% of jobs in the region are informal.
- **High instability.** 24.4% of workers have less than a year in their current job, compared to 15% in OECD.
- **High rotation to low productivity jobs.** In Brazil, Argentina and Mexico, most workers who change jobs worsen their salary and benefits conditions.
- **Low investment in human capital.** Less than 8% of workers in Chile, Colombia and Guatemala have received some type of on-the-job training during last years, compared to over 50% in the OECD countries.

Unemployment figures are low, but they hide a high degree of job rotation and transitions. Consequently, most workers in the region are worried or very worried about losing their jobs.

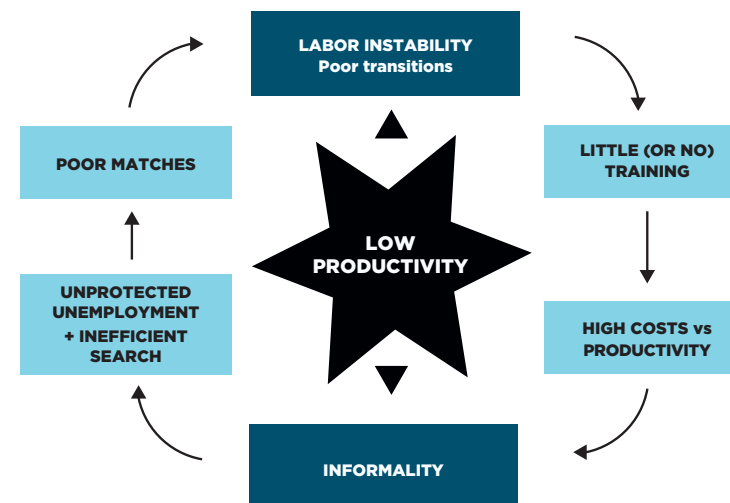
## Labor productivity remains low

Compared to the OECD, the average productivity is low and has been growing modestly (only 26.6% since 1990) relative to Asia (85.2%), North America (37%) and Western Europe (31.2%). Without significant changes, GDP growth rates expected for the coming years won't be able to sustain progress on poverty reduction and equity.

## A vicious cycle

In the region, factors like labor instability, low investment in workers' human capital, informality and low productivity seem to reinforce each other, such that millions of workers end up falling into a poverty and inequality trap, with little access to economic opportunities. This vicious cycle can be related to three main factors.

- **High costs of formality relative to productivity.** Formally hiring a worker in the region accounts for more than 39% of the GDP per worker. Only the minimum wage and other labor costs are already 50% higher than the average costs for OECD countries.
- **Fragile labor relations discourage training.** It is not economically feasible for firms to keep low productivity workers or to invest in their training if they can easily leave the company.
- **Labor informality reduces the chances of finding a better job.** Informal workers do not have a minimum level of income while searching for a job. They cannot resort to labor intermediation services nor to training opportunities, and they may be placed in any job, even if it doesn't fit their skills.



# Growing as workers, growing as countries

Labor policies are not the only tools available to redress this situation, but they can have a positive influence on key aspects breaking the vicious cycle of low-quality jobs. Without neglecting wealth redistribution, the labor policy of the region must now also seek higher worker productivity levels to promote workers' well-being through successful career paths. In this way, workers will be able to improve their situation and their capacity to generate value for their country and for themselves.

The pro-productivity labor policies that **JOBS for Growth** proposes are based on two pillars:

## Promotion of more formal jobs

The first step towards a successful employment trajectory is an effective labor insertion into a formal job. Given this understanding, four lines of action are proposed:

- **Promoting effective labor intermediation policies.**
- **Improving work opportunities.**
- **Protecting workers during unemployment periods.**
- **Encouraging the formal hiring of workers.**

## Promotion of productive labor stability

Successful careers are reinforced with more lasting work relations, which will set the foundations for more productive jobs. In this sense, two lines of action are proposed:

- **Investing in lifelong learning and training of employees.**
- **A simple lay-offs regulatory framework that does not generate uncertainty nor litigation.**