

**Department of Economic and Social Affairs  
Division for Social Policy and Development**

**Expert Group Meeting**

**Intergenerational Solidarity:  
Strengthening Economic and Social Ties**

Background Paper  
**Jacqueline Mazza**



**23-25 October 2007  
United Nations Headquarters  
New York**

**Labor Markets and Social Inclusion in Latin America and the Caribbean:  
Perspectives for Inter-generational Solidarity**

Paper to be presented at the UN Expert Group Meeting on Intergenerational Solidarity:  
Strengthening Economic and Social Ties: October 23-25, 2007

Dr. Jacqueline Mazza  
Senior Social Development Specialist,  
Social Protection and Health Division  
Inter-American Development Bank  
Washington, DC  
Draft: Not for attribution without author permission

The labor market is considered one of the fundamental building blocks of social inclusion, not only as a provider of immediate income, but also as a source of family and community cohesion, learning, and self-esteem. Excluded populations, by definition, have more limited access to financial capital and social networks and therefore, rely on their human capital as a ticket out of exclusion.

Human capital is both earned and innate over the lifecourse of an individual. It accumulates overtime from the combination of education, learned skills, innate abilities, drive and work habits. The labor market, combined with education, are among the two most important sources of human capital development. While many factors interplay in creating social exclusion, labor market exclusion --- the inability to generate a livable family income, the devaluing or lack of recognition for one's daily work, discrimination, lack of basic legal protections on the job -- prompt a chain of social and economic effects which deepen and solidify social exclusion. These effects include: marginalization to living in poor areas, social stigma associated with poor quality jobs, unsafe working conditions, and, early school leaving which creates lifelong impacts. Improvements in human capital through education, training, and better quality jobs can conversely contribute significantly to greater inclusion through higher income, greater social integration, and stronger cultural awareness and identity.

Labor markets and human capital development occupy both sides of the exclusion/inclusion dichotomy. They can both be a principal source of exclusion and a principal resource for inclusion. In terms of intergenerational solidarity, the two labor market cohorts of youth and mature adults faced distinct challenges regarding labor market exclusion in addition to their mutual challenges. For youth, study after study has revealed the importance of the earliest years of employment in building positive. High unemployment and underemployment in the earliest years often has lifelong effects. The aging population in Latin America and the Caribbean has difficulty formally "exiting" from the labor market as weak social safety nets often leave them dependent on family (remittances) and on low productivity informal work. For both cohorts, the lack of lifelong education and training systems leads to "entrapment" for many in low productivity employment with few prospects for exit.

This paper explores the role of labor markets and human capital development in the dynamics of social inclusion and exclusion in Latin America and the Caribbean with a perspective on intergenerational solidarity. It looks particularly at the most recent decade of the 1990s up to the mid 2000s. It analyzes how labor markets play a central role as both a principal cause of exclusion and as a vehicle for promoting greater inclusion, particularly for women in the Latin America and Caribbean region. This paradox of labor markets as both friend and foe in combating social exclusion will be explored throughout the paper. The paper uses a definition of the principal excluded groups used widely for the Latin American and Caribbean region (IDB 2007), those being: afro-descendants, indigenous peoples, poor women, persons with disabilities and persons living with HIV/AIDS.<sup>1</sup> Labor market data on these populations is limited and far from uniform across the region. At the outset, it is important to point out that excluded populations taken together can often represent the majority of the labor force in key Latin American countries (e.g. Brazil, Bolivia, Peru) and certainly constitute the majority of the informal sector where the principal employment growth has been in the last decade.

The first section looks conceptually at how labor markets and human capital development act as agents of inclusion and exclusion simultaneously. It then turns to the major labor market trends of Latin America and the Caribbean in the 1990s matching trends with their likely impact on deepening exclusion in the region. Finally, the concluding section discusses how labor market programs and policies in the region may be better oriented to play a more positive role of promoting inclusion.

### Understanding Inclusion and Exclusion in Labor Markets

Social exclusion can be seen as a dynamic, multi-dimensional process by which individuals, by nature of their race, ethnicity, gender or other defining characteristic, are denied access to opportunities and quality services to live productive lives outside of poverty. Quality work at decent wages affords individuals not only the financial means to potentially break out of their exclusion, but also social and political access to the networks, services, and benefits to promote inclusion in a more integrative fashion, via family unity, community and civic participation. Inclusion and exclusion through work is not a straightforward process. The same job can have inclusive and exclusive elements. A job in a local plant may offer dependable wages, but have no social security and benefits, thus assisting family income in the short term but risking a different form of exclusion in later years. Families can have members in different states of labor exclusion and inclusion; some with steady, formal sector work, others with subsistence employment and children working.

The literature identifies three principal ways that labor markets can foment social exclusion (Weller, 2002). First through lack of access to jobs (Type 1, e.g. unemployment, severe underemployment); subsistence employment (Type 2); and lack of access to quality jobs (Type 3). Table 1 below lists these types of labor market exclusion, how it is manifested in the labor market as well as some of the features of this exclusion

---

<sup>1</sup> Migrant populations and the elderly may also be considered an additional excluded group in many ways from formal labor markets and legal systems. Aspects of both groups are touched on in this paper.

that reach beyond the labor market. It is important to see how an initial form of labor market exclusion – e.g. unemployment, subsistence employment in the informal sector – can be linked to other aspects of social exclusion such as segregation into poor neighborhoods, lack of access to information on other job opportunities, long working hours that inhibit family development and schooling. Having any of these types of labor market exclusion can lead to family decisions (e.g. child labor, early school leaving, longer work hours, migration) that deepen and exacerbate exclusion beyond the specific working individual.

<b>Table 1</b>		
<b>Principal Forms of Labor Market Exclusion</b>		
<b>Type of Labor Market Exclusion</b>	<b>Chief Labor Market Characteristic</b>	<b>Exclusion Features</b>
<b>Type 1</b> Lack of access to jobs	<ul style="list-style-type: none"> <li>• open unemployment</li> </ul>	<ul style="list-style-type: none"> <li>• discrimination</li> <li>• family/community</li> <li>• social isolation</li> </ul>
<b>Type 2</b> Access to only subsistence work	<ul style="list-style-type: none"> <li>• very low wage employment</li> <li>• high percentage of informality</li> <li>• precarious, unstable</li> </ul>	<ul style="list-style-type: none"> <li>• poverty and associated social exclusion</li> <li>• long working hours,</li> <li>• lack of benefits</li> <li>• unhealthy working conditions</li> <li>• physical or spatial segregation in poor neighborhoods</li> </ul>
<b>Type 3</b> Lack of access to quality jobs	<ul style="list-style-type: none"> <li>• underemployment</li> <li>• poor quality, low productivity work</li> </ul>	<ul style="list-style-type: none"> <li>• lack of access to social networks for advancement</li> <li>• employment trap with little chance of improvement</li> <li>• lack of access to productivity-enhancing training</li> </ul>

Until recently, open unemployment (Type 1) was rare in Latin America and the Caribbean, exclusion was manifest more in underemployment and low-paying jobs. Duryea, Jaramillo and Pagés (2003) find sharp increases in unemployment in the Andean region and the Southern Cone, particularly in the late 1990s, with more moderate increases and sometimes declines in unemployment in the Mexico-Central America region. Open unemployment is still rare in the lower income Latin American and Caribbean countries (e.g. Central America) where the principal labor market adaptation is underemployment and outmigration.

The growth of the informal sector in Latin America and the Caribbean is perhaps the most striking trend affecting and accelerating exclusion of Types 2 and 3. While one must take care not to define all informal sector employment as subsistence or poor quality work, it clearly has an exclusionary dimension in that workers are outside the legal protection, have no formal recognition and job status, have few, if any benefits, and may be subject to hazardous working conditions. In some cases, informal sector employment can be seen as the lesser of the exclusionary outcomes (e.g. low-paid work vs. no work, e.g. Type 2 or 3, rather than Type 1) because formal sector employment growth has been stagnant, particularly at lower skill levels. Informal worksites are not regulated for hazardous conditions, have no rights for union organization, and limited access to information on markets, finances, technology and training.

A number of other “non-labor market” factors affect the type of labor market exclusion that may result. Factors particular to excluded communities, such as land tenure rights, access to communal properties affect the ability of excluded populations to earn greater than subsistence wages and to have rights over land assets to earn income. Geographic isolation and lack of access to basic infrastructure can limit labor market opportunities. Additionally, limited or poor quality education fundamentally impedes a worker’s ability to be selected and gain entrance into higher quality jobs. These three types of labor market exclusion should be kept in mind while reviewing key economic and labor market trends in the region in the most recent decade.

#### Latin American-Caribbean Labor Market Trends in the 1990s and Early 2000s: Exacerbating Exclusion

The 1990s have been described as “gloomy” for labor markets in Latin America and the Caribbean.<sup>2</sup> If one is to generalize, work in Latin America and the Caribbean in the 1990s got proportionately more precarious (e.g. less security, more periodic, more unemployment) less remunerated (e.g. wage stagnation or decline), more informal (Klein and Tokman, 2000), and of poorer quality. Informality was particularly prevalent for women and those over 45, who once losing their formal sector jobs are highly unlikely to return to a formal one. While there are no precise measures of labor market exclusion from which to mark trends in the region, we can look at trends on unemployment, informal sector employment, labor force participation as proxies for trends in exclusion or distance from formal labor markets with socially-integrative features (e.g. benefits, social networks). As noted previously, in only a minority of countries can this data can be disaggregated by race, ethnicity and other characteristics so it is even more difficult to mark the trends in labor market exclusion of the principal excluded populations. Table 2 lists some of the major labor market trends in the region and provides a delineation of the exclusive and inclusive aspects of these trend. Increasing flexibility in types of hiring and labor market contracts over the decade helped support an expansion of the workforce but at the same time contributed to greater instability and lack of social benefits. Weak labor market demand or conversely insufficient supply of jobs for those who wanted to

---

<sup>2</sup> Comments of Stefano Scarpetta, Labor Advisor, World Bank at the IDB Annual Meeting in Milan, Italy, 23 March 2003.

work largely fed growing labor market exclusion in the region through higher rates of unemployment and increased informality.

<b>Table 2</b>		
<b>Labor Market Inclusion/Exclusion Trends in LAC, 1990s – 2005</b>		
<b>Labor Market Trend</b>	<b>Inclusion Aspects</b>	<b>Exclusion Aspects</b>
1. Weak Labor Market Demand		<ul style="list-style-type: none"> <li>• Increased unemployment</li> <li>• Increased informality</li> <li>• Declining job quality</li> </ul>
2. Upward Qualification Bias	<ul style="list-style-type: none"> <li>• Upgrading of key occupations</li> </ul>	<ul style="list-style-type: none"> <li>• Low demand for jobs requiring low schooling levels</li> <li>• Increase in wage gap</li> </ul>
3. Growing Female Labor Force Participation	<ul style="list-style-type: none"> <li>• Increase in female employment, including formal sector</li> <li>• Reduced male/female wage gap</li> </ul>	<ul style="list-style-type: none"> <li>• Increased informality</li> <li>• Persistent salary discrimination</li> <li>• Occupational segregation</li> <li>• Concentration in lower quality jobs</li> </ul>
4. Labor Market Flexibilization	<ul style="list-style-type: none"> <li>• Diversity of contracting incentives supports expanded workforce</li> <li>• Voluntary self-employment</li> </ul>	<ul style="list-style-type: none"> <li>• Growth in precarious employment</li> <li>• Decreasing percentage of workforce covered by benefits</li> </ul>
5. Dual Wage Trends a. Wage increases in high end occupations b. Stagnant/declining wages for low – end occupations	a. Wage conditions improve for certain groups	a. Gaps between high and low income wages increase b. Increasing working poor, declining living conditions, longer work hours

Source: adapted from CEPAL, 2001 and Weller, 2001.

In reviewing key labor market trends, a few stand out in terms of exclusion and intergenerational links.

*Rising Unemployment.* Most countries in the region experienced a steady rise in open unemployment<sup>3</sup> over the 1990s with the sharpest rises in the Andean region and Southern Cone (Duryea, Jaramillo, Pagés, 2003). While regional rates of near 7% are still below the average of OECD countries (9%), many countries are coming close to OECD rates without the benefits of social and unemployment insurance. Mexico and Central America continued to have high rates of underemployment and outmigration rather than open unemployment. Youth unemployment continues to be disproportionately high in

<sup>3</sup> Unemployment rates are for workers ages 15-64 who actively looked for work in the reference week of the survey.

the region, currently 17.2% (ILO, 2006) compared to a world average of 13.2% and a rate of developed countries of 12.7%. In the 1990s, youth, women and urban workers experienced higher than average unemployment, yet the relative importance of youth, female and urban unemployment as a determinant of high unemployment rates declined, that is, the trend toward higher unemployment affected the labor force more broadly rather than deepening the gaps of the specific disadvantaged groups of youth and women. Nonetheless, the persistence of disproportionately high youth unemployment rates continues to be have corrosive effects on human capital development of the young.

*Increasing Participation/Poor Employment Growth.* One of the salient characteristics of the most recent Latin American labor market is the what has been termed “massive” expansion in labor supply which could not be absorbed by the slow growing labor market. Average participation rates in Latin America (66%) now mirror the OECD countries (70%).<sup>4</sup> In only three countries (Brazil, Chile and Colombia) was the rise in unemployment combined with a decrease in employment rates. There are many factors behind increasing labor force participation. There is clear evidence that secondary workers (other than the primary family wage earners) were “pulled” into the labor market by the need to supplement family income. There is the “push” or demand factor as well for many as female and other workers are attracted to employment possibilities in the market. The most notable and positive trend for labor market inclusion is the rapidly rising labor force participation of women. Employment rates for women are still lower than for men, and lower than those for women of the OECD, but participation and employment rates have grown, except for younger women whose employment rates are declining relative to the total. Duryea, Edwards and Ureta document this “brisk-paced” rise in participation rates and the steady closing of the gender wage gap in the countries of Venezuela, Costa Rica, Brazil and Uruguay. Colombian women uniquely enjoy higher earnings than men (Duryea, Edwards and Ureta, 2001).

*Low-Wage, Low Quality Jobs.* Part of the lack of absorptive capacity of Latin American and Caribbean economies has been *weak labor market supply/demand for higher-end quality jobs*. Stefano Scarpetta argues that while the Latin America economies had relatively strong growth despite key crises (e.g. Mexico, Argentina), the “employment content” of this growth was low.<sup>5</sup> While there have been some increases in wages at the high end of occupations, the dominant wage trends in Latin America has been on *stagnant and declining wages*. Average wages (as measured in U.S. dollars, adjusting for purchasing power parity (PPP)) remained constant or declined in the Andean nations, Central America and Mexico with the exception of Panama (Duryea, Jaramillo, Pagés, 2003). The record of Southern Cone countries is more mixed, with average wages beginning to decline in Brazil and Chile in the late 1990s and the likely negative wage impact of the economic crisis in Argentina. The lack of good quality, formal sector jobs underscores a dominant trend in the region over the decade – *the near exclusivity of employment growth in the informal sector*. While there is a lively debate on how negative the economic and productivity implications of the rise in informal sector

---

<sup>4</sup> OECD data from OCED (2001) as quoted in Duryea, Jaramillo and Pagés.

<sup>5</sup> Stefano Scarpetta, “What Went on in Latin American Labor Markets” Presentation at the IDB Annual Meeting, Milan, Italy, 23 March 2003.

employment is, its negative implications for greater labor market exclusion are more straightforward. Large percentages of the Latin American labor force now operate outside of minimum standards and protections, creating greater opportunity for labor exploitation, marginalization, and more limited investment in human capital. Even more important to marginalization than informality is whether jobs are at “poverty wages.” The incidence of “bad jobs” defined as poverty wages of \$1 per hour<sup>6</sup> increased over the decade of the 1990s in the Mexico, Central America and Andean regions (Duryea, Jaramillo and Pagés, 2002). The authors find substantial variability in trends within countries and across regions, with consistently greater percentages of poverty wages in rural areas. As shown in the figure below, with one exception (Paraguay), women have a greater incidence of poverty wages than men in the region. But among men, the variability is substantial and particularly troublesome in key countries even for higher skilled workers. Indeed, the most recent trend reveals that poor quality employment is affecting even more those thought least vulnerable, men and workers with secondary education. On average, 15% of higher skilled workers in the region (defined as completing some tertiary education) earn less than \$1/ hour. Yet in Nicaragua, Honduras and Bolivia over one-quarter of these high skilled workers still earn less than \$1/hour, in these same countries, the percentage of the whole workforce at poverty wages – skilled and unskilled – is striking: 80% in Honduras, and over 70% in both Bolivia and Nicaragua.

---

<sup>6</sup> Based on PPP, purchasing power parities.

## Graph 1



### Incidence of “Poverty” Wages, Male & Female Ages 15 – 65

*Greater Job Instability/Fewer Workers with Benefits.* An important labor market trend in Latin America and the Caribbean in the 1990s was the dual trends of expansion of labor market regulations to permit more “flexible” contracts and the expansion of the informal employment. Latin America and the Caribbean also faced changes in part-time employment although less dominant than in OECD countries. The combination of these factors led to less stability in employment in the region (Klein and Tokman, 2000), higher rates of job rotation in key countries, and many fewer workers covered by social benefits or insurance. As referenced in Table II, the flexibilization of labor contracts likely eased and supported the important increases in participation rates in the labor market and can be seen as having inclusive elements, particularly if it brought in workers who might otherwise have been marginalized outside of the formal sector. The increases in job instability and lower benefit coverage, conversely, fed trends toward greater exclusion in many countries. These trends were sufficiently strong in the 1990s to literally transform the age-old impression of Latin American labor forces with high levels of security and benefits. The table below demonstrates that in only half of the countries surveyed did a majority of salaried, formal sector workers have benefits. When combined with the informal sector, only in Chile is half the workforce covered by benefits. Trends in Andean countries are particularly striking, only 38% of salaried workers have benefits, a mere 13% of the Peruvian workforce overall. In Bolivia and Nicaragua (Central America), data is similar with only 13-14% of the overall workforces of these countries covered by benefits. When time series data is available, the significant declines in benefit coverage over the 1990s can be seen.

Country	Salaried Workers with benefits	All workers with benefits	Data Year
Argentina	62.7	46.4	1998
Bolivia	34.5	25.2	1990
Bolivia	17.4	13.5	1999
Brazil	52.5	45.4	1992
Brazil	54.0	45.0	1999
Chile	77.1	65.9	1990
Chile	75.8	63.6	1998
Colombia	60.1	44.7	1996
Colombia	61.3	43.6	1999
Costa Rica	70.6	56.7	1993
Costa Rica	66.3	53.6	1998
Dominican Republic	28.1	14.8	1998
Mexico	49.8	37.0	1992
Mexico	43.2	31.5	1998
Nicaragua	33.6	24.0	1993
Nicaragua	18.5	13.1	1998
Peru	37.8	24.5	1991
Peru	32.6	13.1	2000

Source: Cox Edwards, Alejandra.  
*Legislación Laboral: Algunos principios fundamentales, evidencia empírica y políticas en América Latina.* Paper presented at the *II Regional Technical Seminar on Labor Markets – Lima, Peru – July 2002.*

*Migration.* While most every country in the world both sends and receives migrants, Latin America and the Caribbean has among the highest rate of net outmigration. On average, 1 out of every 1,000 leave their nation of origin, compared to half that rate in North Africa (-.5) and 1/10<sup>th</sup> that rate (-1) in South Asia. Due to large population differences, however, Latin America accounts for a small percentage of the 185-192 million migrants worldwide (IOM, 2005). While it is true that the overwhelming target for Latin America's migrants is the United States (75%, Pelligrino 2002), the less well known trend is the increasing diversity of migration to other developed countries (e.g. Southern Europe, Japan) and within the region -- Peruvians to Chile, Colombians to Venezuela, Nicaraguans to Costa Rica. Interregional migrants, overall, tend to be on average poorer than extra-regional migrants. Migration for work has important implications for family functioning and intergenerational dependence, with young children increasingly left in the care of grandparents and grandparents dependent on the resources and remittances from migration in the absence of social protections and insurance.

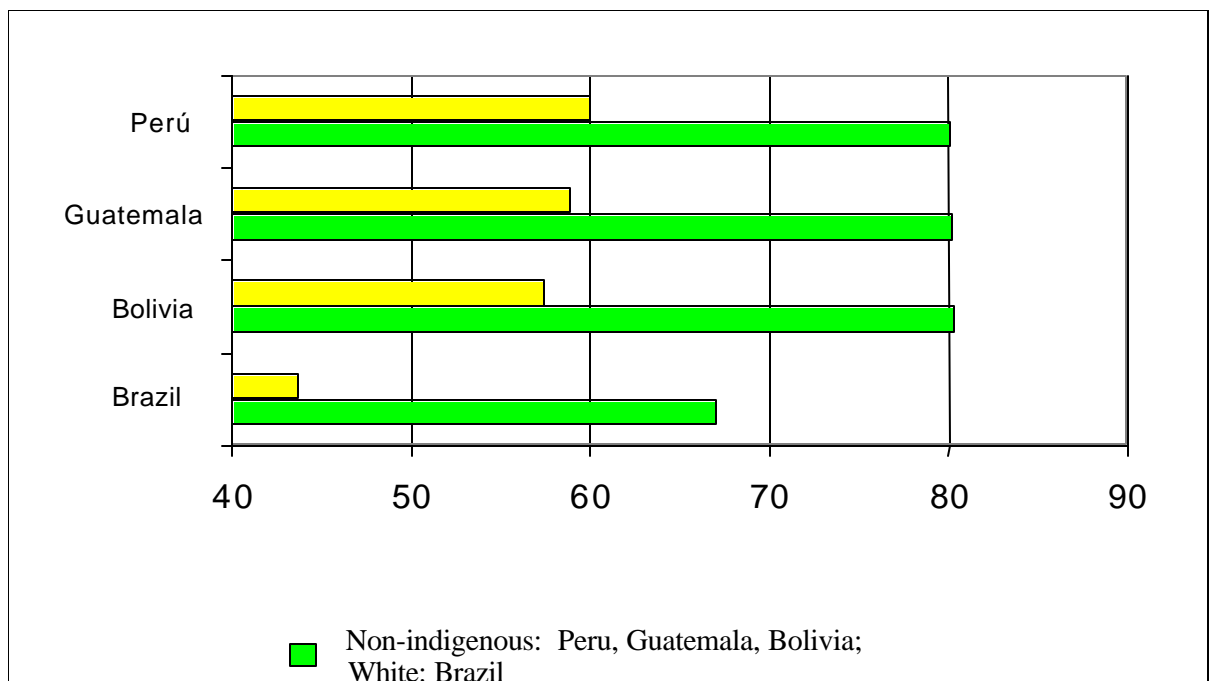
Remittances from Latin American and Caribbeans working abroad – over \$60 billion annually – now exceed foreign investment as the largest capital inflow to Latin America and the Caribbean, accounting for nearly 30% of Nicaragua's GDP and more than 2% over the region's GDP overall (IDB-MIF, 2007). Mexico receives the largest dollar

value of remittances of any country in the world (11 million in 2002), with India taking second place (8.4 billion, OIM, 2005). The Interamerican Development Bank has taken a leadership role in seeking to reduce the costs of sending money home, facilitating the creation of bank accounts for families drawing on remittances, and spurring “home town” investments of remittance funds. While steps are being taken to improve the investment component of remittances, we cannot neglect the negative impacts on families and communities nor the distortions to local labor markets. While remittances provide a lifeline for many poor families, local employment is depressed by the distortions introduced by dollar inflows (e.g. increased reservation wages). Once vibrant rural communities lay quiet due to the absence of the principal working age population. Grandparents, long beyond their parenting years, are being called back to parenting without sufficient resources. Basic social and political rights are rarely accorded to migrants abroad who suffer from exclusion and direct discrimination.

### Excluded Populations and the Labor Market

It is much less known in Latin America and the Caribbean how specific labor market groups – afro-descendants, persons with disabilities – fared with these negative labor market trends in the region during the last decade or so. Did excluded populations suffer disproportionately from the negative trends of low wages and low quality work? Clearly excluded populations demonstrate higher rates of poverty and higher rates of extreme poverty. Data by race and ethnicity in key countries demonstrates *high concentrations of low wage jobs among racial and ethnic populations*. Graph 1, based on household survey data, shows the share workers earning less than \$1 PPP per hour by race and ethnicity with startling concentrations of low wages among indigenous populations (in Peru, Guatemala, Bolivia) and afro-descendent populations (Brazil). In most cases, the percentage of ethnic and racial groups trapped in low wage, poverty employment was more than 50% the rate for non-indigenous or white populations.

**Graph 2**  
**Share of Workers Earning Less than \$1 PPP per hour by Ethnicity/Race**  
**1990 – 2000**  
**(male and female)**



A key factor in the poorer labor market outcomes for excluded populations be they young or old is the likelihood of suffering discrimination. Labor market discrimination applies not just to discrimination at the hiring decision, but also while on the job (e.g. promotion, transfer), in wages, and through occupational segregation. Discrimination typically cut deepest where the social cleavages of any given country fell: in Brazil, blacks were perceived the most discriminated against, indigenous peoples in Guatemala, and the poor (or class) in El Salvador (Behrman, Gaviria, and Székely, 2003).

### Promoting Inclusion in Latin America and the Caribbean through Labor Market Policies and Programs

Labor market programs and policies in Latin America and the Caribbean have not often been designed, analyzed, or evaluated in terms of promoting the greater inclusion of socially-excluded populations nor of promoting/addressing intergenerational solidarity. To broadly generalize, targeting in labor market programs in the region, if undertaken, was typically based on income (e.g. programs for the poor) and/or gender, or, more commonly, programs and services might be provided universally to all workers (e.g. state-financed job training, labor intermediation or placement services) with lower income workers more likely to take advantage of public financing. There are clear exceptions to this general trend in the region particularly in regards to training disadvantaged youth and women.

Promoting greater labor market inclusion through programs and policies, however, does not always imply the design of programs to target specific populations, e.g. indigenous peoples, persons with disabilities. Depending on the nature of exclusion, the size and nature of the excluded populations, more universal labor market programs can be tailored or supported with additional services to insure that excluded populations more fully participate and take advantage of universal programs. Youth is a key exception here as the key labor market skills/knowledge to be imparted are not technical skills, but job readiness and workplace skills that are particular to the needs of first entrants. Taking into account existing Latin American and OECD experience in labor market programs, there are a number of key ways that Latin American and Caribbean labor market policies and programs could better be used to advance the labor market performance of excluded populations. Improving the labor market performance of these populations serves national economic objectives as well as these are segments of the population most likely to be trapped in subsistence or low-wage labor. Any such initiatives need to be in the context of a much broader framework of a national inclusion process so that labor market advances are linked to a broader range of constitutional, institutional and programmatic changes (IDB, 2007, Chapters 13 and 14).

*Improving Data Collection and Labor Market Analysis.* The first step in more inclusive labor market policies and programs is to know better the racial, ethnic, and other characteristics of the labor force and how and whether those attributes affect labor market outcomes. While the broadly defined excluded groups are similar across Latin American countries, the nature and form of discrimination is likely to vary significantly by country

and national experience. Disaggregation of labor market data is as important for labor market programs as for broader national policies and more consistent age disaggregation would facilitate better understanding of inter-generational dynamics. For example, in country X are wages of afro-descendents for the same work significantly below those of workers of other ethnic and racial groups as well as older workers? Are people living with HIV/AIDs particularly excluded from formal sector employment? Household and labor market surveys are useful instruments in providing the statistical inputs to understanding how labor market exclusion functions, and importantly, how labor market trends are impacting different groups. Within the region, there has been increasing attention on the collection of data on race and ethnicity on national censuses, spurred by two important regionwide conferences: *Todos Contamos I* (Cartagena, Colombia, 2000) and *Todos Contamos II* (Lima, Perú, 2002). In terms of labor market information, the census instrument will never be detailed enough and household and labor market surveys will need to play an important role in mapping out the labor market dimension of race, ethnicity and other forms of exclusion.

*Building on the Youth Training Example.* Following the example of *Chile Joven*, a training/labor market insertion program for disadvantaged youth, the region spawned a series of youth training programs designed to address the poor labor market performance and prospects for low-income, high risk youth who were outside the labor market. The lessons from these programs have important applications to a wider range of labor market training programs. The key feature of this type of program is the use of traineeships or *pasantias* to provide low-income youth with actual job experience. The training provided is oriented towards the development of basic work skills and habits (e.g. responsibility, promptness) rather than vocational skills for a specific job (e.g. basic carpentry). Particularly for disadvantaged youth, job skills is not the barrier to an entry level position but rather the lack of the social network and work record which would motivate an employer to hire them, or as they see it, take a risk on this hiree. Studies have clearly demonstrated that with limited or delayed early work experience, longer term job prospects are reduced. *The combination of short-term traineeships and work skills training was combined with another key feature – competitive bidding by intermediary firms to do the training and business placements.* These firms became brokers soliciting traineeships for disadvantaged youth who would have a hard time getting their foot in the door, and assured the hiring firm that there would be oversight and training of each of the youth trainees. Youth had to be low-income and demonstrate disadvantage, defined differently in different national programs.<sup>7</sup> While specific actions were not incorporated for indigenous, afro-descendent youth, special efforts were made to attract and recruit young females to measurable effect in reducing gender gaps. Evaluations of the *Chile Joven* project demonstrated an increase in both labor market insertion rates and income for the disadvantaged youth over the control group who did not participate in the program. An interesting and positive outcome was the high rate of youth who returned to education after the training. *Argentina Joven* recorded increases in income for training participants but not increases in labor market insertion rates. As in training programs overall, the returns to female labor market performance were better

---

<sup>7</sup> In some cases these were secondary school dropouts, in other cases the youth had finished secondary school but were unemployed for a determined period.

than those for males, as females are likely subject to more employment barriers than males, even if both have characteristics of disadvantage. This regional experience of youth training for the disadvantaged has a number of wider lessons and implications for labor market programs in the region. First, it demonstrates, in the case of *Chile Joven* in particular, that well-designed labor market tools can be useful in improving the income and insertion (rate of job placement after training) for groups facing labor market exclusion. Second, that competitive mechanisms and support provided by intermediary institutions may help employers overcome biases against providing jobs and traineeships to more marginal populations. Third, without a long-term and highly expensive intervention that can be seen, for example, in the case of *Job Corps* in the United States, an important segment of the workforce subject to disadvantage can be provided with the skills and experience to improve their first job experience. These youth training programs were not intending to provide long-term skill training. The record of vocational training in the OECD and the region is more mixed, particularly because much of it has been poorly linked to private sector demand and utilized outmoded training equipment and methods.

*Anti-Discrimination Laws, Quotas, and Labor Protections.* Many countries in the region have broad civil protections against discrimination and more specific legislation related to the labor market (IDB, 2007). Three serious problems, however, are lack of government enforcement, lack of a civil legal tradition defending individuals, and large, informal sectors which are outside the protection of labor codes. Labor Ministries in Latin America and the Caribbean are traditionally poorly funded with limited expertise and resources to enforce civil and work-related rights. This extends both to guarantees against discrimination and protections on the job. This includes enforcement of working hours and minimum wages, prohibitions against child and forced labor, and occupational health and safety laws (e.g. leading to an increasing in types 2 and 3 of labor exclusion). Poor enforcement is combined with a little to no tradition of civil suits, as found in OECD countries, to compel government enforcement of existing laws or compensate victims of sexual, racial, or other discrimination. These two negative trends are combined with a dramatic increase in informality in Latin America. Workers without a formal work contract not only fear asserting their rights, but also have virtually no legal framework from which to assert their claims. National anti-discrimination policies in the region need to be strengthened through more vigorous attention to enforcement, citizen education, legal services for the poor, and the broadening of anti-discrimination protections to informal employment.

Latin American and Caribbean experience with quotas to redress past and current discrimination is much more limited. Brazil has led the region in advancing education quotas for afro-descendent and indigenous populations and is one of the few countries in the region with quotas in the hiring of government workers. Hiring quotas are rarely used in the Latin American or Caribbean private sectors. While the subject has become highly politicized in the United States in light of the recent U.S. Supreme Court decision in the case of the University of Michigan, quotas needed to be examined and advanced in Latin America and the Caribbean as part of the tools considered by developing country context where civil protections are much more limited and excluded populations suffer

even greater disadvantage in terms of earnings, unsafe workplaces and subsistence employment. Quotas need to be seen not as negative penalties for those with advantages but part of a mix of tools to promote positive advancement of populations suffering generations of disadvantage.

*Improving Education and Workforce Skills within a System of Lifelong Learning.* The labor market cannot leapfrog over the severe disadvantage faced by excluded populations when they enter the labor market with proportionately less years of education and lower quality schooling. This initial disadvantage accumulates as workers with low skills receive little investment in skill development and are rarely able to return to education later. To advance labor market inclusion, skill development must advance in a more continuous exchange between education, training, and work (e.g. learning on the job). The region continues to suffer from outmoded state-based training institutes out of step with private sector demand (e.g. Brazil is an exception). A more effective training system must be served by a stronger educational foundation. Latin American participants in the March 2003 seminar on social inclusion held with the IDB's annual meeting commented that improving education was really the first step in advancing social inclusion in the region.<sup>8</sup> Primary education is near universal levels in most of the region, but the greatest inequity arises in the quality of education provided to the poor (primary and secondary) and the proportionately greater subsidy provided to university-level education that benefits the elite. Even increasing the educational attainments of excluded populations, however, is not sufficient to improve their labor market performance. Duryea and Pagés (2001) argue that increasing education will not be sufficient to boost productivity without a broader range of productivity-related improvements such as in infrastructure and credit.

*Labor Intermediation Systems.* While much of the focus on labor market programs has been on providing better training for skill development, labor intermediation – systems to link workers to jobs and to training --- are a more underutilized instrument in the region for advancing the labor market performance of excluded populations. Labor intermediation services serve both workers and employers by promoting a better and more efficient match of worker to job. They were initially developed as national employment services in many OECD and developing countries, but as purely public services demonstrated a relatively poor connection to employers and were typically poorly funded. Recent reforms in both the OECD and Latin American countries are leading to a range of new models of intermediation services that expand the range and type of services and more directly involve private and non-profit providers.<sup>9</sup> Peru has established a network of Intermediation and Labor Information (CIL) that draws churches, non-governmental organizations, private training schools, and local firms in a network to place workers seeking jobs. Its particular advantage for excluded populations is the use of different community organizations to deliver job placement and assessment, bringing the services to communities where excluded populations live. Providing labor intermediation services on a universal basis to whomever walks in does not undermine the ability to serve more excluded populations. To open doors for excluded populations, national labor intermediation services or networks need to be able to serve a wide range

---

<sup>8</sup> Proceedings of the Seminar on Social Inclusion, IDB Annual Meeting, March 21-22, Milan, Italy.

<sup>9</sup> For a fuller discussion of the international models for labor intermediation services, see Mazza, 2002.

of income categories and employers, otherwise they will end up serving only the poorest with the lowest wage, lowest skilled openings. What labor intermediation services can do is adapt universal services to the needs of excluded populations, or provide specialized assistance that make the service more accessible and user friendly to excluded groups. This includes, for example, staff speaking indigenous languages, mobile units that bring the service to hard-to-reach communities, and training in working with disadvantaged populations.

*Extending Rights, Services and Community Development to Migrant Populations.* Labor market exclusion is perpetuated both in developed and developing countries alike when the not-so hidden migrant labor force – and those left behind – must act outside traditional social safety nets or are non-factors dered in local development strategies. Part of the advancement of labor market inclusion must come both in regularizing or providing basic rights to those working abroad as well as in incorporating migration as a reality in local development strategies.

*Social and Unemployment Insurance.* An additional consideration for Latin America and the Caribbean is the creation of broader and more comprehensive systems of social insurance and, where appropriate, unemployment insurance<sup>10</sup> to protect incomes and smooth out negative economic cycles all too common in the region. The IDB's 2003 report on Economic and Social Progress in Latin America makes an extensive case for such a policy change. This policy evolution will require more creativity in applying systems of social insurance to the informal sector as early experience with Mexico's *Seguro Popular*, a health insurance program for the informal workers, highlights the unintended effects of increasing informality through the provision of benefits.

### Final Remarks

Promoting labor market inclusion in the current economic and labor market context of Latin America and the Caribbean presents a range of challenges. Advances must be managed in the context of a series of negative labor market trends in the region impeding inclusion, including large increases in the informal sector, limited to no formal sector growth, greater job instability, and stagnant, low wages. Challenges for raising the profile of excluded populations abound: the invisibility of these populations in statistics and national political life; the high concentrations of extreme poverty and multiple sources of exclusion; and limited regional consensus in reorienting and reshaping labor market policies and programs towards greater inclusion. Nonetheless, the important advances of women in the labor market and education in Latin America and the Caribbean in the last decade serve as a reminder of how labor markets can serve as an entry point and engine for inclusion carried out in the context of broader social and political changes even in difficult times, albeit a highly incomplete one. Duryea, Edwards, and Ureta characterize the changes for women in the labor force in the 1990s as “remarkable.” (Duryea, Edwards and Ureta, 2001). The gender engine was fueled by “push and pull” factors of economic necessity, investments in education, societal and

---

<sup>10</sup> See Mazza, Unemployment Insurance: Case Studies and Lessons for Latin America and the Caribbean Inter-American Development Bank, Working Paper Series, 411, October 1999.

cultural changes, and political mobilization and has still a long road to travel. Labor market inclusion cannot function in isolation. In the case of gender, labor market advances came in concert with wider set of political and social changes that open up opportunities and slowly undo age-old biases and stereotypes. Policy changes and reforms to promote labor market inclusion, as those highlighted in this paper, must as well be conceived of within a larger pro-inclusion policy framework (IDB 2007), a framework that takes fully into consideration the role of labor markets as both a friend and foe of inclusion.

## Bibliography

- Behrman, Jere R., Gaviria A. and Székely M. 2003. “Who’s in and Who’s out”, Social Exclusion in Latin America. Chapter One: Perception, Reality and Implications. Chapter Five: Geographic Isolation and Labor Markets in Rural El Salvador. Interamerican Development Bank, Washington D.C.
- Behrman, Jere R., Gaviria A. and Székely M. 2003. “Who’s in and Who’s out”, Social Exclusion in Latin America. Chapter Five: Geographic Isolation and Labor Markets in Rural El Salvador. Vides de Andrade, A. Lardé de Palomo, A. and Calderón Martínez L. Interamerican Development Bank. Washington D.C.
- Cox Edwards, Alejandra. 2002. IDB – Grade. *II Seminario Técnico Regional. Desarrollando consensos en torno al mercado de trabajo y las políticas de empleo en el área andina. Contribuciones al debate sobre políticas laborales – Costos laborales no salariales*. Lima, Peru.
- Duryea, Suzanne and Pagés C. 2001. “Human Capital Policies: What they Can and Cannot Do for Productivity and Poverty-Reduction in Latin America” in American Foreign Economic Relations: Policy Dilemmas and Opportunities. North – South Press. Miami.
- Duryea, Suzanne and Pagés C. 2001b. “Latin American Labor Markets: The Stylized Facts”. Conference on Latin American Labor Markets, Center for Research on Economic Development and Policy Reform. Stanford University. Stanford.
- Duryea, Suzanne, Cox Edwards A., Ureta M. IDB. “Women in the Latin American Labor Market: The Remarkable 1990’s”. Washington D.C.
- Duszik, P., Elwan A. and Metts R. IDB. “Disability Policies, Statistics, and Strategies in Latin America and the Caribbean”. Washington D.C.
- Gaviria, Alejandro. 2001. “Raza y discriminación en América Latina” (un análisis preliminar basado en el Latinobarómetro). Interamerican Development Bank, mimeo.
- Interamerican Development Bank, “2008 Economic and Social Progress in Latin America and the Caribbean,” Interamerican Development Bank, Washington, DC, forthcoming October 2007.
- Klein, Emilio and Tokman V. 2000. “*La estratificación social bajo tensión en la era de la globalización*”. ECLAC Magazine 72.
- Interamerican Development Bank, Multilateral Investment Fund. “Remittances to Latin America and the Caribbean, 2006

- International Labour Organization. *Key Indicators of the Labor Market: 2006*. Box 9A: World and Regional Estimates of Youth Unemployment. International Labour Organization. Geneva, Switzerland.
- Mazza, Jacqueline. 2003. "Labor Intermediation Services: Lessons and Considerations for Latin American and Caribbean Countries from International Experience," CEPAL Review, August.
- Mazza, Jacqueline. 1999. Unemployment Insurance: Case Studies and Lessons for Latin America and the Caribbean Inter-American Development Bank, Working Paper Series, 411, October.
- Ñopo, Hugo, Saavedra J. and Torero M. 2003. "*Discriminación étnica y de género en el proceso de contratación en el mercado de trabajo de Lima Metropolitana*". Paper presented to the Interamerican Development Bank.
- OECD, 2001. *Employment Outlook*. Paris: Organization for Economic Cooperation and Development.
- Organization for International Migration. 2005. "Regional and Country Figures" [www.iom.int/jahia/page255.html](http://www.iom.int/jahia/page255.html) Geneva, Switzerland. April.
- Pagés, Carmen and Saavedra J. 2002. *Desarrollando consensos en torno al mercado de trabajo y las políticas de empleo en el área andina. Contribuciones al debate sobre políticas laborales – Legislación laboral: Algunos principios fundamentales, evidencia empírica y políticas en América Latina*. Paper presented at the Second Technical Regional Seminal, Interamerican Development Bank. Lima, Peru.
- Pelligrino, A. 2002. "Skilled Labour Migration from Developing Countries: Study on Argentina and Uruguay." International Migration Papers 58. International Labour Office. Geneva.
- Scarpetta, Stefano. 2003. "What Went on in Latin American Labor Markets" Presentation at the Annual Meeting of the Interamerican Development Bank. Milan, Italy.
- Torrero, Máximo, Saavedra J., Ñopo H. and Escobar J. 2003 "The Economics of Social Exclusion in Peru: An Invisible Wall?" Paper presented to the Inter-American Development Bank.
- Weller, Jürgen. 2001. "*Macroeconomía del desarrollo*", *Procesos de exclusión e inclusión laboral: la expansión del empleo en el sector terciario*. Santiago, Chile.