

EMPLOYMENT AND TRAINING
PAPERS

18

Economic integration in
Latin America: Impact on
labour

John Weeks

Centre for Development Policy and Research
School of Oriental and African Studies
University of London

Employment and Training Department
International Labour Office Geneva

ISBN 92-2-111090-7
ISSN 1020-5322
First Published 1998

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Foreword

In this paper the author reviews evidence on growth, unemployment and real wages in Latin America in recent years. He finds that there has been no simple inverse relation between unemployment falling and real wages rising. It would appear that real wages can rise even though unemployment remains high; this suggests that economic liberalization and outward orientation have changed some basic parameters of labour market functioning. However, it also suggests that the benefits of growth are being spread even less effectively than before from the point of view of achieving a less unequal distribution of income. Above all growth has become decreasingly unemployment reducing. The author considers that the evidence points to the need to strengthen workers' bargaining power through a far better implementation of the ILO's core international labour standards. He quotes the ICFTU (International Confederation of Free Trade Unions) to demonstrate that many of the principles of these conventions are poorly applied in Latin America. He then considers the possibility of linking improved respect for labour standards with the operation of regional trading agreements, noting that the provisions in NAFTA and MERCOSUR relating to labour rights are weakly supported. He points out that these trading agreements consider and protect the rights of capital to a considerable degree, including resistance to expropriation, respect for copyright and other intellectual property rights. This protection is backed up by legal processes which can include intervention in trade flows. He considers that a social charter for the Americas of labour rights could justifiably be sustained by a process which related freer trade to worker protection. These are the author's proposals which, while reflecting the viewpoint of the ICFTU, in some way would imply consequences for the ILO going beyond the global agreement reached at the WTO ministerial meeting in Singapore in 1996. The understanding reached in Singapore on the respective roles of the ILO and WTO has not been superseded.

Gek-Boo Ng
Chief
Employment and Labour Market Policies Branch

Contents

	Page
Foreword	
Executive summary	1
Introduction	2
Review of labour market conditions, 1983-1996: Structure of the region's labour force .	3
MERCOSUR	5
Andean Pact	6
Central American Common Market	7
Mexico	8
Analytical summary of labour market conditions: Growth, employment and wages	9
Evidence of regional integration of labour markets	14
Regional integration and workers' rights: Analytical framework	15
Deterioration of workers' rights	18
Pro-capital bias in integration agreements	20
The labour movement and freer trade	25
Policy action to create bargaining symmetry between capital and labour	26
Concluding comments	30
Table 1. Distribution of the employed labour force in Latin America, 1980 and 1992 . .	4
Table 2. Labour market trends for fifteen countries, 1974-1997	10
Table 3. Pair-wise correlations of unemployment rates: Fifteen countries 1983-1996 .	16
Table 4. Pair-wise correlations of real wages: Thirteen countries: 1983-1996	16
Table 5. Trade union membership in Latin America, percentages, 1985 and 1995	19
Figures 1-39	35
Bibliography	3 1

Economic integration in Latin America: Impact on labour

Executive summary

This study considers the impact of economic integration in the Western Hemisphere on the labouring population of Latin America. One must be cautious in pursuing this purpose, because the integration schemes are part of a wider process of policy change towards domestic economies and trading regimes, associated with accession to the WTO, and characterised by an alteration in the form of state intervention. Thus, the economic and social trends coincident with hemispheric integration arise from a range of factors: recovery from the debt disaster of the 1980s, and its associated policies of demand compression; a shift in economic ideology from active fiscal policy to the predominance of monetary instruments; and a rise in the economic power of capital relatively to labour. In this context, it is difficult to assess rigorously the impact of economic integration itself.

The study begins with a review of labour market trends in the hemisphere during the 1980s and 1990s. Our basic conclusion is that economic growth alone is an extremely blunt and limited instrument by which to improve the conditions of labour. While by definition growth is a pre-condition for the general improvement of living standards, how the aggregate improvement is distributed among the classes in society is determined in great part by relative bargaining power and influence on policy decisions. If workers are to reap benefits from freer trade and capital flows, purposeful action is required to strike the appropriate balance between the power of capital and labour.

Labour pursues its interest under unfavourable conditions in the region. While the repression of the rights of workers should not be exaggerated, it would be accurate to say that in most countries the right to strike is restricted through legislation, especially in the public sector, but also in the private. When work stoppages occur, strikers can anticipate violent confrontation, either with hired agents of employers or agents of the state. Being a member of a trade union invites discrimination and, in many circumstances, dismissal. Further, organising a new union in many countries is extremely difficult, if not dangerous.

In the absence of specific and effective guarantees of workers' rights, the integration schemes in the Americas tend to have a strong bias in favour of capital. At the most general level, the pro-capital bias in integration schemes is demonstrated by the extensive consultation between governments and business interests, in contrast to relatively little consultation with the representatives of labour. This bias need not be the case; it is not inherent in regional agreements. But, while freer trade in the Americas creates the possibility of gains for labour, these do not occur automatically as a result of market forces. To realise these gains, policy measures are necessary to transform the integration schemes from the projects of capital to projects more for the general benefit.

The labour movements of the Americas have not adopted a protectionist position, nor do the South American trade union centrals oppose MERCOSUR. Quite the opposite is the case; nationally and internationally trade unions in the region have endorsed freer trade. *Like capital, they seek freer trade under conditions that foster their (labour's) interests.* There is a range of policy actions that governments can take, at the national and multilateral levels, to create a more appropriate balance of bargaining power between capital and labour. Many of these measures, found in ILO conventions, need have no direct impact on labour costs (either through wages or non-wage costs), except in so far as they would prohibit employers from actions which are illegal in most countries. However, actions which result in greater bargaining power for labour would in the short run increase labour costs. This is not a reason

to exclude them: since a majority of the Latin American workforce is wage labour, a general rise in living standards necessarily requires a rise in real wages.

Minimum action on labour rights would be the enactment in national legislation of the core ILO conventions, along with a commitment to vigorous enforcement (a Social Charter for the Americas). Enforcement should include mechanisms at the multilateral level (e.g., within the institutions of NAFTA and MERCOSUR) to bring sanctions against offenders, equivalent to the sanctions that exist for offences against the right of capital to mobility. It could be argued that such guarantees challenge the sovereignty of member countries, by determining their social policies in part from external pressure. While this is true, the external regulation of economic policy is part and parcel of freer trade agreements, and this is typically presented as a virtue. The same argument applies to social policy. A freer trading system that embodies the rights of labour is possible, workable, and may even lead to greater efficiency. Even should it not do the latter, it would still foster social justice at little private cost with great social gain.

Introduction

Since the wars of independence in the early nineteenth century, Latin American leaders have pursued, in words if not always in deeds, visions of economic and political integration. After the Second World War, these visions assumed concrete form in integration schemes of varying degrees of success, the Central American Common Market, the Latin American Free Trade Agreement, and the Andean Pact, to list the most prominent. Since the 1980s, integration schemes have developed with greater vigour, perhaps prompted by the formation of the North American Free Trade Agreement (NAFTA), which in 1994 added Mexico as its third member, along with the United States and Canada. In a parallel development, the governments of Argentina, Brazil, Paraguay and Uruguay formed the Common Market of the South (*Mercado Comun del Sur*, MERCOSUR), with Chile and Bolivia as associate members. By these vehicles, perhaps in altered form, economic integration of the Western Hemisphere will continue into the next century, with profound impact on the countries of the region.

The purpose of this study is to consider the impact of hemispheric integration on the labouring population of Latin America. One must be cautious in pursuing this purpose, because the integration schemes are part of a wider process of policy change towards domestic economies and trading regimes, associated with accession to the WTO,¹ and characterised by an alteration in the form of state intervention. Thus, the economic and social trends coincident with hemispheric integration arise from a range of factors. These include: 1) recovery from the debt disaster of the 1980s and its associated policies of demand compression (De Pinies 1989); 2) a shift in economic ideology from active fiscal policy to the predominance of monetary instruments; and 3) a rise in the economic power of capital relatively to labour, in part the result of changes in national legislation. In this context, it is difficult, if not impossible, to assess rigorously the impact of economic integration either regional or global.² Evidence suggests that economic integration at all levels has not brought the resource allocation benefits anticipated.³

While the analytical difficulties are serious, the policy issues associated with integration

¹ For a brief presentation of the implication of the WTO for developing countries as a whole, see ODI (1995).

² This point is made cogently in Campbell (1997).

³ 'Trade liberalization and the dismantling of import substitution regimes have not, by themselves, induced export diversification and a more dynamic integration of most Latin American countries into the international economy' (UNCTAD 1997, p. 13).

are so important that an attempt to account for changes and to anticipate future trends cannot be avoided. In pursuit of these, the study begins with a review of labour market conditions in Latin America. An attempt to decompose these changes in terms of the different influencing factors would be both unsuccessful and analytically unsound. However, the review presents the context in which labour market policy can be considered. This is followed by the central focus of the study: the relationship among integration schemes, national policies, and basic rights of workers. The central issue considered is what combination of policies would foster the rights of workers and, through the exercise of those rights, improve the conditions of labour, while being consistent with freer trade and capital flows. In this discussion considerable stress is placed upon evidence that indicates a severe, and perhaps increasing, incidence of public and private sector denial of workers' rights, both for trade unionists and non-trade unionists. Thus, a major conclusion of the study is that in most countries of the hemisphere, legislation is required to protect and guarantee the exercise of the basic human rights of workers. Along with this, integration schemes must include such protection and guarantees as a fundamental element of their charters.

Review of labour market conditions, 1983-1996:

Structure of the region's labour force

As we approach the end of the twentieth century, Latin America is overwhelmingly urban; only three of the eighteen Latin language countries had a majority of the population in rural areas.⁴ While rural employment remains important in most countries,⁵ for the region⁶ as a whole close to eighty percent of the work force is urban. As shown below, the majority of workers in a majority of the countries were employees, not self-employed. These characteristics of the Latin American region differentiate it from other underdeveloped regions, with the exception of North Africa and the Middle East, and a few countries of East Asia.⁷ In Africa south of the Sahara, South Asia, and Southeast Asia, the labour forces are predominantly rural. In contrast, Latin American has passed through the process in which countries become overwhelmingly urban. By necessity, a review of the labour market in Latin America is primarily a review of conditions for urban employees and, by implication, the impact of these on the rest of the labour force. Related to this, unemployment is taken as the main indicator of access to income for the labour force.⁸

Table 1 provides the basic data on the distribution of the labour force in Latin America, which confirms the importance of wage employment, public and private, in six of the eighteen countries of the region. In 1992 wage employment was, at the least, more than sixty percent of the non-agricultural labour force in each country, and almost seventy percent for the region. However, compared to 1980, the share of wage employment *declined*, by six percentage points for the region, which Thomas (1996) interprets as a process of 'informalisation' associated with liberalisation of labour markets. Whatever the cause, this notable shift may indicate an

⁴ All were in Central America: El Salvador, Guatemala, and Honduras, and for all three the urban population was greater than forty percent of the total.

⁵ But not for all. Rural employment accounted for fifteen percent or less of total employment in Argentina, Chile, Uruguay, and Venezuela.

⁶ Throughout the text, 'region' will refer to the eighteen Latin language countries (excluding Cuba) or some sub-set thereof.

⁷ The countries of Central and Eastern Europe are also predominantly urban, but their transitional status places them in a category of their own which is obscured if they are included in the general term 'less developed'.

⁸ Until recently, the importance of unemployment in Latin America tended to be under-emphasised: 'The growth of open unemployment in developing countries since the mid-1970s must at least raise questions as to the validity of a development model which links poverty to labour under-utilisation rather than open unemployment' (Rodgers 1989, p. 16).

increase in 'hidden' unemployment, with 'self-employment' including people suffering from various degrees of short-time work. The greatest increase in self-employment occurred in Mexico, so large (from eighteen to thirty percent) that it suggests a change in definition or measurement error. The possibility that the increase in self-employment in the region, substantial for Argentina and Costa Rica as well as Mexico, implies an increase in unemployment, is supported by our review of unemployment trends, presented below.

Table 1. Distribution of the employed labour force in Latin America, 1980 and 1992

Country	1980	Non-agricultural employment		1992	Non-agricultural employment	
	Per cent of labour force non-agric	Wage employment publ. & priv.	Self-employed	Per cent of labour force non-agric	Wage employment publ. & priv.	Self-employed
Argentina	87.0	73.7	20.4	92.4	66.3	25.9
Brazil	68.8	76.0	22.9	75.1	68.3	22.5
Chile	83.6	63.9	27.8	86.9	69.4	23.0
Colombia	65.8	54.2	25.3	71.8	68.5	25.4
Costa Rica	69.3	77.6	16.3	75.5	73.3	20.9
Mexico	63.5	75.6	18.0	71.0	64.0	30.5
Venezuela	79.2	74.2	21.2	90.5	72.7	23.6
Latin America	68.2	74.4	19.2	73.4	68.2	22.5

Note: Non-agricultural labour force percentage from Food and Agricultural Organisation, AGROSTAT. Division of non-agricultural employment from Thomas (1996, p. 88), based on ILO data. The residual is given as 'domestic service' in the original source.

In keeping with our focus on regional integration, the detailed discussion of labour market trends is presented by groups of countries, MERCOSUR, the Andean Pact,⁹ and the Central American Common Market, with Mexico considered separately (being a member of NAFTA). The 1990s represented a period of general recovery,¹⁰ but, as we see, the recovery had limited impact on unemployment rates. In our review we shall make use of officially reported unemployment rates and real wages.¹¹ The former cannot be taken as an accurate measure of *levels*, in part due to conceptual problems, in part as the result of method of collection and, in some countries, a possible downward bias for political reasons. However, we treat the trends as roughly accurate, which is, to a degree, confirmed by a statistical exercise at the end of the labour market review, which shows the rates to be closely correlated

⁹ For purposes of presentation, Bolivia is included in the Andean group, though it is also an associate member of MERCOSUR.

¹⁰ For example, the Inter-American Development Bank entitled the first chapter of its 1991 report, 'A Decade of Hope'. The 'Executive Summary' of the 1994 report suggests that a general recovery had occurred.

¹¹ The unemployment and real wage statistics are from CEPAL (1986, pp. 24-34) for 1971-1982); CEPAL (1992, pp. 78, 81) for 1983-1990; and CEPAL (1995, pp. 50-51), CEPAL (1996, pp. 14-15), CEPAL (1997, p. 27), CEPAL (1998, p. 52) for 1991-1997.

with the level of output by country.

MERCOSUR

Established in 1991 with Argentina, Brazil, Paraguay, and Uruguay as founding members, MERCOSUR has become the world's fourth largest trading bloc (IRELA 1997). Brazil alone accounted for thirty-five percent of the region's labour force in the mid-1990s, and the bloc as a whole forty-five percent. The least urbanised country of the four was Paraguay, at fifty percent, while the proportion for Argentina and Uruguay was near ninety, and Brazil almost eighty. It is difficult to assess the strength of organised labour. However, the labour movement had perhaps greatest strength in Argentina and Uruguay, and relatively little in Paraguay, with Brazil closer to the first two countries than the third. As discussed below, the strength of organised labour has been on the decline in recent years in all the countries, with the possible exception of Paraguay (from which there was no position of strength to decline).

Of all the trading blocs in the hemisphere, MERCOSUR has raised greatest controversy with regard to its possible protectionist impact on the third-party trade of the members. For example, Yeats concludes in a World Bank paper that the intra-group trade is contrary to the countries' comparative advantage and, therefore, associated with efficiency and welfare losses.¹² To a great extent, MERCOSUR can be seen as the sub-regional response to pressure from the United States for trade liberalisation at a rate more rapid than some of the MERCOSUR governments wish (Filder & Dyer 1997, p. 5).

Figure 1 (see end of this paper) shows unemployment rates for the four member countries and Chile, 1974-1997, followed by Figures 2 – 6, which present each country's rates separately. In order to make the changes in unemployment more obvious, in the country charts each year's unemployment rate is subtracted from the average for the period as a whole. Thus, columns in the positive quadrant show above average unemployment rates, and those in the negative quadrant below average rates. Analytically, we can divide the period 1974-1997 into three sub-periods, prior to the debt crisis (1974-1981), the debt crisis years (1982-1989), and 'recovery' (1991-1997). For all the countries but Brazil, unemployment was on the decline in the first period, least of all for Argentina. Chile is a special case: though unemployment declined from 1976 through 1981, this followed a dramatic increase after 1973, when the country fell victim to a military dictatorship.

Since the countries of MERCOSUR, with the exception of Paraguay, were heavily indebted, it is not surprising that unemployment showed a pronounced cycle in the 1980s, rising in the early years of the decade, then declining. Less expected is the pattern for the 1990s, with rising or above average unemployment for every country but Chile. This worsening of unemployment in the mid-1990s also occurred in other regions, and it is analysed in the summary section. The period trends in unemployment and wages are summarised in Table 2 (page 10), to which we shall refer in the discussion of each sub-region.

The available data on real wages are presented in Figure 7 for all five countries, followed, as before, by the countries shown separately (Figures 8 - 12). For this indicator of labour markets, the pattern across countries varies considerably. In the second half of the 1970s wages rose in Brazil and Chile, though in the latter case this represented only a partial

¹² The study is problematical in as far as it seems to assume that the comparative advantage of Argentina, Brazil, and Uruguay is in labour-intensive products, despite these being among the most developed countries in the region (Yeats 1997).

recovery from the sharp decline in the early years of the decade.¹³ In Uruguay wages fell during this decade, despite falling unemployment, a combination that could be explained by the repression of trade union activity under the military dictatorship. The 1980s were grim years for wage labour in the Southern Cone countries, with falling wages in three countries (Argentina, Brazil, and Uruguay), and no significant trend in the other two. The 1990s brought a recovery of real wages in three of the countries, but no significant reduction in unemployment (with unemployment rising in Uruguay). Over the entire period, 1974-1997, workers in Argentina fared worse, in a significant upward trend in unemployment, and a long term decline in real wages (almost twenty percent over the twenty-four years).¹⁴ There was also a long-term decline in real wages for Uruguay at a considerably faster rate (implying a drop of over forty percent for the period).¹⁵ It would be hard to argue that Argentina and Uruguay, both highly urban with educated labour forces, required a long term down adjustment in the real wage to correct labour market 'distortions'. MERCOSUR also included two countries in which the long term trends for labour were favourable (indeed, the only such Latin American countries). For both Brazil and Chile unemployment had a declining trend and real wages a positive trend. By 1996-1997, real wages in Brazil had risen to fifty percentage points above the level of the early 1970s.¹⁶ While the trend rate of growth was higher for Chile than Brazil, it was not until 1996 that real wages regained their previous peak of 1971.

Overall, the labour market indicators for MERCOSUR countries suggest a complicated interaction between wages and unemployment. Over the entire period, real wages and unemployment moved in opposite directions or without significant trends (Paraguay), as simple labour market theory would predict. However, within sub-periods, the absence of the expected relationship is the rule rather than the exception. We investigate statistically this issue across all countries in the summary section.

Andean Pact

Nominally, the Andean Pact includes five countries, Venezuela, Colombia, Ecuador, Peru and Bolivia. Of the three groups we consider, the Andean Pact was the least active and cohesive, implementing integration measures much less than the Central American Common Market or MERCOSUR. Trade among the countries is quite low, considering that the Pact has been in effect for two decades. An indication of the weakness of the Pact is Bolivia's associate membership in MERCOSUR. It is also the grouping with the greatest disparities in levels of development among members.¹⁷

Unemployment and wage statistics are presented in Figures 13-24. Inspection of Figure 13 (all five countries) and Figures 14-18 (each country separately) suggests for the three decades labour market conditions showed little improvement. For all the countries unemployment displays a strong cyclical element, though the phasing of the cycle varies. It

¹³ It is generally recognised that income distribution became more unequal in Chile during the 1970s and 1980s, though there is no consensus about the 1990s (Pollack & Uthoff 1989, p. 139).

¹⁴ Despite the predicted relationship between real wages and unemployment, which suggests considerable labour market 'flexibility' in Argentina, Riveros and Sánchez conclude that 'labor market variables played a negative role in the effort to achieve structural changes' (1994, p. 85).

¹⁵ See Stolovich (1991) for a discussion of real wages in Uruguay in the 1980s. In part the rise in unemployment was due to an increased participation rate (IBCA 1997, p. 14).

¹⁶ Fox, Amadeo and Camargo argue that in the 1980s the Brazilian labour market displayed 'tremendous flexibility' (1994, p. 159). They attribute the decline in measured unemployment to expansion of the 'informal sector'.

¹⁷ Using Inter-American Development Bank data for 1995, the coefficient of variation of per capita income among Andean Pact countries was .615 (without Bolivia .583); for the Central American Common Market .454 (with Panama .549); and for MERCOSUR .454 (with Chile .389, with Chile and Bolivia .494)

is striking to note that in every country except Bolivia unemployment *rose* in the second half of the 1990s, though GDP growth rates improved.

In Peru, Bolivia and Venezuela, real wages fell and unemployment rose (though for the first two countries wage data have missing years). Wages rose in Colombia, but there was no trend in unemployment. Within sub-periods, the Andean countries suffered from the most extreme reductions in real wages in Latin America: minus six percent a year for Peru in the 1970s, Venezuela and Peru more than minus nine percent in the 1980s, and a catastrophic minus thirteen percent annually for Bolivia in the 1980s. From the early 1970s when real wages in Peru were over seventy percent above the period average, they fell to almost sixty percent below in 1995-1997. The decline for Venezuela was almost as great, from fifty percent above the period average in 1980, to forty percent below in 1990-1991. These declines pale in comparison to Bolivia during 1982-1985, where, during the period of hyperinflation, real wages went from 120 percent above the period average to fifty percent below. This was followed by an upward trend, but by 1997 real wages were still far below the level of the early 1980s.

In part the deterioration of labour market conditions in the Andean countries can be explained by the fall in petroleum prices, which severely affected Ecuador and Venezuela. However, deterioration was also severe for Peru and Bolivia, which suffered from periods of hyperinflation. It is not inherent in hyperinflation that wage labour should suffer relatively to other groups. That it did so in Bolivia and Peru suggests a weakness of bargaining power, an issue discussed for the region as a whole in a subsequent section.

Central American Common Market

The Central American Common Market (CACM) formally began in 1963, after which there was fifteen years of relatively rapid growth of intra-group trade, almost entirely in manufactures. In the late 1970s and early 1980s wars in Nicaragua and El Salvador, severe balance of payments pressure in all countries, and adjustment programmes combined to undermine integration efforts. None-the-less, the CACM probably achieved greater economic integration of its member countries than MERCOSUR has to date, and certainly more than the Andean Pact. In the 1990s the grouping re-initiated integration efforts (see Bulmer-Thomas, *et. al.* 1994), in part in response to the creation of NAFTA. Though there is no formal provision for free movement of labour among the countries, in practice cross-border migration is considerable, especially for agricultural work.

Three countries with relevant data, Costa Rica, Guatemala, and Honduras, display the now-familiar 'debt-crisis' pattern of unemployment: rising rates in the late 1970s and early 1980s, followed by falling rates towards the end of the decade (Figures 24, 25, and 27). Costa Rica is often considered the sub-region's success story, based on export led growth. After the severe economic crisis during 1979-1982, when real wages fell and unemployment rose (Pollack 1989), unemployment declined through the 1980s, but rose again in the 1990s. Evidence suggests that poverty in Costa Rica is highly correlated with unemployment (*ibid.*, p. 78). The period of decline can largely be attributed to increases in public sector employment after 1982 (Gindling & Berry 1994, p, 231). During the 1980s, labour markets in Nicaragua and El Salvador were strongly affected by armed conflict. While military service had the effect of reducing the labour surplus, more important was the disruptive effect of war, which generated considerable unemployment. Unemployment in Nicaragua rose sharply after 1988, in part the result of the demobilisation of soldiers after the election of 1990. A substantial increase in Guatemala's growth rate, from one percent in the 1980s, to 4-5 percent in the 1990s, was associated with declining unemployment.

Panama, very urbanised with extremely high measured unemployment rates, suffered from growing unemployment in the 1970s and 1980s,¹⁸ in the latter decade affected by US sanctions that depressed the growth rate. After the US intervention in 1989, growth recovered strongly for three years (1990-1992), which led to a simultaneous fall in unemployment (see Figure 28). After 1992 the growth of GDP averaged less than three percent per annum after 1992, and brought stagnation in the unemployment rate.

There are wage data for four countries, Costa Rica, Guatemala, Nicaragua and Panama (see Figures 30-33).¹⁹ For Costa Rica, there was a positive trend in real wages over the entire period. While of a relatively modest .8 percent per annum for the twenty-seven years, the recovery from the low point in 1982 was substantial, at three percent per annum subsequently. However, that is the only positive trend in the region. For Guatemala, Panama, and Nicaragua, real wages declined, catastrophically in the last case. If our surveys by country group show a common outcome, it is that during periods of hyperinflation, wage labour tends to lose relatively to other groups. This outcome was found for Bolivia and Peru, and Argentina during 1989-1991 could be added to the list (see Figure 8). This suggests that in none of these countries, and perhaps not in others, would organised labour have the economic or political strength to protect its place in the income distribution when inflation ran out of control.

Mexico

Since Mexico joined NAFTA in 1994 there has been an on-going and often bitter debate over the consequences for wage labourers.²⁰ For example, Gutierrez Haces (1997) argues that despite the relatively small net changes in employment that can be attributed to NAFTA, the large shifts between sectors had considerable social and economic costs of adjustment. However, assessing the impact of NAFTA on the conditions of labour in Mexico confronts the problem that dramatic structural changes have occurred in the economy since the liberalisation process formally began in 1985. To make a contentious issue more intractable, any economic effects of Mexico joining NAFTA have been overwhelmed by the 'pesos crisis' of late 1995. Indeed, a central issue of debate over the benefits of NAFTA is whether the collapse of the *peso* should be considered an 'exogenous' event, or a crisis intimately linked to Mexico's strategy for joining NAFTA.²¹ There is circumstantial evidence to suggest that the Mexican government pursued a conscious policy of exchange rate overvaluation prior to entry to NAFTA. This policy might have been motivated by a desire to maintain a pre-accession trade deficit with the United States, which was an important factor influencing the favourable vote on the treaty in the US Congress (Larudee 1997, p. 76).

From the first petroleum price increase in 1973-1974, unemployment began a cyclical decline until 1982 (with the exception of a sharp increase in 1977, see Figure 34). As one might expect, the debt crisis of 1982-1983 was associated with a sudden downturn and increased unemployment. However, employment quickly recovered, with unemployment rates falling through the second half of the 1980s. Well before the collapse of the *peso* (late 1994), a rise in unemployment set in, with a dramatic increase from 1994 to 1995. Thus, exchange

¹⁸ Despite rising unemployment, the share of wages in national income was stable in the 1970s (around 50 percent) and early 1980s (Calmazon, Garcia-Huidobro & Morgado 1989, p. 102).

¹⁹ There are no wage data for Guatemala, but case study evidence suggests that real wages fell in the 1970s (Arturo, Avila Avila & Avila Avila, 1989).

²⁰ Most of the literature addresses the impact of NAFTA on employment and labour incomes in the United States. See EPI, *et. al.* (1997) and US Trade Representative (1997).

²¹ Larudee (1997) argues convincingly that the *peso* crisis was in great part a direct result of the policy preparation for entry into NAFTA.

rate instability accentuated, but was not the cause of a new rise in unemployment.²² After the crisis year of 1982 the cyclical movement in real wages at first followed an expected pattern, declining as unemployment rose, though recovering ahead of the unemployment rate. It is somewhat surprising to note that after Mexico formally entered NAFTA (1994), real wages deteriorated, though unemployment fell. A further labour market trend in the 1990s is well documented: wage inequality increased substantially.²³

Analytical summary of labour market conditions:

Growth, employment and wages

The purpose of reviewing labour market conditions is to assess the extent to which the wage labour force in Latin America has gained from economic growth. If gains have been considerable in relation to economic performance, then the argument for institutional changes to protect labour is weakened. On the other hand, if gains have been modest, there is a *prima facie* case for strengthening the potential for labour to bargain with capital, in part through national legislation, and in part through the multilateral arrangements of economic integration.

We begin the assessment by reference to Table 2, which covers the entire time period, 1974-1997, for the two major indicators, unemployment and real wages. For the fifteen countries, in only two was there a long-term improvement in both variables (Brazil and Chile). For seven countries, there was an unambiguous deterioration. In four of the seven, Argentina, Panama, Peru, and Venezuela, wage labour received a double blow: over time more workers were unemployed, and those employed received lower real wages. This result is quite striking: despite major changes in policy regimes (dramatic in Argentina, Bolivia and Peru), *the deterioration in labour market conditions was secular, not merely cyclical*. Three other countries, Bolivia, Guatemala, and Uruguay, unemployment showed no trend (i.e., it moved cyclically), and real wages fell. In the remaining six countries there was no trend in unemployment, rising wages in one (Costa Rica), and falling wages in one (Mexico).

Thus, the long run patterns indicate that wage labour in Latin America enjoyed rising real wages in only four of thirteen countries for which there are data; and in only three of fifteen countries was unemployment lower. Further, for the thirteen countries with wage data, in only one, Chile, was the long-term trend in wages above the trend in per capita income.²⁴ In other words, labour's relative position in the income distribution declined in every country but one.²⁵

An inspection of sub-periods (last row of Table 2) shows that only during 1974-1981 did unemployment fall in as many countries as it rose. Indeed, in the 'recovery' decade of the 1990s, unemployment rose in six countries, while falling in only three. Notwithstanding the tendency for unemployment to rise in this decade, wages rose in nine and fell in none. If labour market 'flexibility' is taken to mean a tendency for labour markets to 'clear' through real wage adjustment to surpluses and shortages, then one would find rising wages to be associated with falling unemployment and vice-versa. Yet, when one looks across countries

²² Moreno-Fontes points out the longer term nature of the rise in unemployment:

In Mexico, a labour crisis has existed since 1982, which has become more acute after the acceleration of liberalization and opening up of the economy in 1989. Workers have been losing ground in terms of standard of living and working conditions. Unemployment and underemployment rate have been increasing... (Moreno-Fontes 1996, p. 33).

²³ Alarcon Gonzalez and McKinley argue that '[d]iscriminatory wage policies have combined with policies of trade liberalization to markedly widen the wage gap between lower-paid and higher-paid workers' (1997, p. 505).

²⁴ This is also the conclusion of UNCTAD: '...[T]here was a wide-spread fall in the average share of wages [in manufacturing] between 1980-85 and 1985-1992' (UNCTAD 1997, p. 138).

²⁵ And in Chile, labour's share towards the end of the 1990s was considerably below what it had been at the end of the 1960s.

Table 2. Labour market trends for fifteen countries, 1974-1997

Country	1974-1981	1981-1990	1990-1997	Entire period
1. Argentina (1971-97 & 1974-97)	unemp nsgn wages nsgn	unemp rising wages falling (- 3.4)	unemp rising wages nsgn	unemp rising, wages falling (- 0.9), deterioration
2. Bolivia (1976-97 & 1982-96)	unemp nsgn wages ND	unemp rising wages falling (- 13.4)	unemp falling wages rising (+ 3.2)	unemp nsgn, wages falling (- 4.4), deterioration
3. Brazil (1976-97 & 1971-97)	unemp rising wages rising (+ 3.5)	unemp falling wages falling (- 1.6)	unemp rising wages rising (+ 4.8)	unemp falling, wages rising (+ 0.5), improvement
4. Chile (1973-97 & 1974-97)	unemp nsgn* wages rising* (+ 6.6)	unemp nsgn wages nsgn	unemp nsgn wages rising (+ 4.0)	unemp falling, wages rising (+ 2.4), improvement*
5. Colombia (1974-97 & 1971-97)	unemp falling wages rising (+ 2.4)	unemp nsgn wages rising (+ 1.6)	unemp nsgn wages rising (+ 1.6)	unemp nsgn, wages rising (+ 1.6), mixed
6. Costa Rica (1976-97 & 1971-97)	unemp rising wages rising (+ 4.6)	unemp falling wages nsgn	unemp rising wages rising (+ 2.2)	unemp nsgn, wages rising (+ 0.8), mixed
7. Ecuador (1983-97 & no data)	unemp ND wages ND	unemp nsgn wages ND	unemp rising wages ND	unemp nsgn, wages ND, ambiguous
8. Guatemala (1978-96 & 1971-95)	unemp ND wages nsgn	unemp nsgn wages falling (- 5.8)	unemp falling wages rising (+ 5.9)	unemp nsgn, wages falling (- 2.0), deterioration
9. Honduras (1976-97 & no data)	unemp rising wages ND	unemp rising wages ND	unemp nsgn wages ND	unemp nsgn, wages ND, ambiguous
10. Mexico (1973-97 & 1971-97)	unemp falling wages nsgn	unemp falling wages falling (- 3.8)	unemp falling wages nsgn	unemp falling, wages falling (- 1.5), mixed
11. Panama (1974-97 & 1976-95)	unemp rising wages falling (- 4.5)	unemp rising wages nsgn	unemp falling wages rising (+ 2.0)	unemp rising, wages falling (-1.3), deterioration
12. Paraguay (1976-97 & 1971-97)	unemp falling wages nsgn	unemp nsgn wages nsgn	unemp nsgn wages rising (+ 1.7)	unemp nsgn, wages nsgn mixed
13. Peru (1976-97 & 1971-97)	unemp rising wages falling (- 6.2)	unemp nsgn wages falling (- 9.4)	unemp nsgn wages nsgn	unemp rising, wages falling (- 6.6), deterioration
14. Uruguay (1976-97 & 1971-97)	unemp falling wages falling (- 5.5)	unemp nsgn wages falling (- 3.9)	unemp rising wages rising (+ 1.2)	unemp nsgn, wages falling (- 2.7) deterioration
15. Venezuela (1974-97 & 1976-91)	unemp nsgn wages nsgn	unemp nsgn wages falling (- 9.7)	unemp nsgn wages ND	unemp rising, wages falling (-5.6), deterioration
Summary (Numbers: falling, nsgn, rising)	unemp: 4, 4, 5 (2 no data) wages: 3, 5, 4 (3 no data)	unemp: 3, 8, 4 wages: 8, 4, 1 (2 no data)	unemp: 3, 6, 6 wages: 0, 3, 9 (3 no data)	improvement: 2 mixed: 4 deterioration: 7 ambiguous: 2

* The unemployment rate in Chile has not returned to its lowest level, in 1973 (the average for 1996-1997 was double that of 1972-1973). Real wages regained their 1971 level in 1996.

The dates given under each country are the end years for the unemployment and wages data series respectively.
nsgn = no significant trend; nd = no data.

and time periods for this inverse relationship, it occurs with a frequency that is no more than random. This suggests fragmentation of labour markets, which is not the result of government regulation.²⁶ In virtually all of the countries labour market ‘reforms’ were introduced in the 1980s to create greater ‘flexibility’ (see below). The aggregate evidence suggests that there was no more flexibility in the 1990s than in the 1980s or 1970s.

*In most countries the lack of ‘flexibility’ cannot be attributed to government-created ‘distortions’ of the labour market.*²⁷ In the 1990s in Brazil, Chile, Colombia, Costa Rica, Paraguay and Uruguay, real wages rose without a decline in unemployment (indeed, with an increase in the last country), yet labour institutions and regulations varied greatly among these five. The variations in institutions and regulations were, if anything, greater among the three countries in which we find the predicted combination of rising wages and falling unemployment (Bolivia, Guatemala, and Panama). The mix of trends and non-trends suggests that characteristics of the private sector may have affected outcomes. One possibility is that wages rose in export sectors, while remaining stagnant in others, but the disaggregated data to test this hypothesis are lacking. Overall, one must conclude that labour market outcomes in the 1990s involved processes considerably more complex than output growth leading to falling unemployment, which in turn, generated upward wage pressure.

The rather disparate labour market outcomes call for a more rigorous analysis of the relationship between growth and real wages. To do this, we employ a simple model with three elements: a growth equation, an unemployment equation, and a real wage equation. The purpose is to try to identify changing labour market conditions over time. We use a growth model derived from the basic Harrod-Domar framework.²⁸ The ‘warranted’ rate of growth is:

- 1) $y_w = O\$J$
where O is the ratio of investment to income (I/GDP), $\$$ is the output-capital ratio, and t a technical change shift parameter.

Due to external shocks and internal markets that do not clear in the Walrasian instantaneous fashion, the actual rate of growth can be less than the warranted rate. We assume that in Latin American countries the main constraint on capacity utilisation is imports, due to the import-dependency of production. Thus, we can specify the actual rate of growth as:

- 2) $y = y([O\$J], m)$

Where m is the rate of growth of imports. Over time the capacity to import is determined by the rate of growth of exports (x). The proportion of export earnings which can be used for imports is reduced by foreign debt service payments (FDS/X). Further, non-debt service net capital flows (NCF) allow for imports to increase faster than exports. Substituting, we obtain:

- 3) $y = y([O\$J], m[x, FDS/X, NCF])$

²⁶ Case study evidence for labour market fragmentation or segmentation is found in Jatoba (1989, pp. 50-51).

²⁷ In Argentina, Chile, and Uruguay, perhaps the three most developed countries of the region, there has been considerable reduction of worker protection (Marshall 1997). This has also been the case for Mexico (Moreno-Fontes 1996). See Plant (1994, pp. 84-90, & Chapter 6) for a review of labour market policy in Latin America in the context of structural adjustment.

²⁸ The following growth model is taken from Weeks (1997), where it is applied to eighteen Latin American countries and six East and Southeast Asian countries.

If we convert this to logarithms and incorporate technical change in a constant term, we obtain the functional form for our empirical estimation:

$$4) \quad \ln[y]_t = \alpha_0 + \alpha_1 \ln(x)_t + \alpha_2 \ln[\text{FDS}/X]_t + \alpha_3 \ln[\text{I}/\text{GDP}]_t + \alpha_4 \ln[\text{NCF}]_t$$

The central feature of this growth model is that it allows for the economy to be demand-constrained via exports, which cannot be overcome through fiscal expansion due to the import-dependency of production. Given the severe import-compression in Latin America during the 1980s, this approach is much preferred to a neoclassical supply-constrained model. The data for the fifteen countries in Table 2 is combined by use of dummy variables (countries omitted when data are missing), along with dummy variables for each year, with the estimation over the years 1983-1995.

For the unemployment rate, we use the following simple log-linear function, with dummy variables for countries and years:

$$5) \quad \ln[L]_t = \alpha_0 + \alpha_1 \ln(Y)_{t-1}$$

Where L is the unemployment rate and Y is the level of GDP. Real wage changes are assumed to be a negative function of the unemployment rate:

$$6) \quad \ln[\tau_t/\tau_{t-1}] = \beta_0 + \beta_1 \ln(L)_t$$

In order to inspect effects over time, the equations are estimated separately, rather than in reduced form. For the growth equation, five of the fourteen country dummies are significant,²⁹ and eleven of the twenty-five year dummies. The year 'shift' coefficients are shown in Figure 36. Because the model accounts for hypothesised sources of growth, the shifts might be interpreted as reflecting world market effects. The coefficients display a cyclical pattern, with growth across countries declining from 1973 to 1982, then rising quickly to fluctuate around the long-term average during 1983-1987, before falling sharply in 1988. During 1988-1992, a recovery sets in, followed by fluctuations around the average during 1993-1997. The chart substantiates the general impression that Latin American growth recovered in the *early* 1990s, in part due to improved world market conditions, such as lower real interest rates, but in the later part of the decade growth was lower and unstable.

Turning to the unemployment rate, the correlation between output and unemployment shows an R-square of .74 and an F-statistic significant at less than one-thousandth. The elasticity of the unemployment rate with respect to output is quite high, minus 2.6, implying that a one percent increase in output prompts a 2.6 percent reduction in the unemployment rate.³⁰ Inspection of the coefficients on the dummies for years suggests that the rejuvenation of growth (shown in Figure 36) is in contrast to the pattern for unemployment rates, presented in Figure 37. The chart indicates a long-term rise in the unemployment rate associated with any level of GDP during 1974-1984, and 1989-1997. This, in turn, suggests that despite 'reforms' to increase labour market 'flexibility' in the 1990s *economic growth was decreasingly unemployment reducing*. Along with the earlier finding that real wages rose in several countries in the 1990s when unemployment did not fall, the regression results suggest an

²⁹ For more detailed discussion, see Weeks (1997), where the growth equation is treated in detail.

³⁰ Note that this refers to a percent change, not a percentage point change. For example, were the unemployment rate ten percent, a one percent increase in output would reduce it to 9.7 per cent.

interpretation of labour market trends in the 1990s. Namely, that the export-oriented growth strategies embraced by most countries may have increased the demand for skilled and semi-skilled labour, drawing up those wages, while having less impact on the demand for unskilled labour.

To complete our analysis, we turn to the relationship between unemployment and real wages. When an OLS regression is estimated, using all years and countries with relevant data, with changes in real wages as the dependent variable and changes in the unemployment rate as the explanatory variable, the predicted relationship is significant at .016 probability, and implies an elasticity of wage changes with respect to the unemployment rate of $-.74$. That is, a ten percent reduction in the unemployment rate results in a seven percent rise in real wages across countries. However, *the model explains only ten percent of the variation in real wages, and the unemployment variable explains less than five percent*. This implies that while evidence supports the assertion that increased growth led to rising real wages (World Bank 1995, p. 8), the mechanism explains but a tiny portion of the observed changes in wages.

Notwithstanding the very low explanatory power of the unemployment rate, real wages show a strongly cyclical pattern over time (Figure 38). Taking the average for 1971-1997 as the base, OLS annual variations display a downswing from 1971 through 1979, followed by an upswing to 1982. From the 1982 peak, real wages declined continuously until 1991, after which another upswing occurred. This pattern implies what was suggested in the discussion above: while real wage changes tended to follow changes in output, changes in output had considerably less effect on unemployment in the 1990s than they had previously. Figure 39 combines the OLS estimated variations in the real wage index and the unemployment rate to emphasise this point. From 1974 through 1982 (pre-debt crisis), the two series roughly correspond to the expected inverse relationship between real wages and unemployment: real wages remained more or less stable while unemployment was stable (1974-1978), then rose as unemployment fell (1979-1982). From 1982 through 1989, unemployment remained stable, close to its period average, while real wages declined continuously. After 1989, unemployment rose continuously, and real wages also rose.

To repeat the earlier point, the simple labour market hypothesis maintains that if wages are flexible, the labour market should clear; and that rising wages are the result of a reduction in the excess supply of labour. To achieve this end, governments have instituted a number of 'reforms'. The evidence suggests that the hypothesis is too simple. In Latin America after 1982, even more after 1989, demand conditions in the labour market contribute very little to the explanation of real wage movements, despite increased 'flexibility'. A possible explanation is that greater 'flexibility, rather than fostering employment growth, facilitated the 'shedding' of labour in the private and public sectors. The limited employment generation suggests scope for policy interventions to enable wage labour to regain lost ground during the 1980s and 1990s.

The evidence also casts doubt upon the hypothesis that an export-orientated policy is brings benefits to workers through real wage increases that are larger than would be the case within other policy strategies. In the *World Development Report of 1995*, it is asserted,

...[D]uring the past two decades real wages rose at an average annual rate of 3 percent in developing countries where the growth of trade (exports as a share of GNP) was above average, but stagnated in countries where trade expanded least. World Bank 1995, p. 10)

When we tested this hypothesis for the countries listed in Table 2, by including exports

as a portion of GDP as a variable in the real wage equation for 1985-1996 (equation 6), the coefficient proves to be non-significant.³¹ In an alternative specification, using the rate of growth of the volume of exports, the coefficient is also non-significant. One cannot exclude the possibility that under alternative specifications of the wage relationship, some measure of trade orientation might prove significant; but this remains to be established. On the basis of the measure proposed by the World Bank, we can reject the hypothesis that trade brings greater real wage gains than would otherwise be the case.

Our basic conclusion is that economic growth alone is an extremely blunt and limited instrument by which to improve the conditions of labour.³² This is especially the case because growth in Latin America has not been rapid.³³ While by definition growth is a pre-condition for a general improvement of living standards, how the aggregate improvement is distributed among the classes in society is determined in great part by relative bargaining power and influence on policy decisions. The neoclassical theory of distribution, based upon the relative supply of factors, provides an abstract framework for organising one's analysis; it does not provide an explanation, either theoretical or practical, for distribution in the short and medium term. If workers will reap benefits from freer trade and capital flows, purposeful action is required to strike the appropriate balance between the power of capital and labour.

This view, that growth is not sufficient to improve living standards of workers and, thus, the vast majority of the Latin American population, has been forcefully stated in a report for the President of the Inter-American Development Bank:

It remains a source of amazement to observe.. so little being learned from experience....[E]xperience should have taught us long ago that high rates of economic growth are a necessary but insufficient condition for achieving social objectives such as the creation of higher rates of productive employment, poverty reduction, the provision of high quality education and health services, the maintenance of the quality of life in urban centers, and so on... (IDB 1994, p. 1)

To which the authors could have added, basic rights and rising incomes for workers.

Evidence of regional integration of labour markets

Since the purpose of this study is to consider the impact of regional economic integration on labour, our review of labour market conditions would be incomplete without considering the extent to which labour markets are linked across countries. The linking of labour markets can be by several mechanisms: 1) through cross-border migration, 2) in the absence of migration, through relocation of enterprises between countries in response to changes in relative wages and productivity, and 3) superficial simultaneity as a result of a matching of the economic cycle among countries. The first is direct, the second indirect, and the third a spurious appearance of linkage. To test for linkages, we carry out a pair-wise correlation of

³¹ This is to be expected on analytical grounds. The proposed explanatory variable, exports as a share of GDP, can vary across countries for many reasons, such as the well-documented relationship that this ratio is inversely correlated with measures of the size of economies. At the least, it would be necessary to control this and other factors to rigorously test the hypothesis. In the *World Development Report 1995*, a scatter diagram is proved with the export-GDP ratio on one axis and manufacturing real wage changes on the other. A line with a positive slope is drawn in the diagram, but no regression statistics are provided. From visual inspect of the scatter of points it is not obvious that the slope of the line would be statistically significant.

³² For a similar conclusion, see Berry, Mendez and Tenjo (1997).

³³ A recent UNCTAD report points this out: 'Slow output growth [in the 1990s] has translated into growing unemployment and falling or stagnant real wages' (UNCTAD 1997, p. 13).

unemployment rates and real wages. Assume that the three sub-regional groupings each had integrated labour markets, with no appreciable integration with countries outside the grouping. In this case, we would expect to find statistically significant, positive correlations of unemployment and wages within groups, and no correlation outside of groups.

Table 3 gives the pair-wise comparisons for the unemployment rate. It suggests the existence of only a limited degree of integration. The list of countries includes three of the founding members of the Central American Common Market, Costa Rica, Guatemala and Honduras. For these three countries, unemployment rates are significantly correlated, consistent with the considerable formal and informal movement of labour across borders. However, for the most recent member of the CACM, Panama, the unemployment rate is negatively correlated with those of Costa Rica and Guatemala. Since there is no obvious economic process, which would produce a negative correlation of unemployment rates across countries, we interpret such a result as either a random correlation or the result of some unspecified variable whose effect on labour markets remains conjectural.

For MERCOSUR unemployment rates among Brazil, Paraguay and Uruguay are positively correlated, consistent with integration measures and the large size of the Brazilian economy relatively to the other two. There is no correlation for Argentina with any other of the members of MERCOSUR. Inclusion of Chile in MERCOSUR raises the number of positive correlations from three of six to six of ten, but also adds a negative one, with Argentina. While the MERCOSUR countries do not display correlations across all countries, the statistics suggest a considerable common sequencing of unemployment. The result for the Andean Pact is not significantly different from the incidence of correlations among non-associated countries, three positive correlations out of ten, compared to twenty-six out of seventy-nine for non-associated countries.

Real wages, reported in Table 4, show little correlation across countries, either within integration groups or among non-associated countries. Indeed, the absence of positive correlations casts doubt upon the analytical significance of the greater number of correlations between unemployment rates. If the labour markets of two countries were integrated, one would expect to find both unemployment rates and real wages to be correlated. Only three pairs of countries display both correlations: Brazil and Paraguay, Colombia and Paraguay, and Guatemala and Colombia. While the first pair could be interpreted as evidence of causal interaction between national labour markets, it is not credible to interpret the second two pairs as doing so.

Given the limitations on the mobility of labour among Latin American countries, and the lack of a cross-border strategy by national trade union movements until recently, one would expect little evidence of labour market integration among countries, even those within common market arrangements. The statistics in Tables 3 and 4 confirm this expectation. To the extent that real wages and unemployment are correlated between countries, this probably reflects no more than the synchronisation of economic cycles, with the possible exception of some Central American countries.

Regional integration and workers' rights:

Analytical framework

The review of labour market conditions in the 1980s and 1990s in Latin America suggests that gains from growth are not automatically passed to workers, but are transmitted in varying degrees through mediating mechanisms. The most important mediating mechanism from the point of workers is the organised labour movement. The basic justification for trade unions is that the labour market is a complex institution, in part ruled by economic forces, and in part

Table 3. Pair-wise correlations of unemployment rates: Fifteen countries 1983-1996

Arg															
Bra															
Par															
Urg															
Chi	.01	.05	.08	.00											
Bol	.00	.09													
Col	.02		.09	.00	.00										
Ecu						.07	.02								
Per		.00				.05									
Ven				.00	.00		.00	.03							
CR			.01	.00	.00		.00		.00						
Gua	.00			.09	.00		.00		.06	.04	.01				
Ho	.00				.01	.01	.00		.03		.04	.00			
Pan		.03		.00	.00	.07	.04	.09		.05	.03	.03			
Me		.03	.01	.00		.10		.03		.02	.00	.00			.00

Note: Negative correlations in bold. Cell count: negative, 19; positive, 38; nonsignificant, 48 (total cells = 105). Countries are partitioned by borders according to regional integration blocs (not all included for the Central American Common Market). Chile and Bolivia are associate members of MERCOSUR.

Table 4. Pair-wise correlations of real wages: Thirteen countries: 1983-1996

Arg												
Bra												
Par			.07									
Urg												
Chi					.06							
Bol												
Col			.00	.09	.05							
Per	.00											
Ven	.03							.02				
CR					.08							
Gua		.02	.09	.09	.07	.06	.03					
Pan			.01									
Me		.09			.00	.07		.04		.07		

Note: Negative correlations in bold. Cell count: negative, 8; positive, 13; nonsignificant, 67 (total cells = 88). Countries are partitioned by borders according to regional integration blocs (not all included for the Central American Common Market and the Andean Pact). Chile and Bolivia are associate members of MERCOSUR.

by power relationships. The role of trade unions in this context is to redress the power balance between labour and capital. The pro-integration literature, be it in the context of global integration or regional groupings, has a clear anti-trade union bias. One of the clearest examples of this is from the *World Development Report 1995*, where the following question is posed:

How can policymakers create an environment that minimizes the negative effects of trade unions, while encouraging them to contribute to economic growth and equity? (World Bank 1995, p. 20)

The phrasing of this question betrays an implicit presumption that in the absence of an appropriate regulatory environment, the effect of trade unions is negative. One suspects that the same question would not be found in a World Bank report, were 'business enterprises' substituted for 'trade unions'. Yet the negative effects of short-sighted private sector profit-seeking are well-known and documented: environmental degradation when social costs do not coincide with private costs; repression of workers' rights if protective legislation is not effective; use of child and forced labour; and discriminatory pricing if market power allows. If the labour market is to have a 'level playing field', then protection of the rights of labour must be equivalent to the protection of the rights of capital.

The bias against trade unions in the integration literature reflects the political changes over the last two decades. Throughout Latin America, and in some of the developed countries, the strength of trade unions has dramatically declined. Neoliberal commentators tend to view this as a positive development, as a result of their perspective on the collective action of workers. This predisposition against collective action by workers derives from an individualistic view of economic agents. In this, the orthodox approach, all agents are seen as utility maximisers, they are all consumers. Thus, the desire of agents to improve the conditions of consumption is a *general interest* of society. On the other hand, as producers, agents work in different sectors and occupations, and their desire to improve their conditions of work is a *special interest*. Thus, the economic policy debate is presented as a tension between the general interest of society as consumer and the special interest of producers. It is on the basis of this interpretation of society that free trade is viewed as beneficial to all, and any restraint on private trading, domestic or international, as a manifestation of anti-social special interests. In the context, it can be asserted that 'international trade brings immediate gains through cheaper imports' (World Bank 1995, p. 10).

However, the functioning of society is considerably more complex than this. It ignores the possibility that unequal bargaining power among people as producers can reduce the incomes of some and increase the incomes of others, such that gains from consumption (lower prices) are rendered trivial by the gains and losses of income from production. Once these latter gains and losses are included, trade unions become a vehicle by which workers as producers improve their incomes, to take advantage of benefits they can achieve as consumers. Treating all agents primarily as consumers also ignores the welfare effect of working conditions. In the short run, the 'working conditions of capital' are improved by a deterioration of the working conditions of labour, because longer hours, more intense work, and reduction of workplace safety and hygiene tend, in general, to reduce operating costs.³⁴

Along with the ideological emphasis on people as consumers rather than producers goes the closely related allegation that collective pressure for higher wages and better working conditions is not, in fact, in the interest of workers. This rather startling conclusion is based on two arguments: 1) if such pressure raises costs and prices, workers lose as consumers; and 2) greater labour costs decrease the growth of employment. These arguments imply that in the absence of 'distortions' from collective action, competition among firms and between firms and workers will produce the optimal level of working conditions, wages, and prices. This is an argument based on Pareto general equilibrium, which suffers from several analytical flaws. First, it should be obvious that in any sector of the economy, whether gains from lower prices will convey a net benefit to workers depends on the simultaneous behaviour of wages in that sector. Second, it can be demonstrated theoretically that at the aggregate level the relationship

³⁴ But not necessarily in the long run. Standing presents empirical evidence that suggests that trade unions can be a source of productivity increase and lower costs, through pressure for improved working conditions (Standing 1990).

between labour cost and employment is not monotonic and downward sloping; that is, it *cannot* be demonstrated, other things equal, that lower wage costs will result in greater employment and faster growth of employment.³⁵ Third, and most relevant for the present discussion, the free market argument ignores the power relationships between labour and capital. Therefore, in our consideration of the effect of integration schemes on labour in Latin America, our emphasis is upon the fundamental rights of labour, which determine the ability of workers, individually and collectively, to achieve gains from the aggregate improvement of the economy.

Deterioration of workers' rights

There seems to be some confusion about the extent of trade union rights and bargaining power in Latin America. In its review of the Latin American labour market, the World Bank suggests that trade union power in the region is considerable. Indeed, that the legal rights granted trade unions are disproportionate to those granted capital within the collective bargaining process:

Most labor legislation in Latin America predates the region's recent market-oriented reforms...[C]ollective bargaining is too cut off from market forces...Unions propose a collective contract, and employers must respond. The state is a part of the negotiations from the start, and the final agreement applies to all workers represented...

In most Latin American case...the costs to employees of striking are low compared with those incurred by employers...

[I]n some countries legislation requires that workers be paid even when they are on strike - a clear disincentive to compromise. (World Bank 1995, pp. 19, 20, 21]

This description would seem to suggest that unions have the upper hand in negotiations, initiating bargaining with the support of the state, and receiving wages while on strike. A review of trade union membership and labour legislation in the region suggests quite the contrary. Indeed, on the issue of payment during strikes, a table in the World Bank document reports that this was the case in only two of ten countries (World Bank 1995, p. 21), and in one of the two (Nicaragua) the law is not enforced. Beyond this, collective bargaining itself 'is...in limited use as an instrument of social regulation' (ILO 1997b, p. 161). Table 5 shows statistics on trade union membership in Latin America, demonstrating the low, and in most countries declining, share of the non-agricultural and wage labour forces. In the 1990s there was no country in Latin America in which as much as thirty-five percent of the non-agricultural labour force was in trade unions, and only two in which union members were more than forty percent of the wage labour force.³⁶ The average proportion across countries for the non-agricultural labour force was less than fifteen percent; if one uses the percentage of wage labour in non-agricultural labour from Table 1, it implies that across all countries the share of union members in wage labour was about twenty percent. In several countries, union membership was extremely low in the 1990s, less than ten percent of the non-agricultural labour force in seven. Further, active membership is typically lower than recorded numbers,

³⁵ For a detailed discussion see Weeks (1989, chap. 10) and Weeks (1991).

³⁶ There are data for only six countries for the latter percentage, but the percentages for the non-agricultural labour force in the other countries imply our conclusion on the wage labour force.

and in many cases employers control unions (so-called sweetheart unions).³⁷ While trade unions play an important role in labour markets throughout Latin America, the low degree of unionisation indicates the need for increased protection for the right to organise and bargain collectively, which is discussed below.

Table 5. Trade union membership in Latin America, percentages, 1985 and 1995

Country	1985		1995		% change (number of members)
	Non-agricultural labour force	Wage labour force	Non-agricultural labour force	Wage labour force	
Argentina	48.7	67.4	25.4	38.7	- 1.9
Bolivia		29.1	16.4		
Brazil			32.1	43.5	
Chile	11.6		15.9		89.6
Colombia	11.2		7.0		- 4.2
Costa Rica	22.9		13.1	16.6	0.0
Dom Rep	18.9		17.3		25.0
Ecuador			9.8		
El Salvador	7.9	8.3	7.2		30.6
Guatemala	8.1	8.2	4.4		35.9
Honduras			4.5		
Mexico	54.1	59.6	31.0	42.8	- 26.3
Nicaragua			23.4		
Panama			14.2	20.1	
Paraguay			9.3		
Peru			7.5		
Uruguay	19.9		11.6		- 31.9
Venezuela	25.9	29.8	14.9	17.1	- 32.2
Average	na (22.9)	na (52.3)	14.7 (14.8)	na (32.9)	na

Note: For earlier year: Argentina, 1986, Dominican Republic & Mexico, 1989; Uruguay 1990; and Venezuela 1988. For later year: Bolivia, 1994; Brazil, Mexico, & Panama, 1991; Chile & Uruguay, 1993; and Guatemala & Honduras, 1994. The numbers in parenthesis are averages for those countries that have data for both periods.
Source: ILO 1997b, pp. 235, 237.

One of the basic indicators of workers' rights is the extent to which governments have ratified the relevant ILO conventions, of which there are more one hundred and seventy-four.³⁸ For the MERCOSUR countries, Uruguay with 97 has ratified the most, Brazil and Argentina about seventy, and Paraguay only thirty-five. Of the fourteen Conventions covering freedom of association, collective bargaining, discrimination, forced labour, and child labour, Argentina and Uruguay have ratified ten, while Brazil and Paraguay have adopted only seven (International Metalworkers' Federation 1994, p. 38).³⁹ The reluctance of governments in

³⁷ An ICFTU report writes:

Because Mexican labour law makes little provision for the rights of individual union members, workers can be denied access to their own collective agreements...and have few remedies...[S]uch abuses lead to employer-dominated trade unions... (ICFTU 1997e, p. 3)

³⁸ 'While each country is sovereign...there is generally a correlation between the text of a country's labor law and the ILO conventions that that country has ratified and put in force' (World Bank 1995, p. 17).

³⁹ While Paraguay ratified ILO Convention 87 (Freedom of Association and Protection of the Right to Organise) in 1962, this has had little effect in practice: 'Even when judges have order the reinstatement of dismissed workers, employers have disregarded the court order with impunity' (ICFTU 1997f, p. 3).

Latin America to ratify basic ILO Conventions merely hints at the problems of workers throughout the region in exercising their rights.

The box below provides a summary of abridgements and violation of workers' rights in Latin America in 1996, as reported by the International Confederation of Free Trade Unions. In Colombia the violation of basic human rights, of the entire population, but especially of trade unionists, has been particularly endemic. According to statistics from non-governmental organisations, during 1993-1995 an annual average of over two hundred trade unionists were murdered, the majority of which, according to the Office of the Public Prosecutor, could be attributed to the police, the army and security forces⁴⁰ (ICFTU/IAROW nd, pp. 2-3). The main victims of the violence against unionists have been workers in the banana and palm products sectors, along with schoolteachers. The regional organisation of trade unions (IAROW, ORIT in Spanish) concludes that, in effect, trade union activities have been criminalised in the country, since a wide range of work stoppages are legally defined as 'terrorism'⁴¹ or 'sabotage'⁴², and make participants liable for prosecution. While Colombia is the most extreme case of violation of workers' rights in the hemisphere, similar repression occurs in other countries.

The circumstances in which Latin American workers seek to exercise their rights would seem quite different from the impression given by the World Bank. Even in countries lauded for their democratic institutions, such as Chile, restrictions on trade unions are substantial.⁴³ In addition, the growth of employment in 'free trade zones', which has been important in the Central American countries, has been associated with limits on worker protection and basic rights (ILO 1996). While the repression of the rights of workers should not be exaggerated, it would be accurate to say that in most countries the right to strike is restricted through legislation, especially in the public sector, but also in the private. When work stoppages occur, strikers can anticipate violent confrontation, either with hired agents of employers or agents of the state. Being a member of a trade union invites discrimination and, in many circumstances, dismissal. Further, organising a new union in many countries is extremely difficult, if not dangerous.

Pro-capital bias in integration agreements

While workers do not face violence in all countries, the incidence of repression of basic rights is sufficiently general, even endemic, that measures are required to create a 'level playing field' for collective bargaining. This is all the more important because, in the absence of specific and effective guarantees of workers' rights, the integration schemes in the Americas tend to have a strong bias in favour of capital. At the most general level, the pro-capital bias in integration schemes is demonstrated by the extensive consultation between governments and

⁴⁰ 'Security forces' refers to the Departamento Administrativo de Seguridad (DAS).

⁴¹ Decree 180 of 1987 defines terrorism as 'Whosoever causes or maintains a state of tension or terror among the populace or a sector, by means of any act endangering the lives, physical integrity or freedom of persons, property, the media or means of transport...' (ICFTU/IAROW nd., p. 7).

⁴² Sabotage is defined as follows: 'Any person who, for the purpose of suspending or paralysing work, destroys, renders unusable, cause to disappear or, in any other manner, damages tools, installations, equipment or raw materials...' (emphasis added, ICFTU/IAROW nd., p. 7).

⁴³ Chile has not ratified ILO Convention No. 87 (Freedom of Association...), and trade union membership in the public sector is banned (ICFTU 1997d).

business interest, in contrast to relatively little consultation with the representative of labour.⁴⁴

Box: Repression of trade union rights in Latin America 1996		
Country	Violence against trade unionists	Legislation & Union rights
Argentina	37 trade unionists arrested on 8 August, including general secretary of transport union	Presidential decree changing labour laws, restricting bargaining to firm level, allowing elimination of paid holidays & longer hours, reduced severance pay
Bolivia	Major strikes broken up by police Members of rural workers' union arrested on 14 April 78 union members (teachers and civil servants) arrested 2 April 20 trade unionists arrested in October	Labour code prohibits civil service workers from joining unions Agricultural workers excluded from labour protection, no legal protection of trade unionists against employer discrimination
Brazil	22 rural workers killed by military police on 17 April Union leader assassinated on 18 Sept	Reform of labour law planned, to introduce 'labour flexibility', would make strike criminal offences in certain sectors
Chile	Demonstration called by national union Central broken up by police	
Colombia	80 trade unionist killed during the year	Legislation proposed to repeal & amend provisions of Labour Code, breaking 1994 'Social Pact'
Costa Rica		Strikes banned in 'public interest' in parts of manufacturing and service sectors Government failed to keep promise to ratify eight ILO Conventions Unions in effect prohibited in Export Free Zones (EFZ)
Dominican Republic		Pressure from US government brought improvement in enforcement of labour legislation in EFZs (only four collective agreements in EFZ, which has 500 enterprises and 114 unions)
Ecuador	Army used to break up strikes	Civil servants & other public sector workers in specific sectors cannot form unions
El Salvador	Army used to enforce employer lockout	Strikes prohibited in public sector; Law passed guaranteeing severance pay in EFZs
Guatemala	Violent repression of unions in EFZs Trade unionists abducted & killed	Level of effective unionisation extremely low State workers banned from striking
Honduras	Trade unionists abducted	Government signed agreement with US to improve trade union rights for 75,000 workers in EFZs (end of 1995)
Mexico		Anti-union drive by employers in 'maquiladora' sector
Nicaragua		New Labour Code introduced, judged an improvement by organised labour No unions in EFZs
Panama	17 trade unionists arrested	Right to strike limited by legislation Employers in EFZs given three year exemption from collective bargaining
Paraguay	Ministry of Justice and Labour accused of violence against trade unionists; Police used to disrupt general strike on 2-3 May	Public servants cannot form or join unions

⁴⁴ The ICFTU points this out with regard to proposals for a hemispheric trade agreement:

In the context of the new processes of integration in the region, the government of the United States has announced the Initiative for the Americas... [I]t is cause for concern that the proposal of the US administration has not been the subject of consultation either with trade union representatives or other social and political actors. Given the... exclusion of trade unions, the Initiative could constitute a significant step backwards for social policy and trade unions... affecting the productive base and worsening the level of unemployment and working conditions. (ICFTU 1991, p. 4)

Peru		Protection against arbitrary dismissal eliminated, legislation eliminated guarantee of paid holidays, unions banned from political activity, strikes including general economic social issues banned
Source: ICFTU (1997a, p. 38-63)		

This need not be the case;⁴⁵ it is not inherent in regional agreements. But, while freer trade in the Americas creates the possibility of gains for labour, these do not occur automatically as a result of market forces. To realise these gains, policy measures are necessary to transform the integration schemes from the projects of capital to projects for the general good of society.

Both NAFTA and MERCOSUR, along with the reduction of trade barriers, have placed great emphasis on reduction of state regulations on capital movements. In the first instance, this involves an asymmetry, since free movement of labour is not part of either of the agreements; indeed, one of the stated purposes of NAFTA was to reduce migration of Mexican labour to the United States. Both in NAFTA and MERCOSUR governments are required to show no discrimination between national and foreign investors, which is a basic right of capital, guaranteed by effective enforcement mechanisms. While some authors have taken issue with this guarantee (Campbell 1997), from the point of view of labour, it is not clear that this requirement creates difficulties not already present. Guaranteeing that capital does not suffer discrimination raises two potential problems. Capital flows within NAFTA have been highly concentrated, with a relatively small number of corporations accounting for an overwhelming proportion of the total value (Campbell 1997, p. 2). If this applies also to MERCOSUR and any subsequent extensions of NAFTA, monopolisation of markets, not competition, would result from capital market deregulation. In so far as this is a problem, it could in principle be countered with non-discriminatory anti-trust legislation (in as far as the rules of integration allowed). Second, non-discrimination of capital might result in denationalisation of ownership of a nation's wealth, with implications for sovereignty. However, this is not obviously a problem for labour, unless it results in a balance of domestic political power that affects, for example, social legislation.

More serious for labour is that the existing integration schemes in the Americas do not provide workers with guarantees parallel to those of capital. For example, NAFTA rules allow investors to challenge government measures by appealing to a NAFTA-level dispute tribunal, as well as to raise such challenges in the domestic courts of each country member. However, for individual workers and trade unions there is no equivalent process. There is a North American Agreement on Labour Cooperation, but its role is largely consultative. What are called 'Group I rights', to organise, bargain collectively, and strike, are issues for discussion, with no penalties for violations by either governments or employers. Violation of 'Group II' rights, minimum employment standards, discrimination, gender pay equality, and protection of migrant workers, also carries no penalty under NAFTA rules. Only a narrow range of rights, in Group III, have penalties for transgression: workplace safety and health, protection of children and youth, and minimum wages. Even for these, the dispute settlement procedure is lengthy, over two years, and the penalties only monetary (and relatively small compared to

⁴⁵ Reynolds argues that regional integration can be consistent with what he calls 'social access', a concept, which includes some, the points made below (Reynolds 1996, pp. 58-59).

profits of capital).⁴⁶

While trade union centrals in the Andean countries have supported in principle the Andean Pact's goal of closer economic integration, the institutional structure of the bloc provided for no representation of labour or processing of complaints of violation of workers' rights. In 1973 the Labour Ministers of the Andean Group signed an agreement pledging their governments to improve working conditions in the sub-region (the Simon Rodriguez Agreement). This agreement led to no institutionalised participation of representatives of labour, and subsequently became dormant (International Metalworkers' Federation 1995). In 1983 the Andean Consultative Labour Council was established, with union representation, but the council has no enforcement powers. Subsequently, the Andean Parliament approved an 'Andean Social Chapter' which affirmed that workers should enjoy certain basic rights, including the right to organise, free migration among member countries, and equal treatment of men and women. Again, no enforcement procedures were put in place.

In the case of MERCOSUR there are to date no formal guarantees for labour. Within the organisational structure of the group there is 'Subgroup 11' on labour questions, which includes representatives on an ILO-type tripartite basis.⁴⁷ Subgroup 11, created as a result of pressure from national union centrals,⁴⁸ is no more than a forum for discussion. While this should not be dismissed in importance, the first such multi-country forum in the Americas, its recommendations are not supported by any implementation mechanism. For example, the subgroup recommended that MERCOSUR governments ratify thirty-three of the basic ILO Conventions (if not already ratified), and compliance would be based on goodwill alone.⁴⁹

The weakness of Subgroup 11 and the NAALC is in contrast to measures taken in the region to foster the interests of capital, both within integration schemes and by multilateral development banks. In MERCOSUR, the guaranteed and enforceable rights of capital are in contrast to the absence of the same for labour (IDB 1996, pp. 35-40, Ermida Uriate 1997, & Daza Perez 1997). To take but one example of action by multilateral lenders, in 1993 the Inter-American Development Bank created the Multilateral Investment Fund, in part to promote private sector investment. To date there is no equivalent regional or subregional fund to promote the interest of labour. It might be argued that social development funds (e.g., for education, health and poverty reduction) should be seen as the equivalent of funds to foster

⁴⁶ The labour provisions in NAFTA are also limited in that they deal only with enforcement of existing national labour laws; i.e., there is no provision for harmonisation of labour laws, nor with the problem of non-enforcement. Campbell points out,

Neither the National Administrative Organizations housed in each country's labour department, nor the NAALC Council of [Labour] Ministers, nor the NAALC Secretariat, were given independence or investigatory power to function effectively. Campbell (1997, pp. 6-7).

⁴⁷ For a discussion of the organisational structure and operation of Subgroup 11, see International Metalworkers Federation (1994) and Mizala & Romaguera (nd).

⁴⁸ An International Metalworkers Report comments:

The [labour subgroup] has been set up thanks to mobilisation of central organisations, notably in Argentina and Brazil who put pressure on their governments to have labour issues included in the organisational structure. Without that union pressure, the social dimension would have been totally ignored whilst it is plain that Mercosur will have adverse effects on employment, working conditions and labour legislation in the various countries. (International Metalworkers Federation 1994 p. 14)

⁴⁹ Changes in national labour legislation in the 1990s have occurred with little or no reference to Subgroup 11, despite the need for policy harmonisation across countries (International Metalworkers Federation 1994, p. 39; and Mizala & Romaguera nd, pp. 4-10).

capital. However, the two are not parallel. In as far as multilateral and bilateral loans are directed in whole or part to private capital, rather than governments, they are not equivalent in practice or principle to funds intended for society as a whole.

In addition to the formal guarantees, there are a number of implicit benefits to capital of integration schemes for which there is no equivalent for workers. Perhaps foremost, integration agreements facilitate the cross-border movement of productive capital.⁵⁰ All would agree that the capital-labour relation, with or without trade unions, contains within it conflicts of interest. Indeed, collective bargaining, when it operates constructively, is the process by which a synthesis of common interest is achieved out of the antagonisms of the two parties. Free movement of capital provides employers with a powerful weapon by which to change the balance of power within the bargaining process, or, in some cases to by-pass it. With no legal restrictions on capital movements, employers can use the threat of relocation to extract concessions from labour which otherwise would not be possible. A study by Bronfenbrenner verifies the potency of such threats. In a survey of five hundred union organising campaigns and over 100 first contract negotiations in the United States, she found that union success was significantly lower for cases in which employers threatened closure of plants (Bronfenbrenner 1996). The policy response to the negative consequences of free capital movement need not be direct restrictions on such movement, but rather the creation of parallel rights for labour, through a 'Charter of Labour Rights for the Americas' (ICFTU 1991, p. 7), which we discuss below.

In as far as the free movement of productive capital is motivated by a firm's desire to escape to a location with lower wage costs, the functional equivalent or threat for labour, though not the counter-response,⁵¹ is strike action. Employers create a work stoppage by closing a plant, temporarily or permanently. Workers create a work stoppage by going on strike. For symmetry of rights, the free movement of capital would be matched by an equivalent right to strike, restricted only, as for capital movements, for genuine concerns of national security (such as in the army and police). Yet in no Latin American country is the right to strike guaranteed to this extent. This asymmetry, along with others, would be appropriate areas for policy action to create a 'level' playing field between capital and labour.

A further right of capital enshrined in international and regional trade agreements is the protection of property, against unfair seizure by governments, abridgement of copyrights, and uncompensated use of intellectual property.⁵² No similar enforcement procedures exist for the rights of labour, which could be interpreted as a clear bias in freer trade agreements in favour of the rights of capital.

The basic conclusion of our discussion is that the evidence on labour markets, oppression of workers rights, and the formal rules of hemispheric integration schemes all combine to support the need for measures to increase the rights and protection of workers to create a level playing field for capital and labour. Given that the integration schemes (or the WTO) protect capital from discrimination and government corruption, and provide for its free

⁵⁰ We shall not deal with portfolio capital, for this would require a review of the debate over its possible destabilising role. This is treated thoroughly in Larudee (1997), where a persuasive argument is made that capital market deregulation was a major cause of the 'pesos crisis'.

⁵¹ A strike in response to a closure threat might prompt capital to relocate more quickly. Measures to counter relocation threats are considered below.

⁵² Campbell concludes as follows on the protection of the rights of capital:

[NAFTA] entrenches a set of rules protecting private property rights of investors...Virtually all types of ownership interests, financial or non-financial, direct or indirect, actual or potential, are covered... (Campbell 1997, p. 5).

movement, with effective sanctions at national and international levels, analogous protection is appropriate for labour. Few, if any in the international financial community, would argue that the protection of capital has a negative impact on economic growth, employment, or living standards; quite the contrary. If the protection of labour is appropriately designed, it, too, need not have negative effects; as with capital, quite the contrary.

The labour movement and freer trade

Contrary to general perception, the labour movements of the Americas have not adopted a protectionist position, nor do the South American trade union centrals oppose MERCOSUR. Quite the opposite is the case; at the national and international levels trade unions in the region have endorsed freer trade. *Like capital, they seek freer trade under conditions that foster their (labour's) interests.* If freer trade brings lower prices, then all gain as consumers. If freer movement of capital increases efficiency and lowers costs, then capital gains. The possibility of the first is created by lowering trade barriers, which has largely been achieved throughout the hemisphere. The second had been achieved, especially within NAFTA. A third measure remains, to facilitate income gains being passed to workers.

The international trade union movement, through the ICFTU, has made its position clear on freer trade:

[T]he international trade union movement has supported the lowering of trade barriers and opposed protectionism, while stressing that adherence to basic labour standards coupled with active labour market policies are needed to help both workers and employers to adapt to changes in the structure of employment and the skills of the workforce. (ICFTU 1996a, p. 2)

Specifically with regard to the possibility that establishing international labour standards might be used as a protectionist instrument, the ICFTU goes on to argue:

...[T]here are also grave anxieties that pursuit of improved workers' rights through the WTO could create a tool for protectionists to reduce developing countries' access to key industrial markets...The ICFTU fully recognises these concerns. We have therefore sought to develop proposals for a procedure, involving both the International Labour Organisation and the WTO, which would prevent such dangers of protectionist abuse and firmly place the operation of a workers' rights and trade mechanism in a rule-driven, transparent, multilateral system. (ICFTU 1996a, p. 4)

The threat to freer trade in the Americas, and elsewhere, does not come from a labour movement which seeks to be protectionist. Rather it is posed by those who under the banner of freer trade, and capital flows, oppose the changes which, through the implementation of core labour standards, would allow workers to bargain for an appropriate share of income gains.⁵³ The basic trade union position on integration in the hemisphere has three elements: 1) the lowering of trade barriers is a positive development to be supported; 2) it should be carried out

⁵³ From the ICFTU 1991 document:

...[T]he international community should exert pressure on countries that violate basic [labour] standards, not only out of concern for basic human rights, but also because such violations call into question the legitimacy of a trading system that allows...abus[e of] fundamental workers' freedoms. (ICFTU 1991, p. 4)

in a manner that prevents avoiding adherence to basic guarantees of workers' rights,⁵⁴ and 3) respect for workers' rights need not reduce competitiveness, but, on the contrary, can lead to more productive and competitive enterprises.⁵⁵ The question might be raised as to whether the union movement's commitment is sincere, or opportunistic rhetoric to make resistance to free trade more effective. The same question could be posed to the representatives of capital, as to whether their enthusiasm for competition is all that it seems. All economic change involves the various parties seeking to manage it to their advantage. Bargaining and compromise from positions of self interest is the process of reaching a *mutually beneficial* outcome.

Policy action to create bargaining symmetry between capital and labour

There is a range of policy actions that governments can take, at the national and multilateral levels, to create a more appropriate balance of bargaining power between capital and labour. Many of these, found in basic ILO Conventions, need have no direct impact on labour costs, except in so far as they would prohibit employers from actions which are illegal in most countries. However, actions which bring greater bargaining power for labour would in the short run increase labour costs. This is not a reason to exclude them: since a majority of the Latin American work force is wage labour, a general rise in living standards necessarily requires a rise in real wages. To argue that any increase in wages harms competitiveness and, therefore, should be resisted by governments, is to concede that freer trade is in the interest of capital alone. Further, the experience of the developed countries over the last century is that rising real wages has been matched by productivity growth, such that capital and labour shared in that growth.⁵⁶ If this experience is not duplicated in Latin America, the future for workers in the region is grim, indeed.

Minimum action would be the enactment in national legislation of the core ILO conventions, along with a commitment to vigorous enforcement. Enforcement should include mechanisms at the multilateral level (e.g., within the institutions of NAFTA and MERCOSUR) to bring sanctions against offenders, equivalent to the sanctions that exist for offences against the right of capital to mobility. Multilateral level mechanisms are central to effective enforcement. Trading countries are not content to allow governments of partner states to enforce tariff and non-tariff liberalisation, they created within the GATT and the WTO mechanisms to police the actions of states. Similarly, the enforcement of labour rights should not be left to the volition of trading partners. The list of rights and mechanisms of enforcement would constitute a Social Charter of the Americas.

Perhaps, the most basic elements of this charter would be prohibition of forced labour, prohibition of child labour, eliminating discrimination, and guaranteeing the right to organise and bargain collectively. With regard to the first, there can be no argument against it. Whatever the political differences among conservatives, liberals, and social democrats, the ideologies of all condemn forced labour. Indeed, free market ideology is perhaps strongest

⁵⁴ 'The continuing expansion of the global market... is causing serious concern that intensified competition is undermining basic workers' rights' (ICFTU 1996a, p. 1).

⁵⁵ 'Respect for human rights at work does not alter comparative costs, but it does enable working men and women to have a voice in how the gains from improved trade performance are shared and how to raise productivity and competitiveness' (ICFTU 1996a, p. 2). In the same vein,

Modern enterprises require highly skilled, innovative, committed employees... Research by the World Bank, ILO and OECD has demonstrated the positive contribution that strong, independent trade unions make to investment, productivity, human capital and income distribution. (ICFTU 1996c, p. 2)

⁵⁶ This statement holds for the Western European countries and Japan, but not for the United States after the mid-1990s, since which time real wages of blue collar workers have stagnated, so the wage share in national income has fallen (see Larudee 1997). See Standings' study of the Philippines (Standing 1990).

against this issue, on Hayek's principle that any exchange is just if and only if it is entered into freely (see Schotter 1990).⁵⁷ Thus, governments of the region which do not have national legislation to enforce vigorously Conventions 29 and 105 should be compelled to adopt such legislation with the threat of sanctions equivalent to those for abridgement of the free flow of goods and services.

It is surprising to discover in otherwise quite reputable sources, misgivings about the abolition of child labour (ILO Convention 138).⁵⁸ While no one is publicly in favour of child labour, except under specific circumstances,⁵⁹ it is common to encounter the argument that abolition of child labour would tend to depress the incomes of the poorest in society. The argument is that were child labour effectively abolished, in some countries this would result in deeper poverty for a substantial number of families. This argument is false, for it is based on the crudest partial equilibrium analysis. Assume that an enterprise is operating profitably, employing child labour, and the government enacts and effectively enforces a ban on such employment.

There are several possible outcomes. Since the enterprise has a profitable market at the prevailing price, it would replace the child labour with adult labour. If adults receive the same wages paid to the child workers, then the enterprise continues to be profitable at the same level of output, using the same technology; indeed, since adults generally have more stamina than child, it is likely that productivity and profits would rise. Since total employment has not changed, only shifted its age composition, total worker income has not changed. Poverty would increase if and only if the adults who gained employment did not come from the families of the child workers across the population as a whole. In the absence of concrete evidence that shows this outcome, there is no reason to presume it would be the case. One possible reason for the negative outcome would be if the child workers were from single adult families. If this were the case, it could be dealt with by use of targeted poverty programmes. In any case, the shift from child to adult labour is a special case of labour displacement. In general, the advocates of labour market reforms argue that increased efficiency and economic growth will minimise the costs of displacement. The same argument would seem appropriate when abolishing child labour.

If the adults that replace the child workers receive higher wages, then the profits of the enterprise might fall, though less than implied by the difference in wages, because of the higher productivity of adults. In response to higher wage costs, enterprises respond by substituting capital for labour,⁶⁰ which further reduces the impact on average total cost. The increase in adult employment, for the economy as a whole, should reduce the labour market surplus, creating upward wage pressure and higher living standards. Given the rather minimum private cost of eliminating child labour, compared to the great social gain, the argument that abolishing it impoverishes families cannot be taken seriously.

A final argument used against the abolition of child labour is that it is expensive to enforce, and enforcement may be ineffective. This argument could be applied, of course, to

⁵⁷ The possibility that a person might enter into a forced labour contract 'voluntarily' is excluded by definition by Hayek. This was central to his argument against socialism.

⁵⁸ We do not deal with the question of the definition of a 'child' for employment purposes. the ILO definition would seem appropriate.

⁵⁹ It is generally accepted that child work within family enterprises, especially in agriculture, should not be prohibited, as long as this labour does not prevent the child's access to education, and does not result in physical and mental abuse. Child labour *within the family* is appropriately treated as a problem for the social welfare system, not a labour rights issue.

⁶⁰ This would be a capital-labour substitution that would represent an increase in static efficiency if adult wages were at the market-clearing level. If adult wages were above the market-clearing level, this would be a problem of inefficiency labour markets, the solution to which would have nothing to do with use or non-use of child labour.

all labour legislation. Again, it is not a serious argument. On a regular and extensive basis, societies enact and seek to implement many prohibitions, which are difficult and expensive to enforce. The 'cost of enforcement' argument could be equally applied to most activities that societies define as crimes: drug use, theft, etc. Further, there are many crimes against capital, which are extremely difficult both to define and enforce, yet are implemented regularly: insider trading, theft of intellectual property, embezzlement, to name a few. Child labour, often in the form of forced child labour, is a crime in most countries. It should be penalised as such within the framework of freer trade.

The prohibition of discrimination in employment (ILO Conventions 100 and 111) should also be enforced through a multilateral sanction mechanism. To do so is no more protectionism than use of trade sanctions against a government which expropriates the private property of a foreign investor without legal procedures or compensation. Discrimination in pay and employment is a market inefficiency. Eliminating it reduces distortions. Forced labour, child labour, and labour market discrimination share a common characteristic. They are typically the result of monopsonistic power of employers, and, thus, vehicles to avoid the efficiency-inducing discipline of labour markets.

The foregoing elements of a Social Charter for the Americas eliminate the grossest abuses suffered by wage workers.⁶¹ Along with these, the charter would guarantee freedom of association: to organise trade unions, to be free of intimidation if one joins a union, to select representatives by democratic process, for those representatives to bargain with employers (public and private), and for employers to enter into the bargaining process in 'good faith'.⁶² These basic rights are not guaranteed in a number of Latin American countries,⁶³ which suggests that effective multilateral guarantees are required. Again, the issue is one of symmetry between capital and labour. Throughout Latin America, capital is free to organise itself into associations, to employ its resources to influence government policy, and through ownership of the media to present its views to the public. In some countries, there are restrictions upon the activities which capital can engage in through collective action,⁶⁴ but the right to organise itself is not limited. Similarly, the right of labour to associate should be unrestricted, and enforced by multilateral sanctions (as for capital), in the public sector as well as the private sector.⁶⁵

Along with the guarantee of freedom of association, and to take actions based on that freedom, a level playing field requires that collective bargaining contracts, once agreed upon, are enforceable in law. With the increase in direct foreign investment in the region, many collective bargaining contracts involve agreements between national unions and international companies. Therefore, it is appropriate that these agreements would be guaranteed at the multilateral level, just as similar agreements between governments and foreign business are guaranteed.⁶⁶

Beyond these core labour rights, which are essentially the civil and human rights that democracies guarantee their citizens, measures are required to establish minimum standards in

⁶¹ For more detail, see (ICFTU 1997b & ICFTU 1997c).

⁶² In addition to ILO Conventions, these elements were codified in the US National Labor Relations Act of 1936.

⁶³ In a meeting in December 1994, Subgroup 11 of MERCOSUR noted that the right to form unions was not universal within the trading bloc (Mizala & Romaguera nd, p. 11)

⁶⁴ Few countries in the region have effective anti-monopoly legislation, or effective consumer protection laws.

⁶⁵ The anti-trade union bias of Latin American governments, to which we have alluded, is indicated by the restrictions on forming public sector unions throughout the region. On the importance of the freedom to organise in the public sector, see IWA/ICFTU/IAROW nd, p. 41.

⁶⁶ Multilateral guarantees for capital are a major part of the NAFTA agreement. Indeed, most of the treaty deals with investment, not trade (Campbell 1997, and EPI, *et. al.* 1997).

the workplace. The purpose of such standards is two-fold. First, since the goal of freer trade is to increase the welfare of the population of countries as a whole, regional trading systems should put in place rules that discourage a competitive process by which social standards are reduced to the level of the least regulated country.⁶⁷ Second, improved workplace conditions have a social benefit not captured by the enterprise through the market. By reducing accidents and illness, workplace standards increase the productivity of workers, and reduce the health costs of society. Unlike the basic rights discussed above, workplace standards will vary by sector and country. However, this does not exclude the possibility of general and enforceable guidelines.

The stress of this discussion has been on the need for multilateral guarantees of the rights of labour. It could be argued that such guarantees challenge the sovereignty of member countries, by determining their social policies in part from external pressure. While this is true, the external regulation of economic policy is part and parcel of freer trade agreements, and this is typically presented as a virtue. The same argument applies to social policy. In terms of details for multilateral regulation, the ICFTU has proposed a dispute settlement procedure, which is similar to that used for trade disputes (see Box, below). Indeed, violations of workers rights within integration schemes should be viewed as equivalent to violations of free trade.

Box: The international labour movement, freer trade, and the WTO

The International Confederation of Free Trade Unions has made a set of concrete proposals for the inclusion of labour rights within a framework of freer trade. To quote from the organisation:

...[T]here are...grave anxieties [in the international community] that pursuit of improved workers' rights through the WTO could create a tool for protectionists to reduce developing countries' access to key industrial markets...The ICFTU fully recognises these concerns. We have therefore sought to develop proposals for a procedure, involving both the International Labour Organisation and the WTO, which would prevent such dangers of protectionist abuse and firmly place the operation of a workers' rights and trade...in a rule-driven, transparent, multilateral system.

[W]hat the ICFTU proposes for the WTO is:

a review of all WTO members' observance of basic labour standards at regular intervals, for example to coincide with the WTO's existing reviews of countries' trade policy, or on the basis of well-founded complaints. The reviews, to be conducted by ILO experts, should conclude, if necessary, with recommendations on how to resolve any problems;

if problems are found, a period of dialogue should then follow to find ways to meet the principles in the standards, followed by a further review of progress - say two years later;

if progress is being made a date for a further review should be fixed, but if there is an adamant refusal to cooperate with the WTO and the ILO, a warning would be given that the issue will be referred to the WTO Council if within a reasonable period changes are not put in place; and

if at this point there was still no cooperation, the WTO would determine the appropriate multilateral response. (ICFTU 1996a, p. 4)

⁶⁷ Campbell argues that current NAFTA rules encourage a socially destructive process of competition among governments: NAFTA ...intensifies pressure on...national and sub national governments to compete with each other by raising subsidies (most of which remain legal under NAFTA and lowering regulations and standards to attract transnational investment. There are no common rules governing acceptable and unacceptable subsidies or limiting subsidy wars among governments [to attract investment], and only ineffective protections limiting competitive bidding down of labour and environmental regulations... Thus, the need to attract investment creates dual stresses: downward pressure on regulations and standards and increases fiscal pressure. (Campbell 1997, p. 14)

Concluding comments

The argument is frequently made that trade agreements, regional or global, should not be encumbered with discussions of 'non-trade' issues, such as environment sustainability and labour rights and standards. Rather, these should be left to discussion in the specialised agencies of the United Nations and analogous regional bodies.; for, to the extent that these issues enter discussions of trade liberalisation, they become vehicles for special interest groups to foster protectionism in another guise.

Were this argument accepted, it would follow that trade agreements should exclude investment and property rights from discussion as well, both of which can, and have been, used as protectionism in other form. To take but one example, enforcement of intellectual property rights has been treated by some governments as a necessary condition for reaching agreement on trade liberalisation in various international contexts. *The essence of the argument for intellectual property rights is that all goods and services do not equally qualify to enter free trade, but qualify conditional upon certain, specific characteristics of how they are produced.* Conditioning freer trade on the protection of workers rights is no different: the conditions under which goods are produced by labour should in part determine their eligibility for freer trade. Conditioning trade liberalisation on basic standards and rights for workers may, in some cases, raise the price of goods. The same is true for requiring producers to adhere to copyright laws (indeed, that is the point of the requirement).

A freer trading system that embodies the rights of labour is possible, workable, and may even lead to greater efficiency. Even should it not do the latter, it would still foster social justice at little private cost with great social gain. To quote from the ICFTU:

Adherence to the seven basic ILO standards would prevent the most extreme forms of exploitation and cut-throat competition. It would not end developing countries' comparative advantage [in cheap labour], but it would establish a process by which conditions of employment could gradually be improved as trade increases. (ICFTU 1996a, p. 3)

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Figure 1

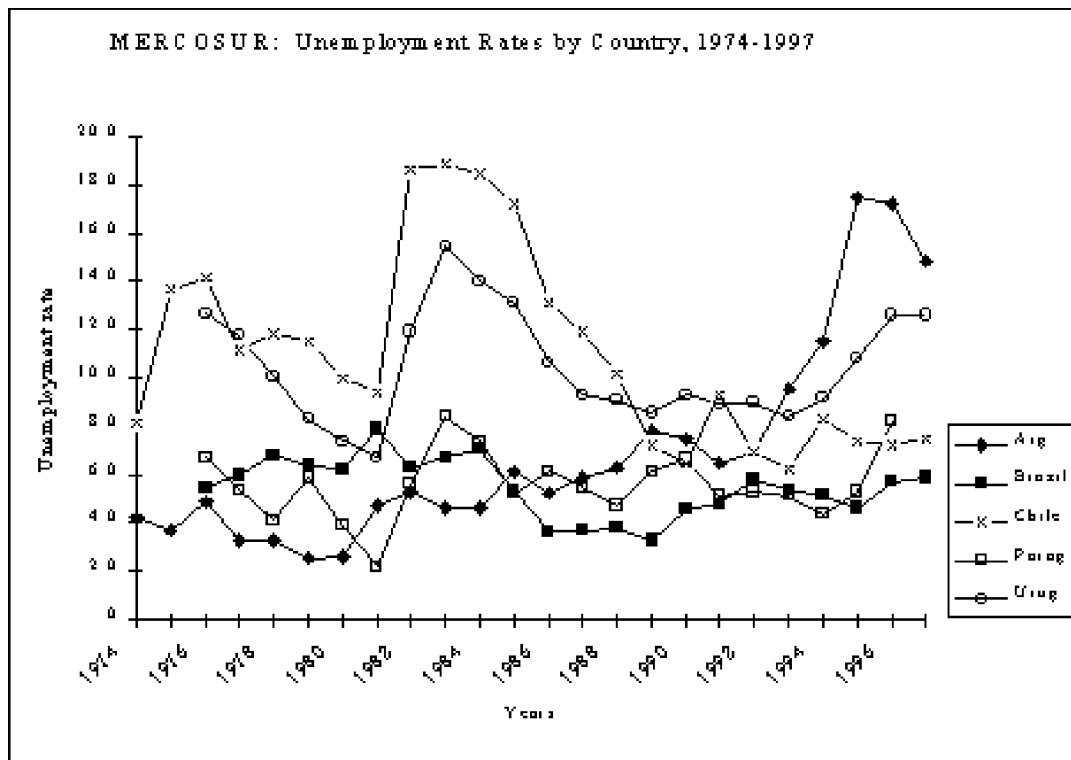


Figure 2



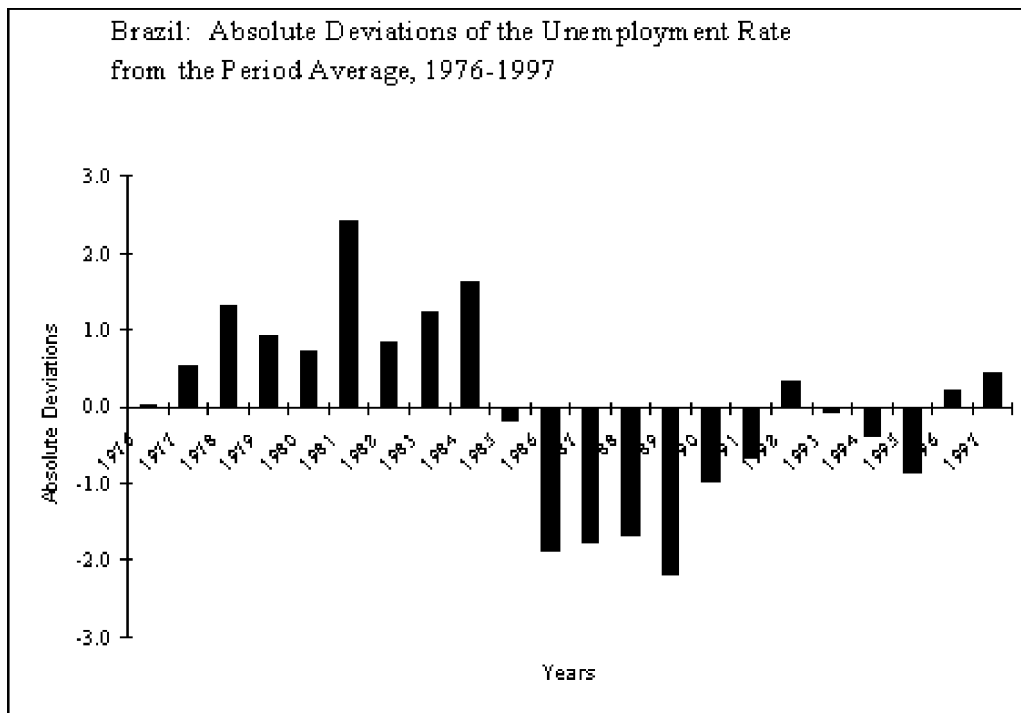
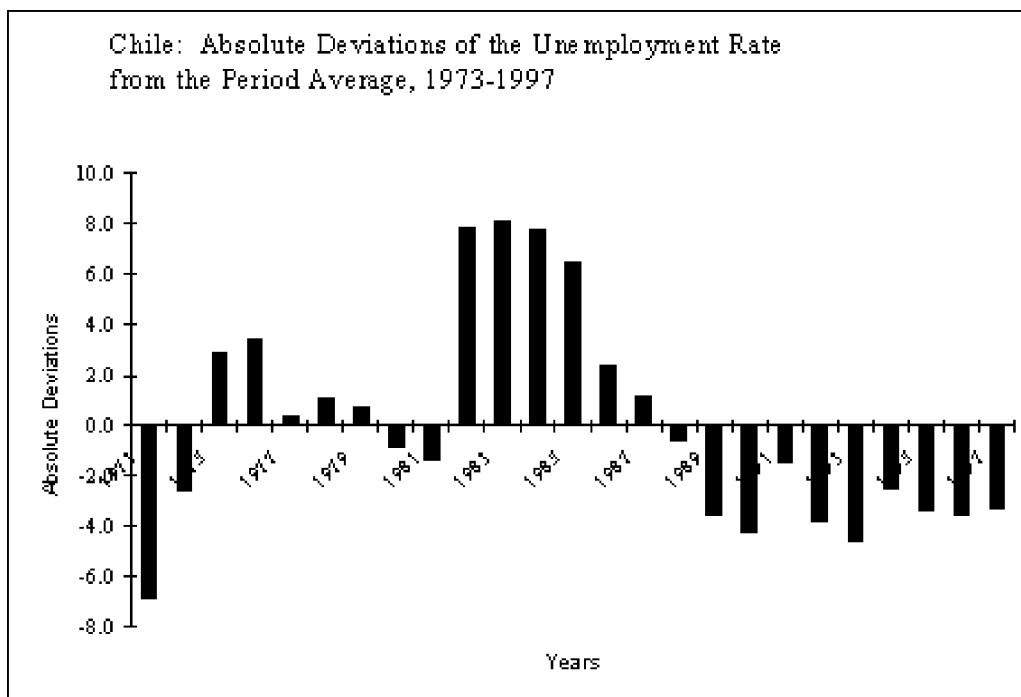
Figure 3**Figure 4**

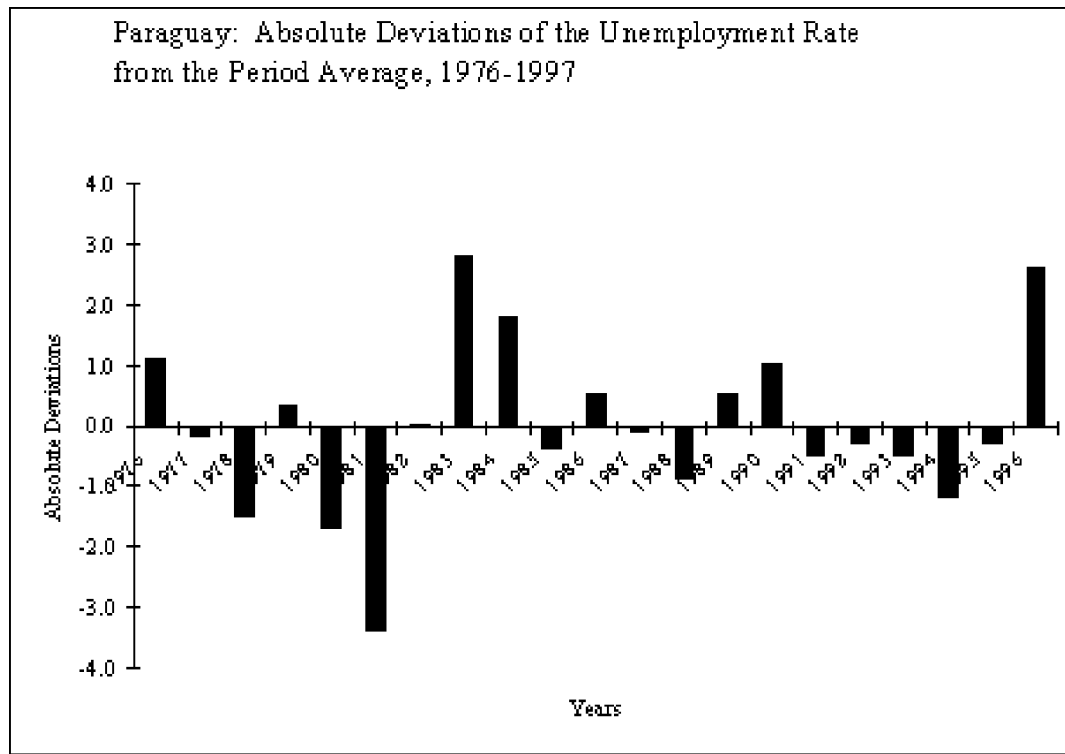
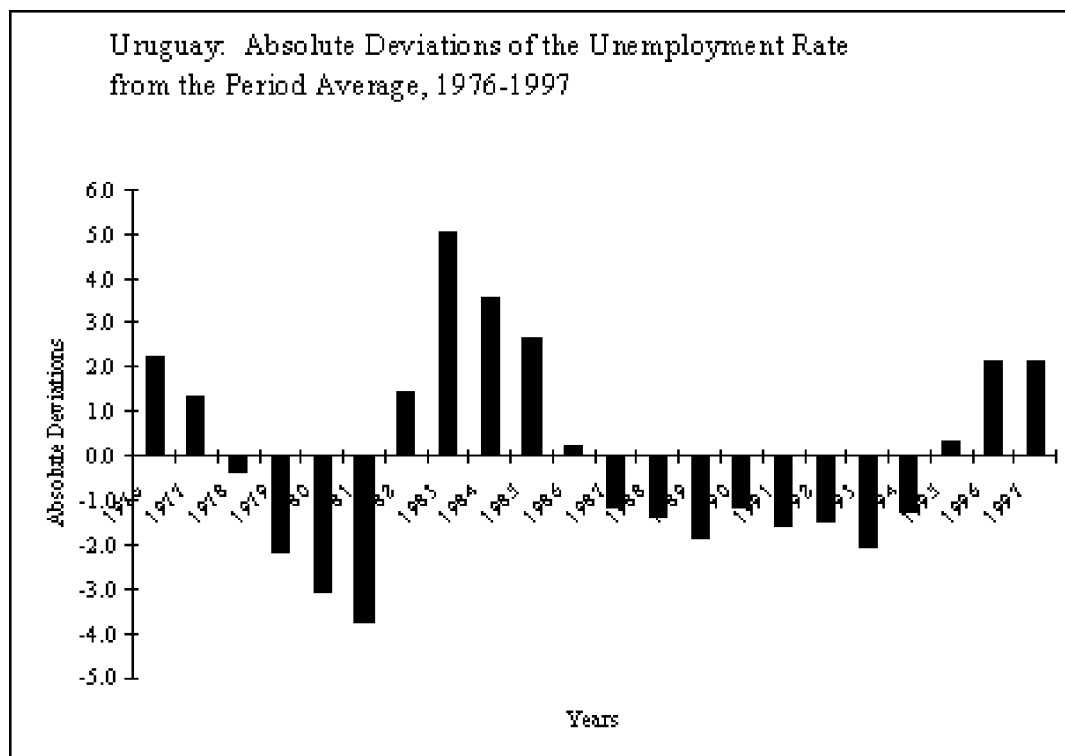
Figure 5**Figure 6**

Figure 7

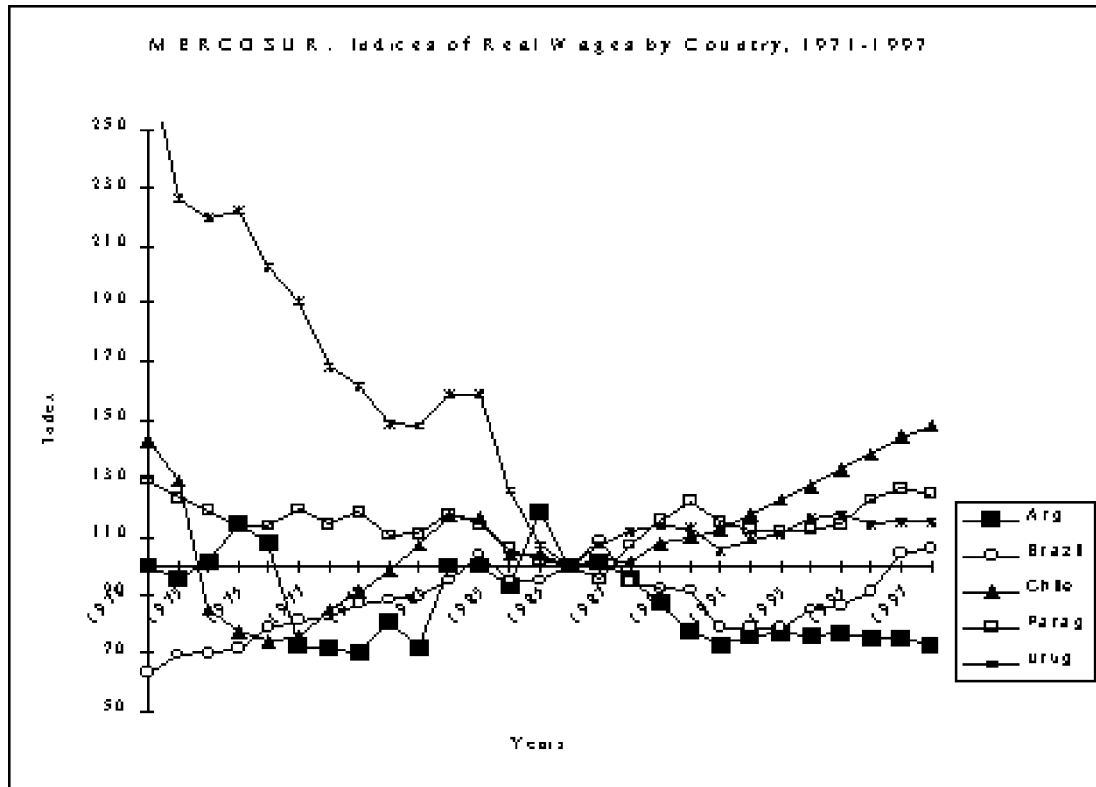


Figure 8

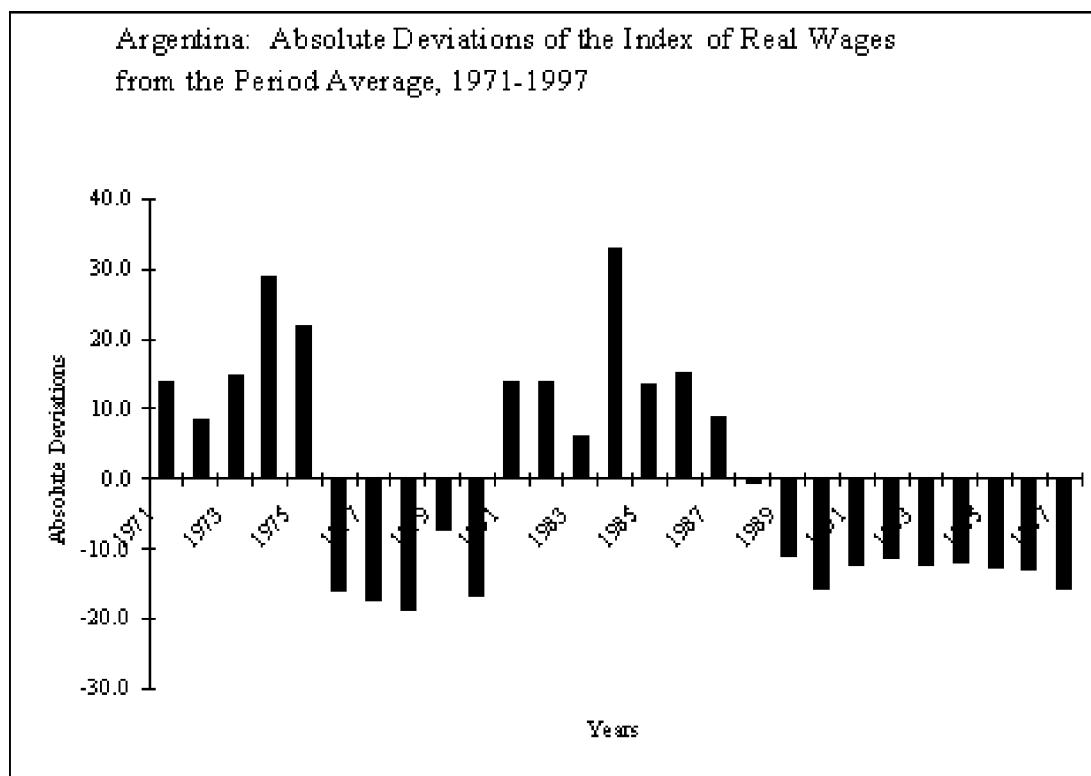


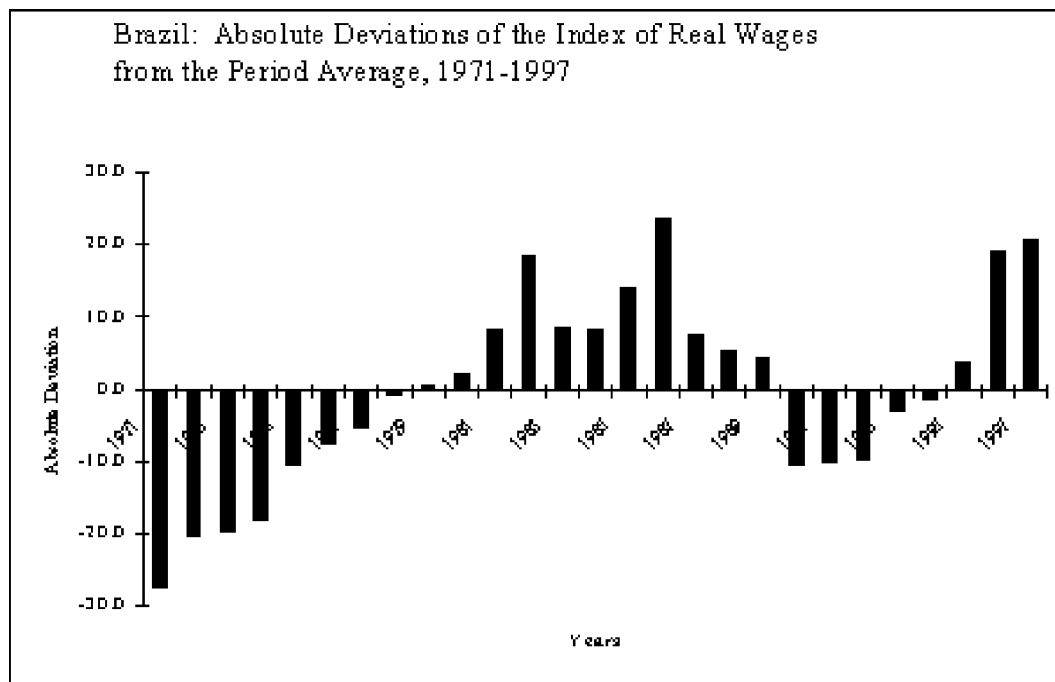
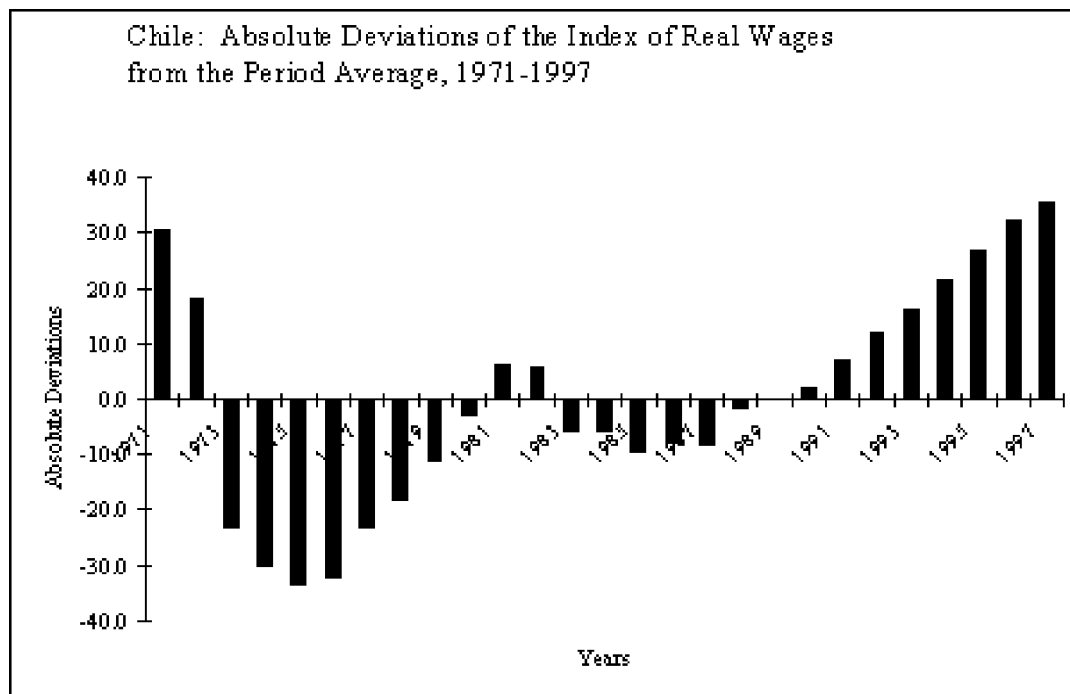
Figure 9**Figure 10**

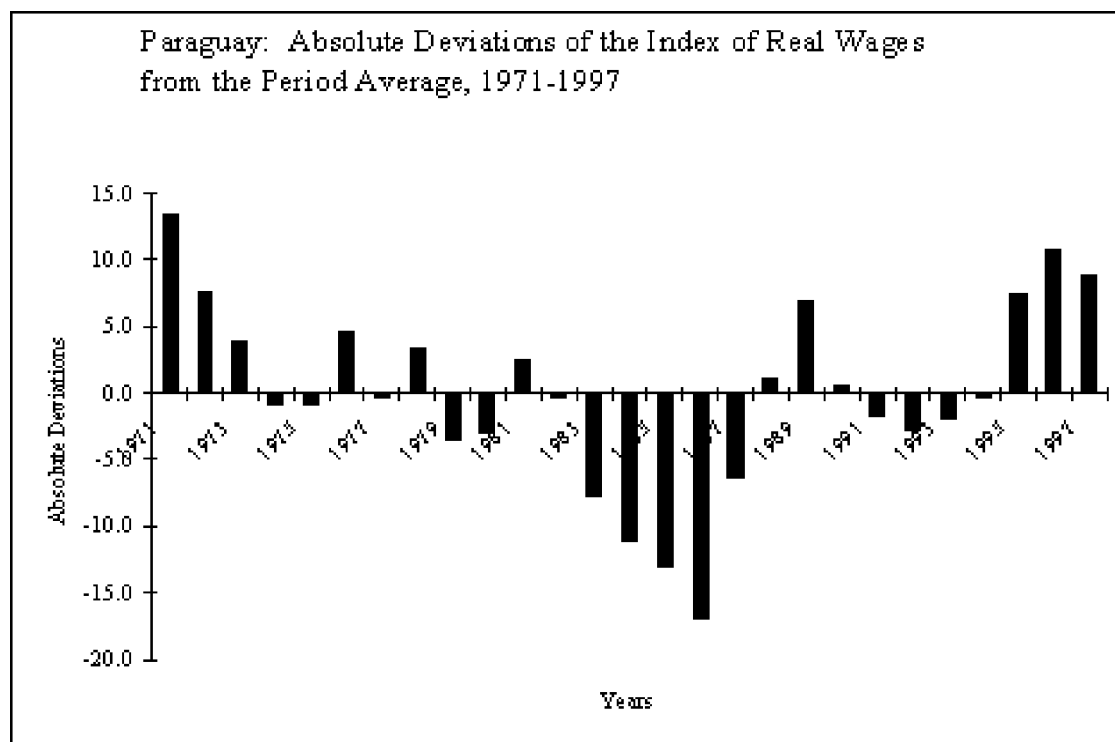
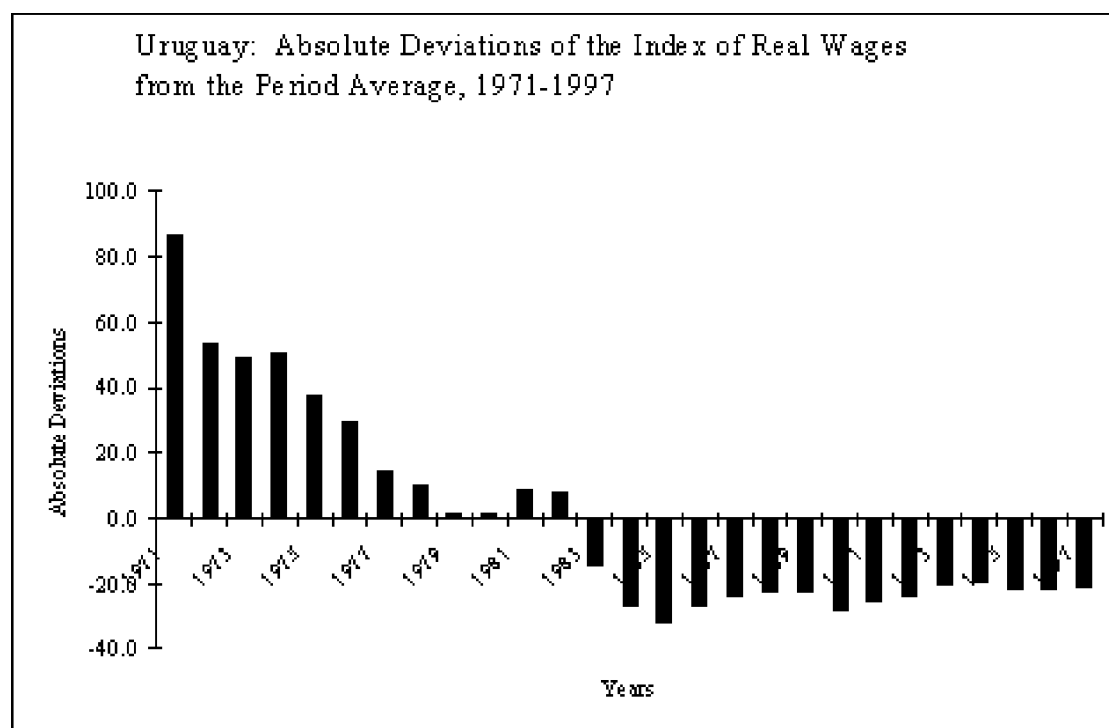
Figure 11**Figure 12**

Figure 13:

Andean Pact: Unemployment Rates by Country, 1974-1997

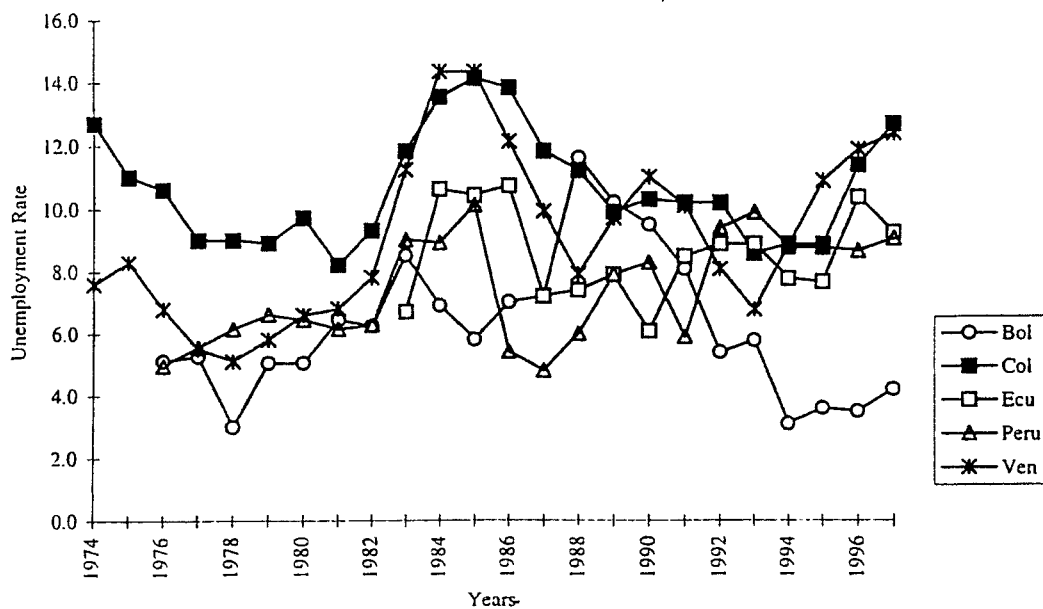


Figure 14:

Bolivia: Absolute Deviations of the Unemployment Rate from the Period Average, 1976-1997

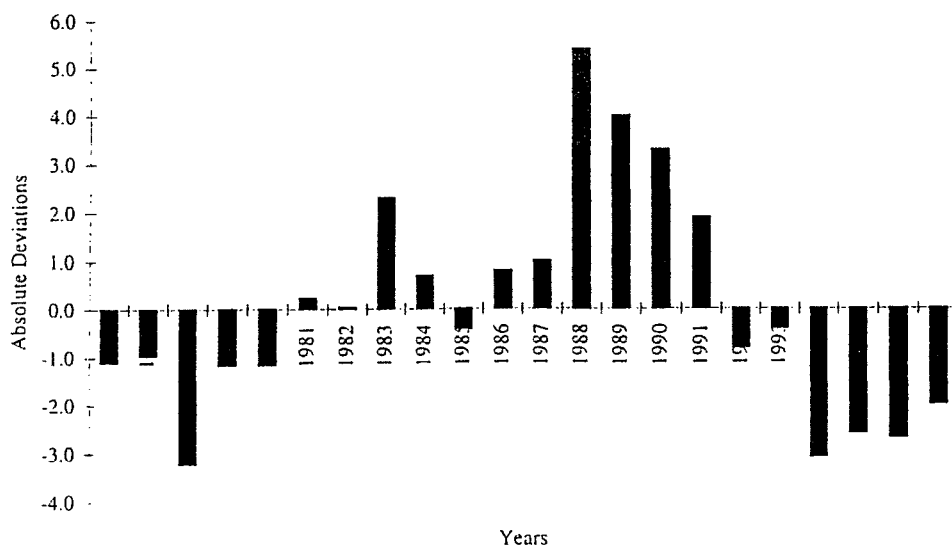


Figure 15:

Colombia: Absolute Deviations of the Unemployment Rate from the Period Average, 1974-1997

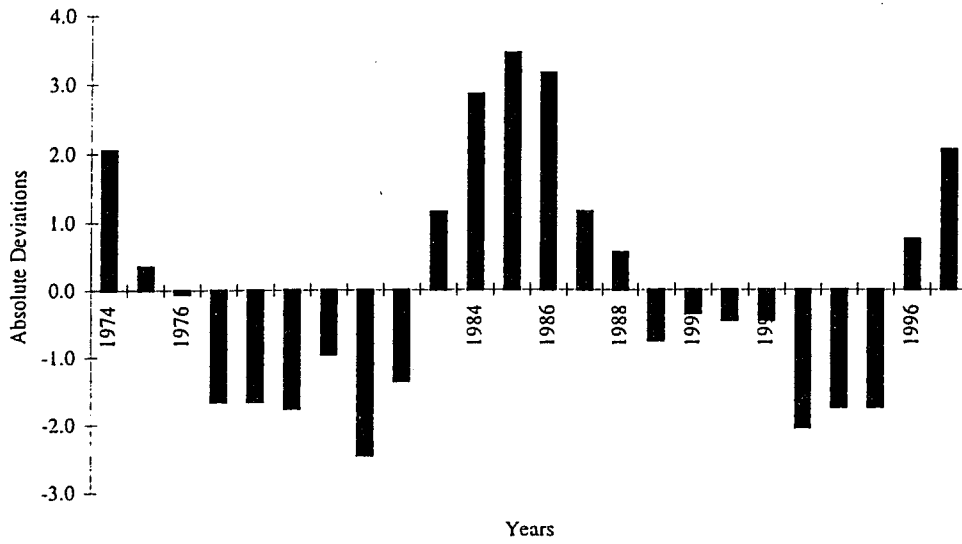


Figure 16:

Ecuador: Absolute Deviations of the Unemployment Rate from the Period Average, 1983-1997

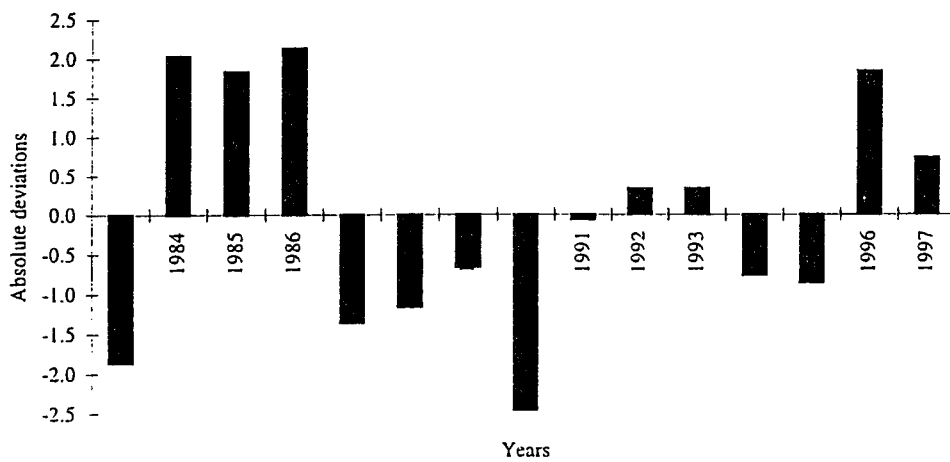
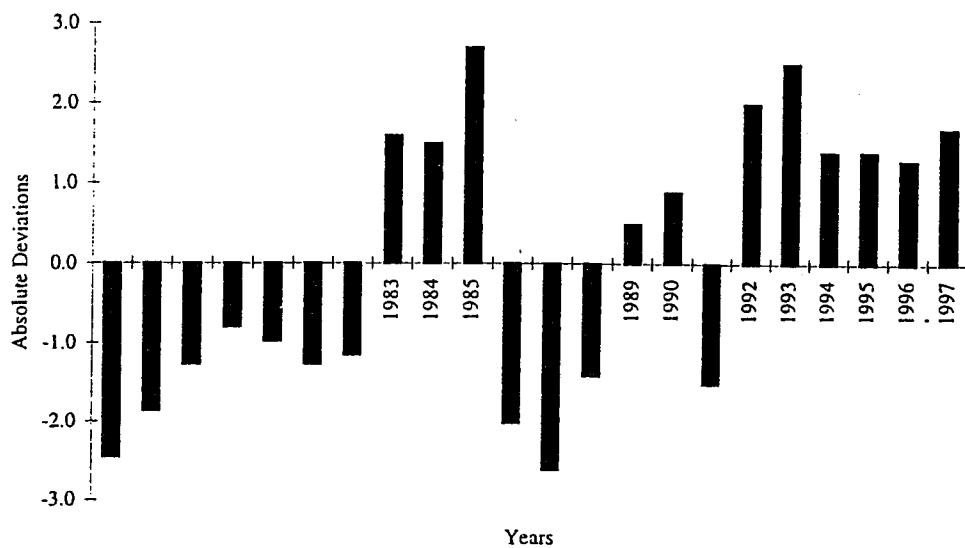


Figure 17:

Peru: Absolute Deviations of the Unemployment Rate
from the Period Average, 1976-1997

Figure 18:

Venezuela: Absolute Deviations of the Unemployment Rate
from the Period Average, 1974-1997

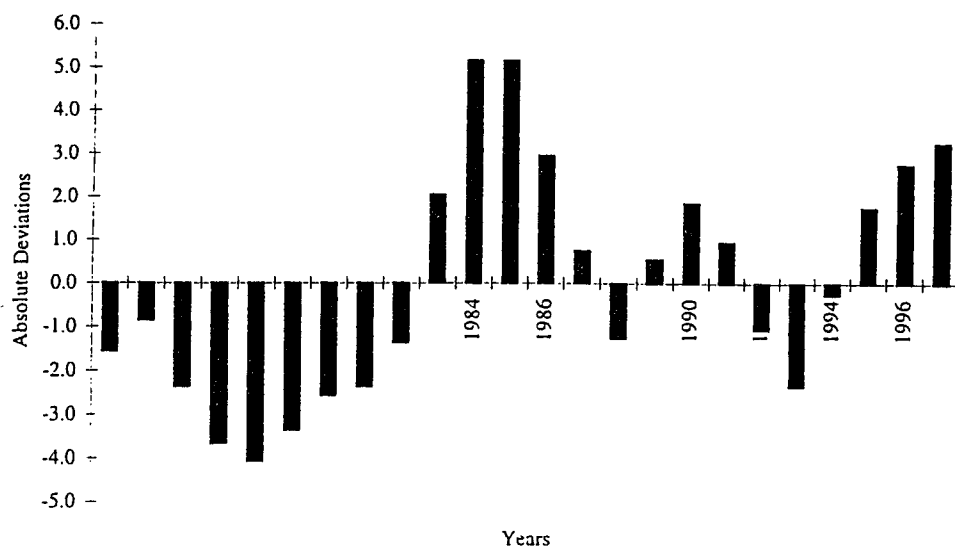


Figure 19:

Andean Pact: Indices of Real Wages by Country, 1971-1997

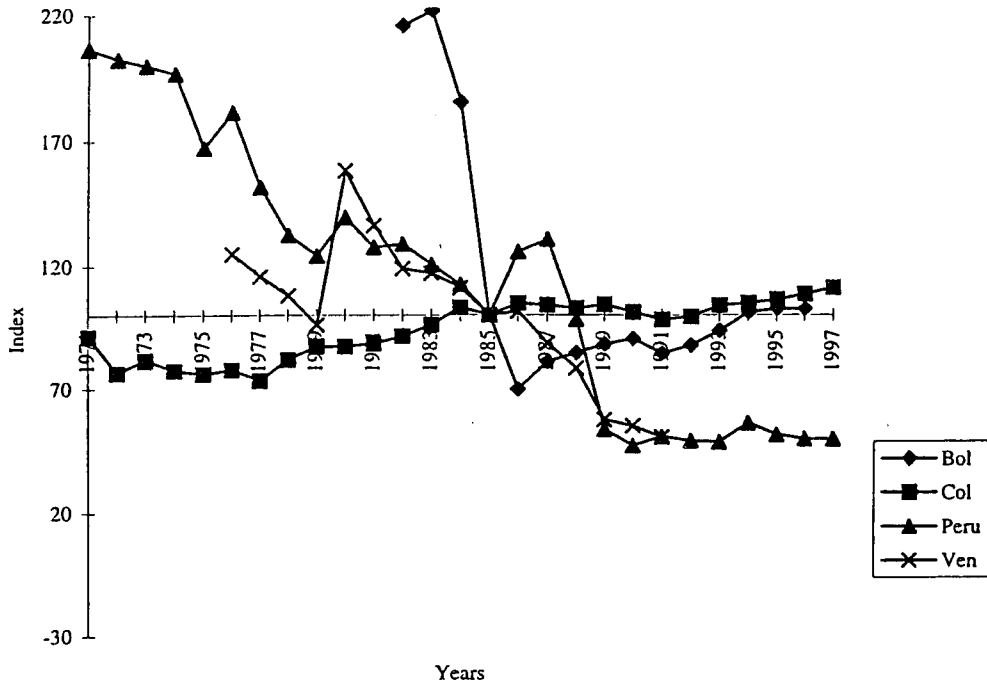


Figure 20:

Bolivia: Absolute Deviations of the Index of Real Wages from the Period Average, 1982-1996

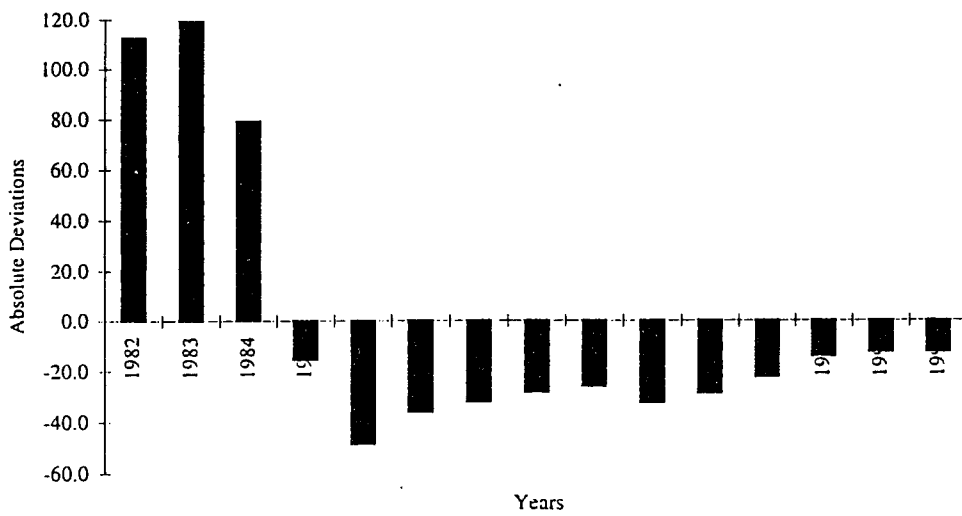


Figure 21:

Colombia: Absolute Deviations of the Real Wage Index from the Period Average, 1971-1997

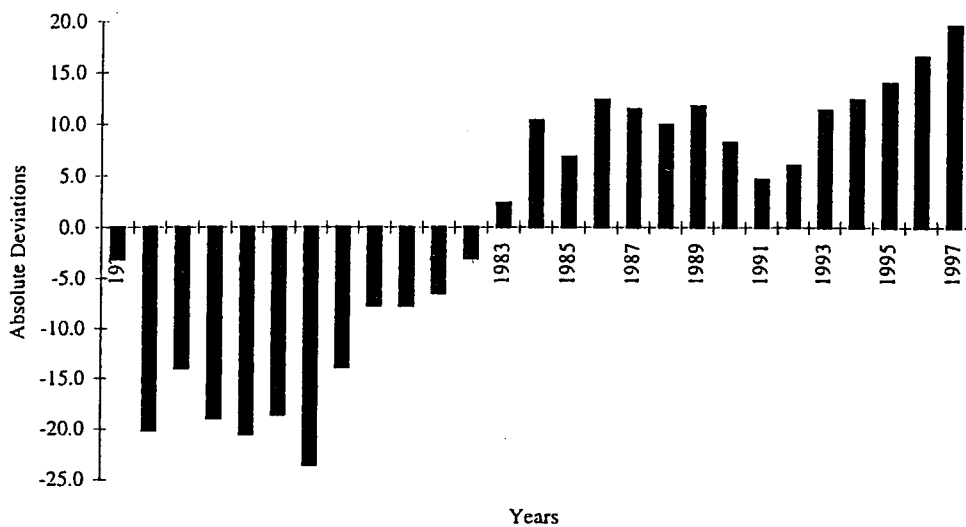


Figure 22:

Peru: Absolute Deviations of the Index of Real Wages from the Period Average, 1971-1997

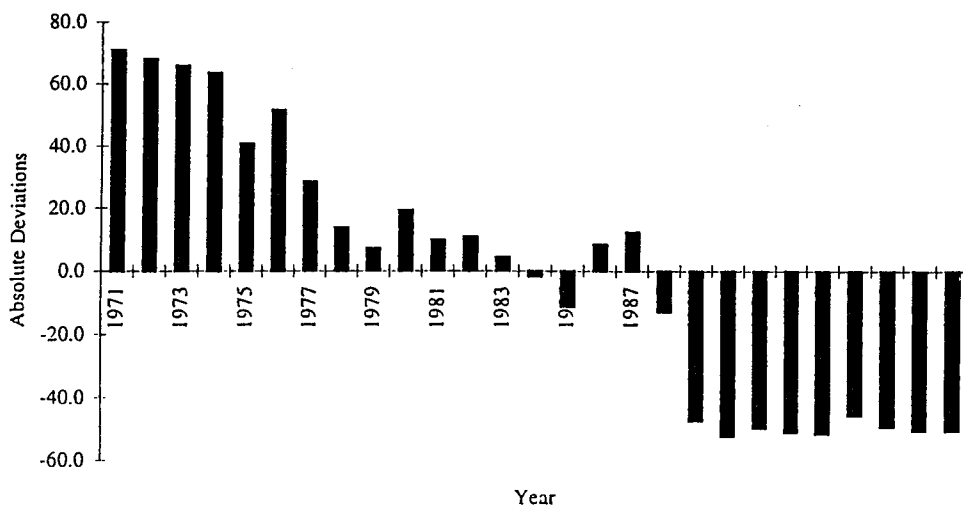


Figure 23:

Venezuela: Absolute Deviations of the Index of Real Wages from the Period Average, 1976-1991

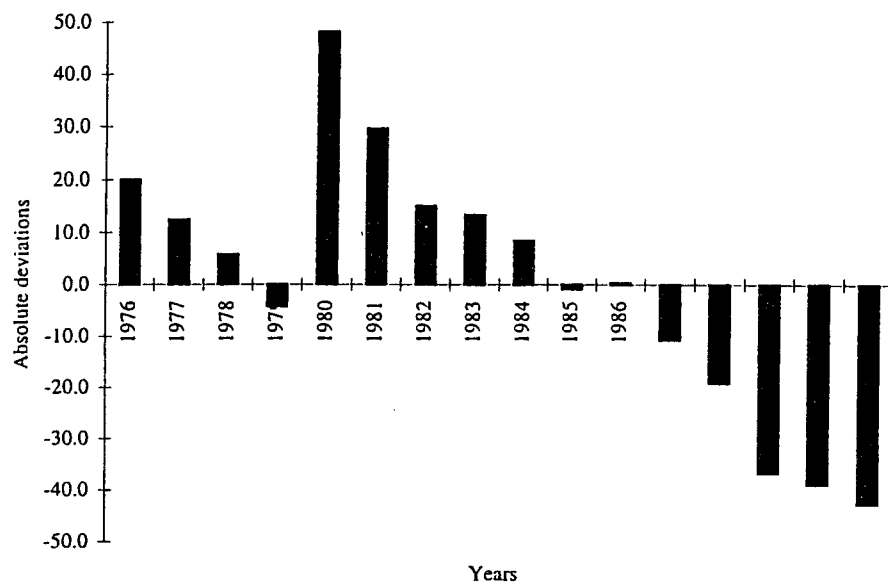
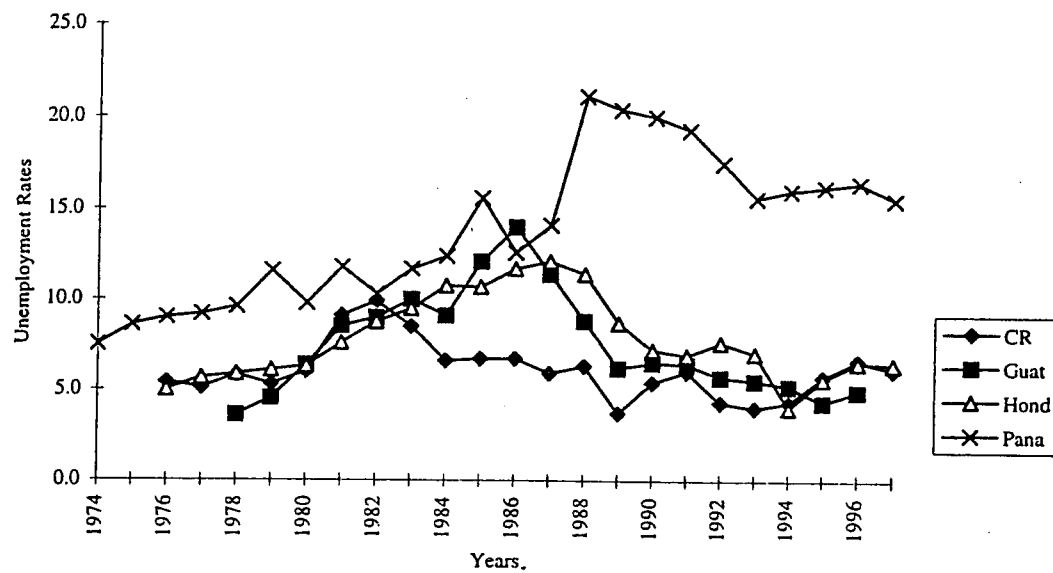


Figure 24:

Central America & Panama: Unemployment Rates by Country, 1974-1997

**Figure 25:**

Costa Rica: Absolute Deviations of the Unemployment Rate from the Period Average, 1976-1997

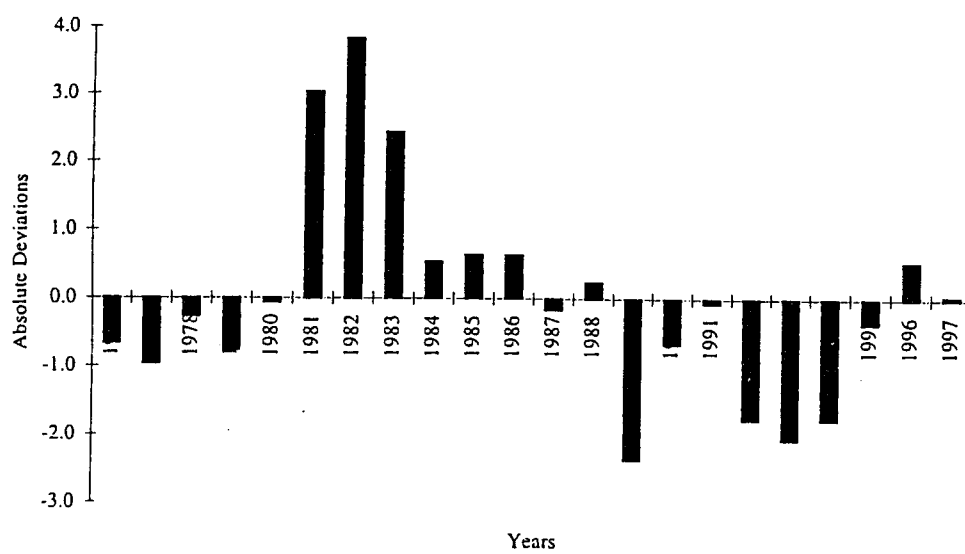


Figure 26:

Guatemala: Absolute Deviations in the Unemployment Rate from the Period Average, 1978-1997

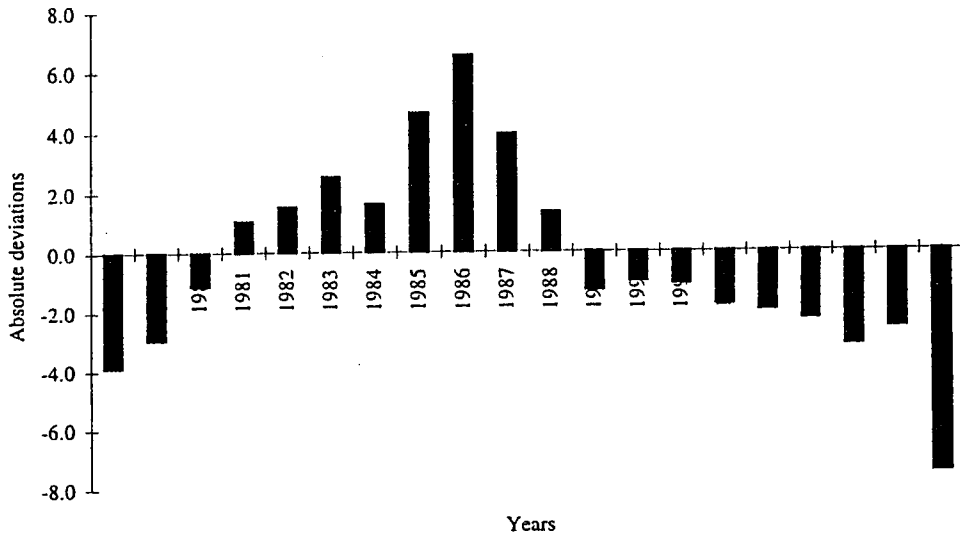


Figure 27:

Honduras: Absolute Deviations of the Unemployment Rate from the Period Average, 1976-1997

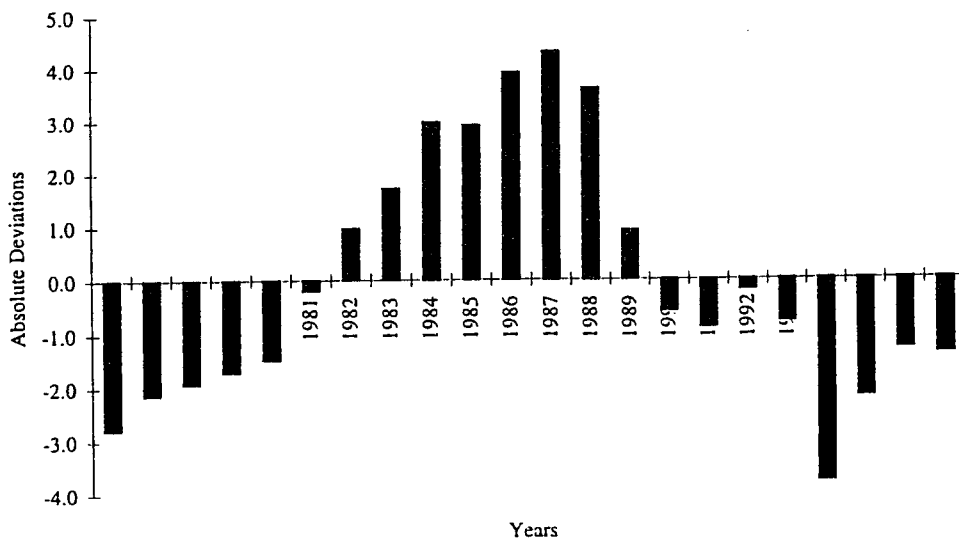


Figure 28:

Panama: Absolute Deviations of the Unemployment Rate from the Period Average, 1974-1997

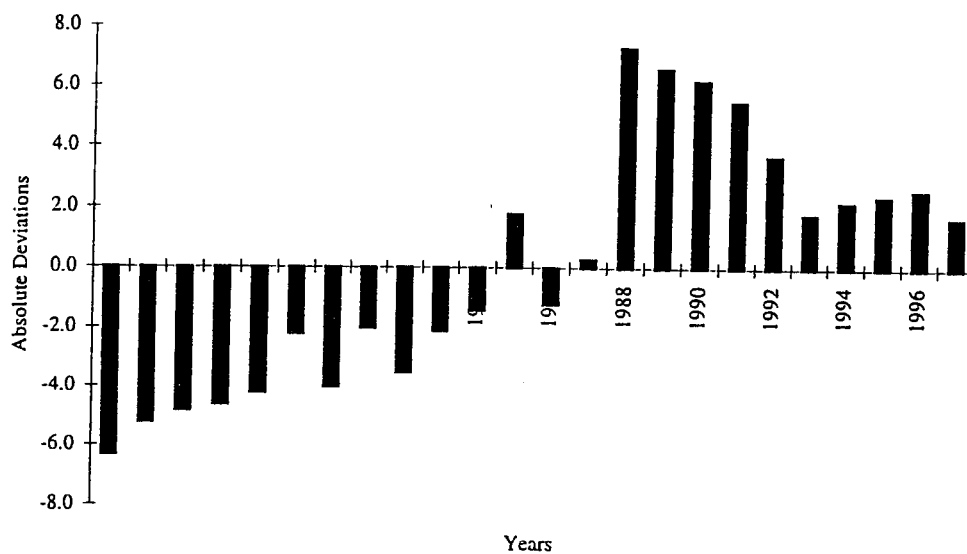


Figure 29:

El Salvador & Nicaragua: Unemployment Rates, 1987-1997

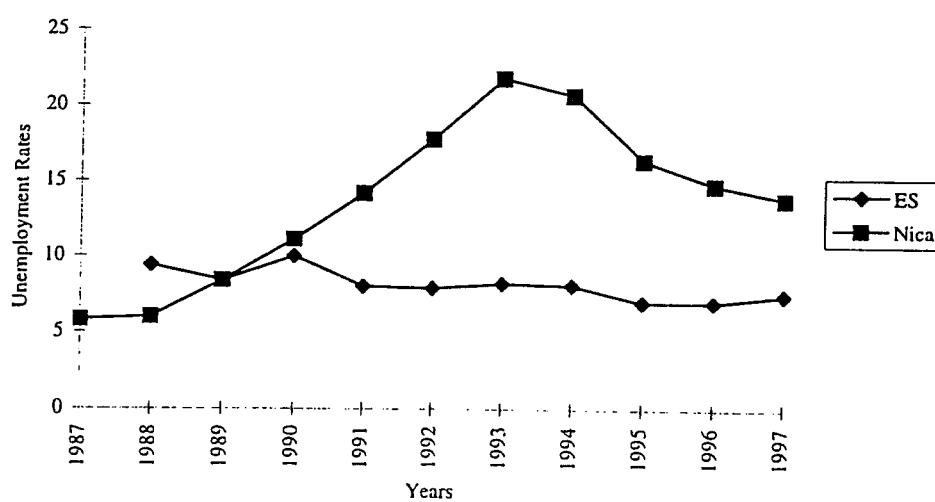


Figure 30:

Central America & Panama: Indices of Real Wages, 1971-1997
(1985 = 100 for all countries)

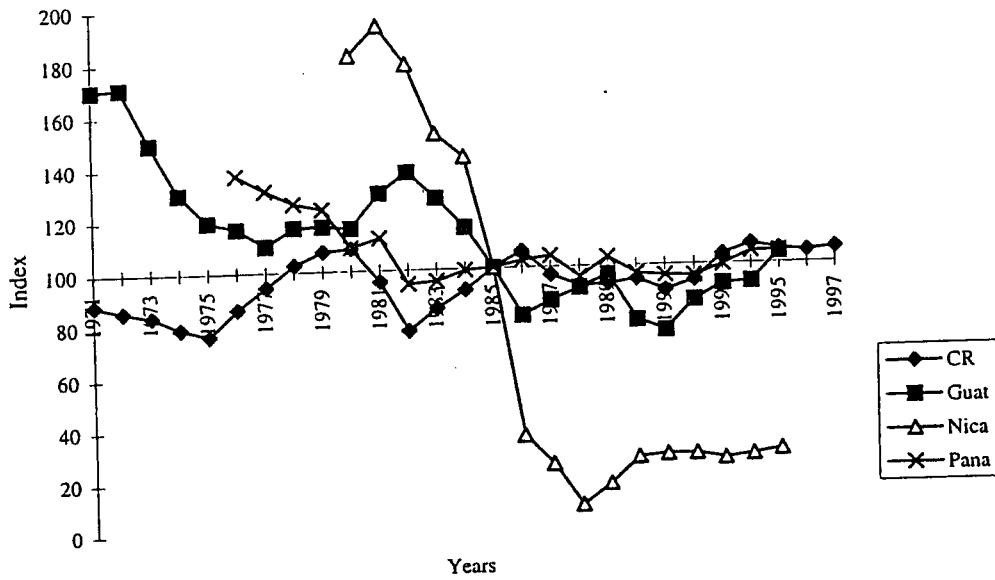


Figure 31:

Costa Rica: Absolute Deviations of the Real Wage Index from the Period Average, 1971-1997

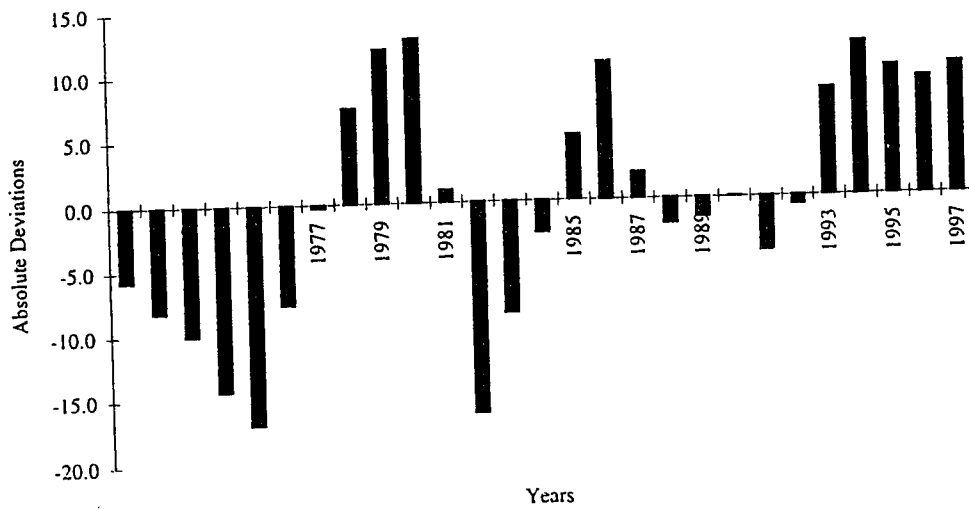


Figure 32:

Guatemala: Absolute Deviations of the Real Wage Index from the Period Average, 1971-1995

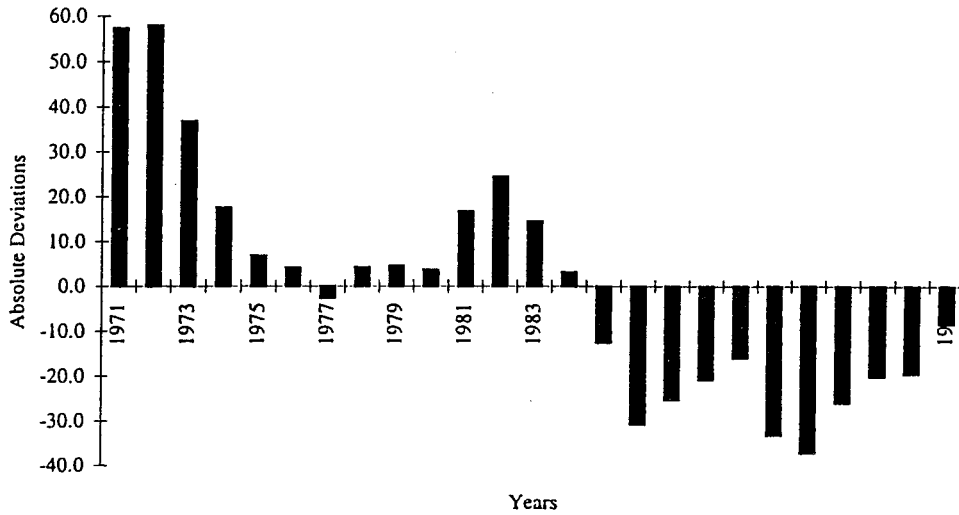


Figure 33:

Panama: Absolute Deviations in the Index of Real Wages from the Period Average, 1976-1995

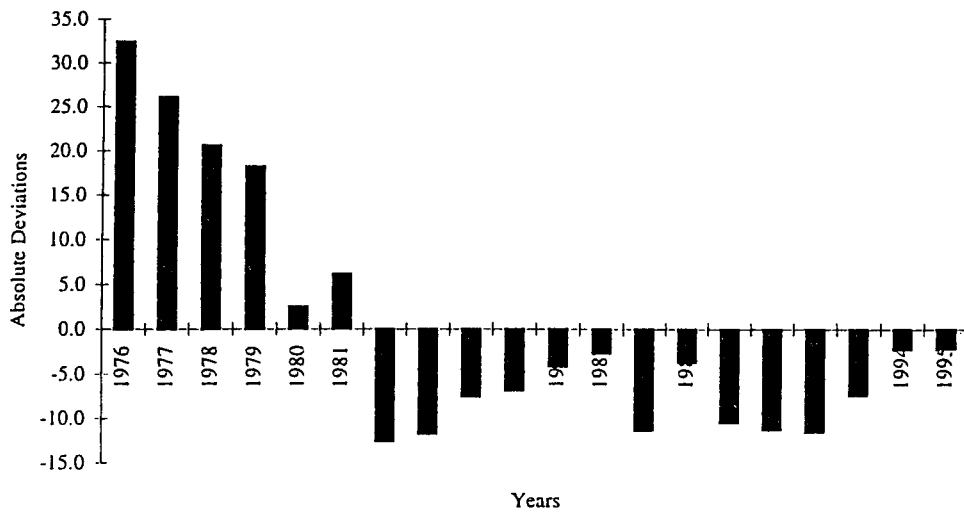


Figure 34:

Mexico: Absolute Deviations of the Unemployment Rate from the Period Average, 1973-1997

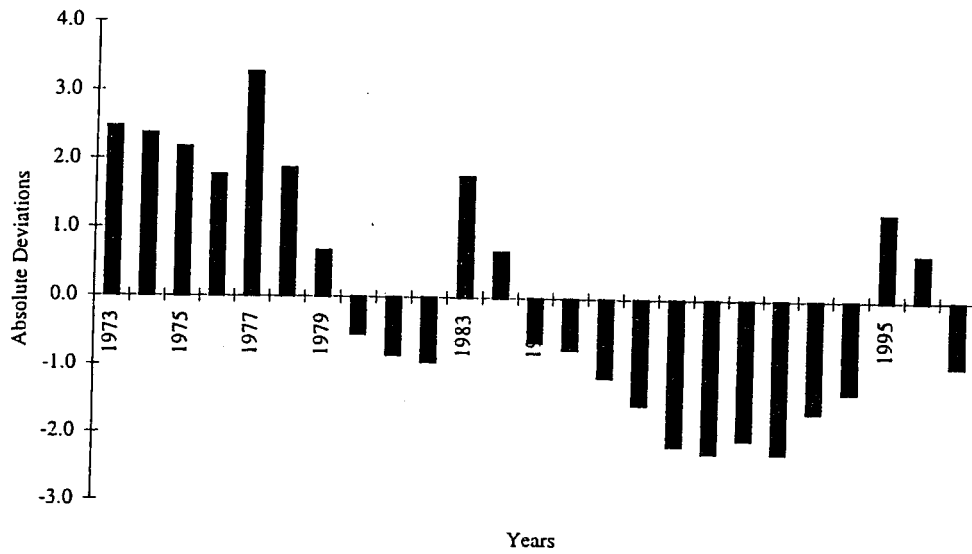


Figure 35:

Mexico: Absolute Deviations of the Index of Real Wages from the Period Average, 1971-1997

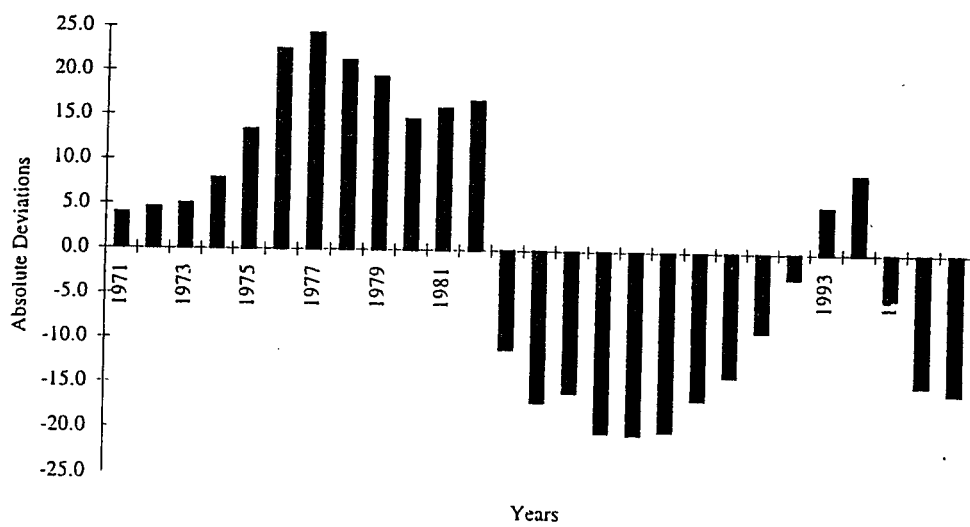
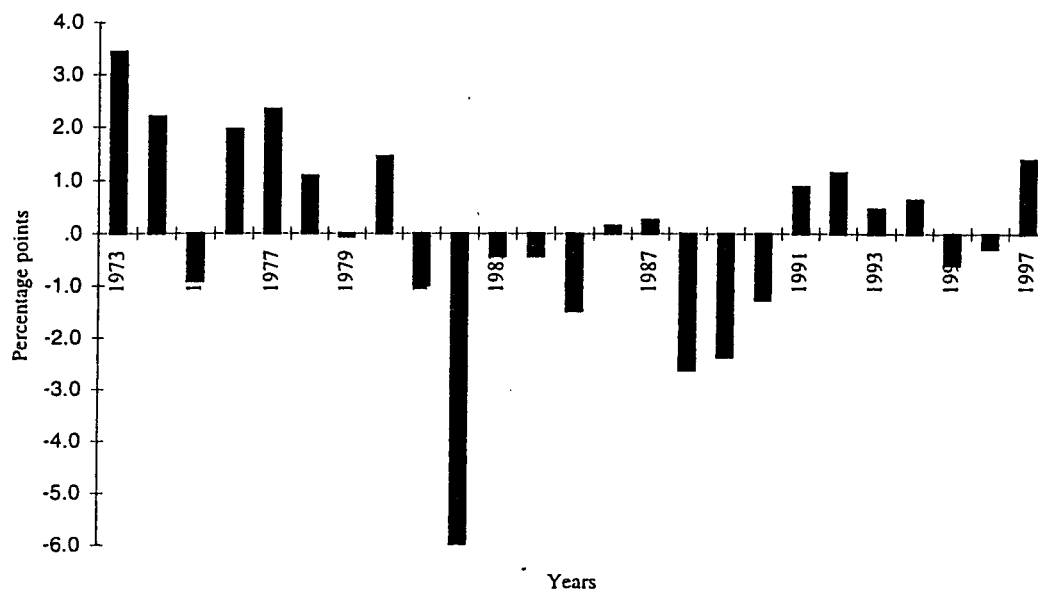


Figure 36:

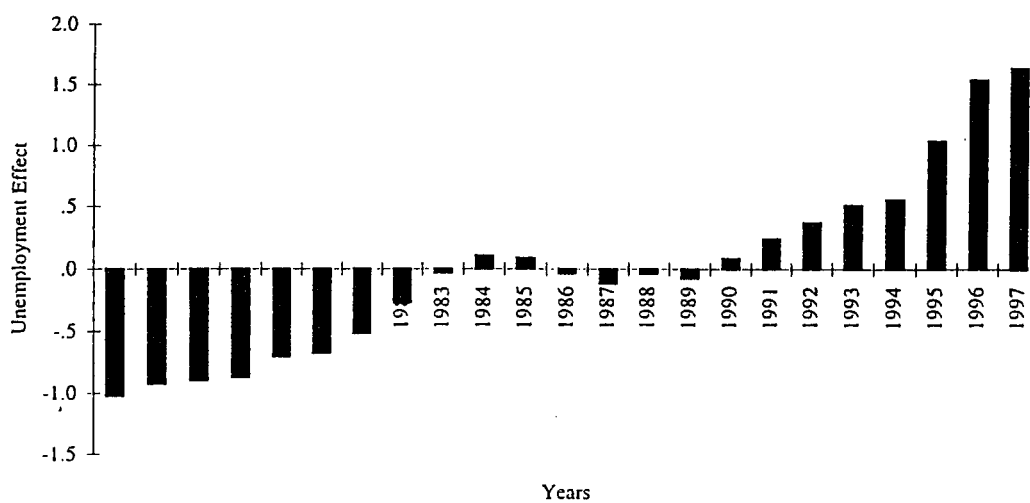
OLS Estimated growth Effects
across Latin American Countries, 1972-1997
(measured as variations from the period average)



Note: The following years are statistically significant: 1975, 1981-1985, 1988-1990, 1995-1996.

Figure 37:

OLS Estimated Annual Unemployment Effects
across Latin American Countries, 1974-1997
(adjusted for level of GDP, variations from the period average)



Note: The following years are statistically significant: 1985-1989.

Figure 38:

OLS Estimated Annual Variations in the Real Wage Index
 across Latin American Countries, 1971-1997
 (compared to the average for the period)

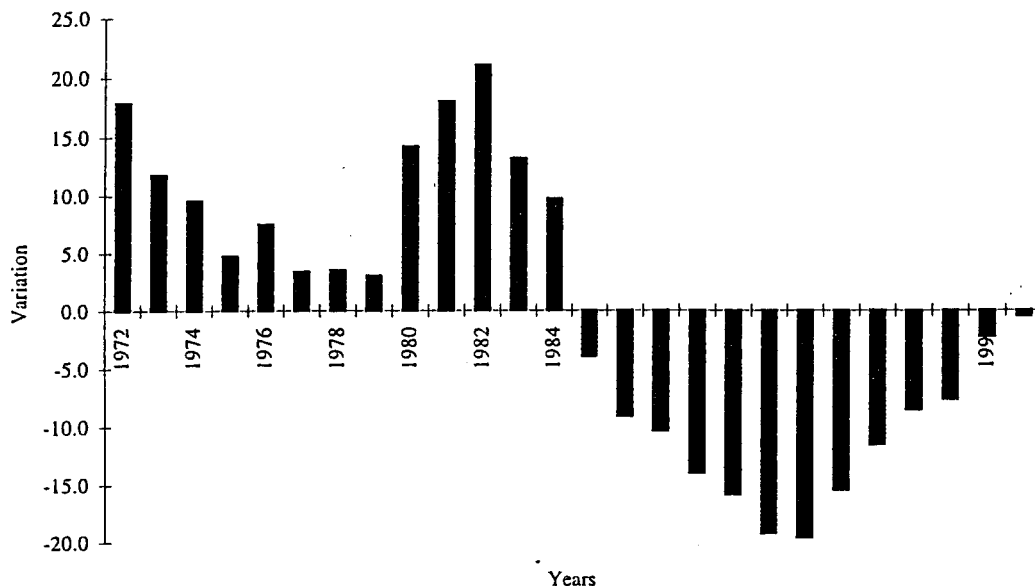


Figure 39:

OLS Variations in the Real Wage Index and Unemployment,
 Compared across Latin American Countries, 1974-1997
 (relative to the average for the period)

