

Employment Strategy Papers

Labour market policies and regulations  
in Argentina, Brazil and Mexico:  
Programmes and impacts

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Consejo Nacional de Investigaciones Científicas y Técnicas  
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A Comparative Study in the Framework of the Global Employment Agenda

Employment Analysis Unit  
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**LABOUR MARKET POLICIES AND REGULATIONS IN  
ARGENTINA, BRAZIL AND MEXICO:  
PROGRAMMES AND IMPACTS**

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## Preface

The structural reforms undertaken by Argentina, Brazil and Mexico beginning in the late 1980s and 1990s were far-reaching, covering a wide range of policies which formed part of the so-called Washington Consensus. Within these policy debates, both in Washington as well as in Latin America, it was argued that for the economic reforms to be successful, it would be necessary for labour markets to be opened as well, so that firms could react and adapt to the changing competitive environment. This view, espoused by the World Bank in its 1995 World Development Report, *Workers in an Integrating World*, led to much reflection and debate by governments and social partners of the region, and in some countries, led to significant overhaul of their labour legislation, particularly regarding employment protection regulation and the use of temporary or trial contracts.

This study on labour market policies and regulations in Argentina, Brazil and Mexico, gives an overview of the previous and existing labour market regulations in the three countries, and their effect on the labour market, as measured by the incidence of atypical employment relationships and the output-employment relationship. It also addresses the labour market policy responses to the changed institutional and socio-economic environment. The analysis uses a comparative framework, allowing the author to better assess the effects in relation to the different experiences of each of the countries.

The first part of the study gives an overview of the regulations on employment contracts, dismissal protection and non-wage labour costs, comparing current regulation with that of previous decades, and evaluates the effect of these changes on the operation of the labour market. The author finds that labour regulations contributed in shaping employer practices. For example, the creation of flexible contracts was reflected in changes in the structure of recruitment and of employment; whereas the tightening of job security regulations reduced lay-offs. However, the changes in labour regulations did not seem to have influenced employment generation.

The analysis also found that precarious employment relationships, understood as employment relationships that did not comply with labour and social security regulations, expanded in all three countries, regardless of whether there was little or no dismantling of protective regulations. The author argued that this *de facto* flexibilization was facilitated by the laxity of enforcement in the three countries, which small firms in particular responded to during the difficult economic adjustment of the 1990s and early 2000s.

In the second part of the study, the author takes up the issue of labour market policies, both passive and active. She explains that previously, policies of this sort had been piecemeal in all three countries, were typically not institutionalized and often responded to political whim. In contrast, the 1990s saw a concerted effort on the part of each of the governments to institutionalize and expand passive and active labour market policies. Although still incipient and often under funded, the author views these first steps at developing an employment policy framework positively, particularly since job generation has been slow in the countries.

The study forms part of the comparative study on employment creation in Argentina, Brazil and Mexico, undertaken by the Employment Analysis and Research Unit of the Employment Strategy Department. The objective of the study is to propose recommendations, for submission to the social partners, with respect to the creation of employment in these countries, based on an analysis of four policy areas: macroeconomic policy, trade and regional policy, labour market policies and social dialogue. The study is part of the implementation of the Global Employment Agenda, the employment arm of Decent Work.

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## 1. Introduction

In Latin America the 1990s were characterized by drastic changes in the economic growth model, as the economic strategy based on import substitution for the domestic market was finally abandoned in most countries and replaced by economic liberalization.<sup>1</sup> Reforms and their economic and labour market outcomes showed strong similarities across countries, as it had earlier happened, first, in the period of inward-oriented import-substitution industrialization and, then, in the decade that followed the debt crisis of the early 1980s. Economic strategies of the 1990s were aimed at the liberalization of international trade and financial flows, fiscal discipline and price stabilization, and the transformation of the state and its role as employer through privatization. Reforms were often accompanied by either short-lived or long-lasting domestic currency appreciation that, combined with the opening up to imports, restructured the economy in general and the manufacturing sector in particular, generally with negative employment consequences.

According to the views of multilateral financial institutions and mainstream experts, economic liberalization in Latin American countries required labour policy reforms, many of which were also demanded by employers. Flexibilization of constraints, including trade union intervention, on employer decisions on the use of labour and labour-cost reductions were among the reforms deemed necessary for the success of the new economic model. These “labour reforms” were expected to improve external competitiveness and employment performance. While several Latin American governments followed these recommendations, under different modalities and with variable intensity, others did not. The nature and scope of the labour reforms was affected by the importance assigned by governments to labour cost cuts as a mechanism to adjust to the countries’ international repositioning, how influential opponent trade unions and political parties were, how intense was the pressure of employer and international financial institutions in favour of the proposed changes, and finally, the nature and degree of protection guaranteed to workers by the pre-existing laws.<sup>2</sup>

The adverse labour market outcomes of the economic reforms, namely growth of excess labour and intensification of labour market competition as well as the resulting increase in poverty, in turn called for state intervention via employment and income maintenance programmes—forms of state intervention that had little precedent in Latin America. These new programmes were to be modelled, in part, by the well-developed passive and active labour market policies that existed in Europe.

In this report I examine some aspects of the labour policies implemented together with or after economic liberalization in Argentina, Brazil and Mexico, and the employment and unemployment compensation programmes existing in these countries in the early 2000s, as well as certain of their labour market effects. In the case of labour policy, the emphasis is placed on employment protection reforms and on trends in non-wage labour costs. These three countries applied basically similar economic reforms, although the reforms had distinct aspects and

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<sup>1</sup> In some countries, such as Argentina, there had been earlier but unsuccessful attempts in the same direction; in Chile, by contrast, the growth model changed in the early 1970s. In Mexico, economic liberalization started in the mid-1980s.

<sup>2</sup> On the different labour policies implemented in Latin American countries, see Marshall (2002).

different rhythms of implementation. Their labour policies and labour market programmes were less uniform.<sup>3</sup>

The report is organized as follows. The first section (Section I) presents succinctly the labour market intervention model underlying the labour reforms, or reform projects, and labour market programmes in the three countries, as well as the debates around their labour market effects. In the next section (II), I discuss select labour regulations in the three countries, first, as they were in the 1980s, prior to any reforms implemented in the 1990s, and then, the reforms undertaken in Argentina and Brazil as well as some reform proposals in Mexico. Finally, I examine some of their labour market outcomes. Labour market programmes are examined in Section III. I describe the programmes in the early 2000s, with some references to precedents. I consider cash transfers to the unemployed and diverse types of employment creation programmes, with and without training components. I then compare their levels of expenditure, coverage and labour market impacts. The final section presents some conclusions.

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<sup>3</sup> For a comparative analysis of Argentina and Mexico, with their similar economic policies but different labour policies, see Marshall (2001).

## 2. Labour market intervention model: assumptions and controversies<sup>4</sup>

Labour reforms in Latin American were oriented most of all by the notion that constraints on employers' freedom to hire, use and dismiss labour were adverse to employment, productivity and, ultimately, economic performance. These views were akin to the "OECD" state labour market intervention model that had developed in the late 1970s, according to which income maintenance programmes reduced the work incentive, contributed to the increase of unemployment and were adverse to productivity growth. The model's assumptions on the impacts of labour protection systems have been the subject of intense debates, generating numerous academic and policy reports, and empirical studies dealing mainly with European countries and the United States. These controversies were reproduced with reference to Latin American countries; the effects of schemes of income maintenance for the unemployed were debated in the same terms, even though the programmes were only incipient.

In relation to the effects of employment protection (i.e. regulations on contracts and dismissal) it has been argued that strong protection (stringent legal restrictions on the free utilization of individual and collective dismissals and of less or un-protected contracts) inhibits employment growth and intensifies unemployment by stimulating labour substitution, by deterring employers from recruiting at times of economic expansion, and by fostering segmentation between the employed and the unemployed, and that it encourages use of temporary contracts, overtime and precarious employment relations. It was also held that stronger protection moderates the fear of unemployment, undermining the work effort and collective labour discipline, and strengthening collective resistance to technological and organizational labour-saving innovation, all with adverse effects on productivity growth. Non-wage labour costs in general (of dismissal, social security, etc.) were also considered to be deterrents to employment creation. Against these views it was claimed that constraints on dismissals help to restrain unemployment growth during recessions and to stabilize labour demand in the longer term; that they encourage labour-saving innovation stimulating productivity growth, help to secure workers' commitment to enterprise success, induce employers to provide and workers to acquire firm-specific training and skills, and favour cooperative relations at the workplace. Empirical research failed to settle the debate, as findings were not without ambiguity and were often contradictory. With reference to Latin American countries, although several authors dealt with the nature of regulations and/or reforms at different stages (*inter alia* Marshall, 1996a; Bronstein, 1997; Weller, 1998; Cook, 1998, 2000; Vega Ruíz, 2001; Ciudad, 2002) as well as with the factors promoting and those discouraging labour policy transformation in certain countries (e.g. Cook, 1998, 2000; Cortés and Marshall, 1999), empirical studies of the outcomes of labour regulations and/or labour policy reform have been sparse. Among these, Marshall (1994, 1996a) concludes that, although regulations affect employer practices (recruitment and dismissal) and, in some cases, also worker behaviour, this has no effects on employment and productivity performances, whereas Heckman and Pagés (2000), by contrast, contend that job security provisions reduce employment and increase inequality.

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<sup>4</sup> This section draws heavily on Marshall (1996a, 1996b, 1997) and references cited therein; see those articles for more detailed analyses.

In relation to Latin America, it has often been argued that, independent of the stringency of labour regulations in imposing constraints on employers, two factors would affect their real incidence: one, the fact that non compliance in the labour area (as in others, e.g. taxation) is widespread, mainly because control and enforcement are extremely lax; the other, that workers infrequently contest, via the judiciary system, employer decisions however arbitrary these might be, discouraged by the extended lags before decisions are reached when cases are taken to the labour courts, or because their knowledge of protective regulations is insufficient, or due to the context of a large labour surplus and, in certain countries, weak unions. It was claimed that generalized non-compliance and the fact that laws take too long to be applied undermine the real efficacy of legal labour protection, and that norms should be made more compatible with the reality of evasion. In other words, fewer constraints would allegedly stimulate compliance. In any case, widespread non-compliance and labour court delays indeed play a role in the operation of labour markets, particularly when comparing Latin American countries with the advanced OECD countries, and these differences should be borne in mind in considering the analysis that follows on Argentina, Brazil and Mexico.<sup>5</sup> As we will see, one indication of the degree of non-compliance or, conversely, of the effective application of laws, is given by the incidence of precarious wage employment relationships, that may be regarded to reflect how widespread are in reality employer “flexibilizing” practices in spite of legal constraints.

Debates about the effects of unemployment compensation schemes were intense in OECD countries, where the systems’ coverage is very wide. The discussion was extended later to Latin American countries where, however, given the minimal level of coverage of the few existing unemployment insurance systems, it seems to be groundless. Controversies centred mainly on the effects of income protection on the work effort and labour discipline on the one hand, and on the incentive to work and unemployment on the other. It was argued that unemployment compensation moderates the fear of unemployment lessening the work effort; that the level of unemployment would increase because compensation would foster labour force participation as well as encourage voluntary quits; that the use of temporary employment would be more extensive because employers would count on a pool of unemployed subsidized by the state; that unemployment compensation would allow workers not to accept any available job opportunity encouraging long-term unemployment, particularly if the replacement rate is high and the benefit is available for long periods; that it would discourage labour mobility to areas with job opportunities; and that, by establishing a floor equal to the unemployment benefit, it would increase wage rates to the detriment of job creation. Underlying many of these notions are the assumptions that there is a voluntary option between employment and unemployment, and that unemployment compensation reduces the work incentive. In contrast, unemployment compensation systems have been considered to be positive because they induce workers to enter into wage employment, as only wage employment entitles access to the unemployment benefit; longer term unemployment has not been regarded as being necessarily negative, as it permits better skill matching, reducing in turn voluntary quits and turnover rates; and furthermore, it has been argued that the absence of unemployment insurance does not guarantee creation of stable jobs. Another argument raised is that unemployment compensation to some household members may deter other members from entering into the labour force, reducing the overall rate of labour force participation. In Latin America, based mainly on the experience of Brazil, it was also

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<sup>5</sup> For instance, de la Cruz (1997) notes in relation to the Mexican case how time-consuming labour legal suits are.

considered that unemployment insurance schemes, this time in conjunction with other components of the labour protection system, stimulate turnover and informality. Informality is thought to increase because workers, might with employers, would wish to continue receiving unemployment compensation, and thus would take jobs that are not legally registered (e.g. Cortázar, 1995; Amadeo and Camargo, 1995). However, in some countries, unemployment compensation schemes could be regarded instead as a incentives to formalization since entitlement to the unemployment benefit is conditional on having a contribution record.

The effects of the European "active" labour market programmes have also been controversial. The programmes characteristic of the 1980s and 1990s evolved from the earlier "active manpower policies" implemented in Western European countries from the early 1960s in response to labour shortages and to check wage growth in excess over productivity increases. At that time, the aim had been to increase the labour supply and facilitate labour reallocation, from "unemployment pockets" and declining industries (coal mining, shipyards, etc.) to expanding sectors and regions, and to occupations with labour shortages. Labour market measures sought to stimulate labour force participation (through tax incentives to married couples and creation of part-time jobs to facilitate women's work), geographic mobility (providing accessible housing and relocation subsidies) and change of industry or occupation (offering retraining). In some countries, this was supplemented by active government participation in the recruitment of foreign workers, who were directed to areas and jobs with labour shortages through tight control over work permits. With growth of unemployment in Europe, the objective of active labour market intervention changed to reduce large-scale unemployment, and particularly the unemployment of disadvantaged groups (such as young workers and the long-term unemployed), by way of measures addressed to both employers and workers. Assuming that unemployment is in part the result of skill mismatching and of the operation of dis-incentives to work, "active" programmes were expected to increase employability and to encourage workers to abandon the unemployment status that allegedly had been the voluntary option of the jobless worker. Active labour market programmes have been viewed as the alternative to aggregate demand management, as they were expected to reduce unemployment without fostering inflation. Nonetheless, it has been held that the programmes undermine competition and wage moderation, and eventually employment, as they "provide the unemployed workers with a more favourable alternative than open unemployment" (Calmfors and Forslund, 1991). Evaluations in OECD countries of the results of specific programmes such as training schemes, state-subsidized temporary employment creation or apprenticeship programmes often led to diverging conclusions. Supply-side and subsidized employment programmes, in particular, received considerable criticism both in Europe and North America, because of "deadweight" (the programmes subsidized jobs that would have been created anyway, or individuals who would have obtained employment in any case), "displacement" (e.g. trained workers were placed at the expense of others who then enter unemployment) and "churning" (repeated returns to subsidized programmes) effects. Besides, the supply of more skilled workers failed to create, as it had been expected, a demand for them, and training often was of a low quality or merely work experience. Mixed evidence did not clearly support the notion of positive effects on employability prospects and on the unemployment level, and there was increasing recognition of the fact that supply-side labour market intervention might be able to regulate who is to be employed and who unemployed, but not the level of either employment or unemployment. In Latin America, criticism of employment programmes has sometimes been based on their misuse for political

purposes and clientelistic practices. Still, in countries with high unemployment levels, labour market programmes appear to be important supplementary measures alongside with policies addressed to poverty and income maintenance schemes. Besides, investment in training obviously is essential for economic survival in countries that abandoned protectionist policies and opted for greater international integration.

### 3. Labour market regulations and policy

In this section I examine labour regulations on contracts and dismissals in the three countries, as well as non-wage labour costs, considering, first, the comparative situation prevailing in the 1980s and, next, the reforms introduced in the 1990s-early 2000s in Argentina and Brazil, and the reform proposals in Mexico. Even though the focus is on contracts, dismissal protection or laws and non-wage labour costs, I also describe certain regulations regarding working time and maternity protection, to illustrate how the countries compare in other individual labour law areas. Finally, labour policy outcomes in the three countries are discussed.

#### 3.1. Labour market regulations in the 1980s

##### *a. Dismissal and temporary contracts*

At the end of the 1980s, regulations on unfair dismissal in Argentina included advance notice and length of service compensation (one monthly wage per year of service but with a ceiling of three minimum wages to the monthly wage that was to be the basis for calculation) after three months of employment in the same firm: yet, as a result of the three minimum wage ceiling the cost of dismissal was very low. Compensation in cases of lay-offs due to economic causes or *force majeure* was one half of unfair dismissal compensation. In Brazil, job security regulations provided two alternatives: either length of service compensation (one month per year) or payment through the individual worker capitalization fund (*Fundo de Garantia por Tempo de Serviço*, FGTS)<sup>6</sup> plus, until 1988, a penalty on the employer equivalent to 10% of the worker's accumulated fund, increased to 40% in the 1988 constitution. Advance notice was applicable only after one year of employment in the same firm. Dismissals due to *force majeure* or economic causes required one half of compensation, as was the case in Argentina. Although in Brazil there was employment stability after 10 years of employment in the firm, this was optional since 1966, and was seldom applied. In Mexico, job security provisions in the case of unfair dismissal (that is, when there was no accepted cause for fair dismissal),<sup>7</sup> besides written notice,

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<sup>6</sup> This fund was established in 1966. The cost of dismissal was no longer linked to each individual dismissal but it became a fixed proportion (8%) of each worker's wage, to be deposited by the employer irrespective of whether the worker had been dismissed or not. This scheme had initially been optional, but it was the one always used in practice, and it became compulsive in 1988. Workers have access to the income accumulated in the fund (FGTS) in the case of unfair dismissal, justified termination of employment by the worker, end of the enterprise's activity, retirement, or to buy a house; his family would have access in the event of the worker's decease. If the worker had ended employment without a justified motive or had been dismissed due to a just cause, access to the fund was possible under certain limitations and for specified purposes.

<sup>7</sup> Regulations do not mention "unfair dismissal" with the exception of the clause establishing that the employer should give written notice of dismissal stating the cause of termination, and that lack of this notice automatically makes dismissal unfair.

included giving to the worker who had been employed one year or more in the same firm, the option between either requesting for reinstatement or a three month wage compensation, plus wages due between dismissal and effective compensation or reinstatement. Workers not entitled to reinstatement (proven impossibility of continuing the employment relation in situations of close contact between worker and employer, casual and household workers, personnel “of trust”) are to receive 20 day wages per year of service, three month wages and wages between dismissal and effective compensation. Special regulations apply to workers with fixed-term contracts. Workers dismissed due to economic causes or *force majeure* are entitled to a three-month wage compensation plus seniority bonuses.<sup>8</sup> Finally, collective dismissals have to be approved by the authorities.

Temporary contracts were regulated in the three countries. Fixed-term contracts were permitted up to a maximum of five years in Argentina, two in Brazil, and one in Mexico; they were renewable in Argentina (renewals should not be “excessive”), Brazil (maximum one renewal) and Mexico (maximum for one year).<sup>9</sup> While in Brazil and Mexico they could be used only for jobs demanding temporary work, the trial contract (Brazil; Vega Ruíz, 2001), or to temporarily substitute workers (Mexico), with show of proof (Brazil), in Argentina they were admitted provided there was a voluntary agreement and for tasks that “reasonably” required temporary contracts. Only in Argentina were they subject to advance notice, written contract and one half compensation at termination of the contract if it had lasted at least one year. In Argentina, also “casual” contracts, with and without the intermediation of a labour agency, were regulated; they were permitted only for exceptional or temporary jobs and, in the case of intermediation of labour agencies, user firms did not share with the agency social responsibilities for the employed workers.<sup>10</sup>

The three countries may be ranked in terms of the degree of protection afforded in this period in the area of the individual contract, considering on the one hand whether job security provisions included employment stability, advance notice and dismissal compensation, and the nature of these requirements, and on the other hand the type of situations in which flexible contracts were permitted (only temporary and exceptional, or for a wider, more ambiguously defined, range), the maximum length allowed, the possibilities of renewal and how often, and other requisites. At the end of the 1980s, Mexico had demonstrated the most restrictive regulation regarding dismissals, Argentina was in the intermediate position, and in Brazil regulations were the most permissive, until the changes introduced in the 1988 constitutional reform. Even if regulations on dismissals in Argentina might be regarded as having been relatively stringent in terms of advance notice and length of service compensation, in actuality the cost of lay-offs was low as, since the mid 1970s, it had been tied to the minimum wage, which had continuously depreciated in relation to the average wage. In relation to temporary contracts, the ranking from strictest to permissive was Mexico, Brazil, and Argentina. In relation to both contracts and dismissals, rules

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<sup>8</sup> In the case of reductions of employment due to new equipment or work processes, if there is no collective agreement, the change has to be authorized by the government, and worker compensation is of four month wages plus 20 days per year of service, or more if stipulated in collective agreements, plus a seniority bonus (*Ley Federal del Trabajo*).

<sup>9</sup> See note on Mexico in table C, Appendix.

<sup>10</sup> This latter regulation, from 1976, changed the prior shared responsibility (Marshall, 1992).

prevailing in Mexico were restrictive; nonetheless, there was a margin for more flexibility since in the *maquilas*, created in the 1960s and employing an increasing proportion of the labour force (some 212,000 workers, almost 9% of all manufacturing employment in 1985; Bendesky, 2003), legal regulations, although covering the *maquilas*' workforce, appear to have been enforced more laxly due to weak union intervention.<sup>11</sup>

By the end of the 1980s there were some reforms. The "economic emergency" law of 1989 in Argentina eliminated the three-month minimum wage ceiling as the basis for calculating lay-off compensation. In Brazil, the 1988 constitution increased lay-off compensation substantially, from the 10% penalty for unfair dismissals to 40%. The earlier low penalty, coupled with the incentives to resignation given by the possibility of having access to the FGTS fund, had resulted in extremely high levels of turnover (e.g. Marshall, 1996c and references cited therein), a characteristic that clearly differentiated the Brazilian labour market from those of Argentina or Mexico. The tightening of job security regulation in Brazil as from 1988 is consistent with the fact that both employment output elasticities (in expansions and recessions) and turnover rates fell after that year (Marshall, 1996a). However, Paes de Barros et al. (1999) found that, after controlling for the possible effects of macroeconomic fluctuations, there was no evidence of impacts on labour demand (in this case, speed of employment adjustment) of the increased dismissal costs.<sup>12</sup>

The fact that dismissals had been very easy in Brazil, coupled with restrictions on temporary contracts, was reflected also in the very sparse use of temporary contracts (for example, in 1988-90, even if the cost of dismissal had already been raised, only 1% of Sao Paulo's manufacturing wage earners had temporary contracts). In Mexico, by contrast, strong restrictions on dismissal might have encouraged use of temporary contracts, but at the same time there were disincentives: those restrictions applied only after one year of employment in the firm and, besides, temporary contracts were also under some constraints. Some 10% of urban private-sector workers had temporary contracts in 1990.<sup>13</sup> In Argentina the proportion of workers with temporary employment was similar (about 9% of manufacturing wage earners in Buenos Aires in 1989); although there were less incentives than in Mexico to use temporary contracts due to the somewhat laxer protection against dismissal. In comparative terms, regulations on temporary contracts were looser than in Brazil or Mexico, but clearly more restrictive than what was to be established later by the legal reforms of the 1990s. How the three countries fared in terms of degree of employment protection tended on the whole to be consistent with their comparative employment output elasticities, structures of job tenure and turnover rates (Marshall, 1994, 1996c). For instance, the proportion of waged workers with over five years in the same firm was distinctly lower in Brazil than in Argentina (24% and 36%, respectively), and that of workers with less than one year noticeably higher (46% and 19%).<sup>14</sup>

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<sup>11</sup> On union subordination and employer resistance to independent unions in the *maquilas* see Bayón and Bensusán (1996).

<sup>12</sup> See also Paes de Barros, Corseuil and Bahia (1999) for an analysis of the impacts of dismissal costs on the duration of employment spells.

<sup>13</sup> Data refer to casual workers registered at the Mexican Institute of Social Insurance (IMSS).

<sup>14</sup> Data are for the manufacturing sector (Marshall, 1994). Data on length of job tenure in Mexico are not available.

### *b. Working time and maternity protection*

To illustrate the countries' comparative situation regarding other areas included in the regulation of employment contracts, I analyse working hours and maternity protection. In the 1980s limitations on working time were similar in the three countries, with a maximum of eight hours daily (with exceptions for a few sectors in Argentina and Mexico) and 48 hours per week (explicit in Argentina but ruling also in the other two countries given the legal requirement of one day rest per week). There were special norms regulating unhealthy and night work, and for minors (Argentina and Mexico). Restrictions on overtime did not differ significantly, with a two hour maximum per day in Brazil, and a three hour maximum in Argentina and Mexico. In Argentina and Mexico, a weekly maximum had also been established (as well as a yearly maximum in Argentina); however, the cost of overtime was substantially higher in Mexico: 100%, against 50% in Argentina (100% on Saturdays after 1:00 PM, Sundays and holidays) and between 20% and 50% in Brazil (Galín, 1986).

Regulations on maternity protection did not differ substantially across the three countries either. Among others, regulations in this area include paid leave and job security recognition. Employment stability of pregnant women was guaranteed in Argentina, Brazil and Mexico (if the period between confinement and return to work does not exceed one year). The paid leave period (with full wages) is of 90 days, 45 pre and 45 post confinement, with a minimum of 30 days, in Argentina (if extension is required, remuneration and benefits are similar to those in case of illness), and of six weeks before and six weeks after in Mexico (to be extended if necessary, with 50% of wages for an additional 60 days); in Brazil the leave was of 12 weeks, four before and eight after confinement, until 1988 when it was raised to 120 days, 28 before and 92 after confinement (Serna Calvo, 1996; Márquez Garmendia, 1998; Vega Ruíz, 2001; labour code, Argentina, 1976; Federal Labour Law, Mexico, ed. 1992). Whereas in Argentina and Brazil protection against unjustified dismissal of pregnant women or recent mothers is explicit, in Mexico there are no specific regulations on the subject (Serna Calvo, 1996).<sup>15</sup>

Given the absence of substantial differences among the three countries in the regulation of working hours major differences in the effective length of working time could hardly be expected. The proportion of wage earners working over 48 hours weekly was approximately the same (27%) in Buenos Aires (1985) and Sao Paulo (1985), and lower in Mexico City (22%, 1990) in agreement with the higher cost of overtime this country; however, the average length of the working week was the same in Brazil and Mexico (46 hours, manufacturing sector).<sup>16</sup> In any case, the proportion of workers doing overtime is affected not only by the latter's relative cost, but also by other factors that influence employer use of overtime as much as workers' propensities to work long hours, due to, for example, the level of wages (Marshall, 1994).

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<sup>15</sup> In Argentina, the labour code of 1974 had stipulated that women dismissed during pregnancy were entitled to double compensation. This clause was eliminated in the 1976 labour code where, in any case, stability was guaranteed and it was established that, as dismissal during the seven and a half months prior to or after confinement was presumed to be due to maternity or pregnancy, the person dismissed was entitled to a special compensation of one year's remuneration, in addition to the regular length of service compensation.

<sup>16</sup> No directly comparable data are available for Argentina (188.4 hours per month).

The impact of maternity protection on women's employment, via its potential incidence on labour costs, cannot be assessed straightforwardly but needs *ad hoc* case studies,<sup>17</sup> as the share and growth rate of women's employment depends on the many factors that influence both women's labour market participation and the demand for female workers. (For instance, women's labour participation is affected by the structure of available jobs and the extent up to which there are facilities for part-time work and for the care of children). By 1990 women held 37.3 % of non-agricultural waged jobs in Argentina, 40.2% in Brazil and 35.3% in Mexico (www.cepal.org).<sup>18</sup> This lower share in Mexico would not be in agreement with its slightly weaker maternity protection, with possible incentives to employ women workers, but in any case differences in maternity protection regulations across the three countries seem to be too small to expect them to help explain differences in labour force participation rates (higher in Brazil than in the two other countries) or female employment shares.

### *c. Non-wage labour costs*

Non wage labour costs are determined not only by some of the regulations just examined here, but also by payroll taxes corresponding to the social security system, as well as by regulations on supplementary payments for holidays, seniority, etc., some of them fixed through collective bargaining. In 1985, non-wage labour costs were equivalent to 0.46 of total labour costs in Argentina, 0.38 in Brazil and 0.45 in Mexico (Riveros, 1989). Although slightly lower in Brazil there was considerable similarity. Riveros's estimates included contributions to social security, health care, unemployment/dismissal compensation funds, and housing, educational and transport projects, as well as vacation bonuses and number of holidays, and other payroll/employment taxes. A study by FIEL (1991) estimated payroll taxes to be in the range of 33-35% in Argentina and Brazil, the incidence of other non-wage labour costs being also similar.<sup>19</sup> Both Riveros's and FIEL estimates suggest that in the 1980s non-wage labour costs had a comparable level of incidence in the three countries.

In this context, non-compliance with regulations was already extensive. Non-compliance with labour and social security regulations may indicate how generalized actual flexibilization is (even if worker rights are extensive to employees not registered in the social security system, who can take their cases to labour courts).<sup>20</sup> An estimate of the magnitude of non-compliance is given by the size of 'non-protected' or 'non-registered' wage employment. In Argentina 'non-protected' or 'non-registered' wage employment is operationally identified by non-payment of compulsory worker social security contributions (that should be deducted from wages by employers and transferred to the social security system), that automatically implies non-registration in the social security system and employer non-compliance with compulsory payroll taxes. Alternatively, it may be identified by non-compliance with social security contributions

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<sup>17</sup> Serna Calvo (1996), for instance, reports employment discrimination against women through pregnancy tests prior to hiring in Mexico, citing the case of the milling industry.

<sup>18</sup> It would have been more appropriate to compare women's shares of private-sector, instead of total, wage employment, but data are not readily available.

<sup>19</sup> See FIEL (1991) on assumptions and methodology used for estimating labour costs.

<sup>20</sup> Non-compliance needs not be uniform, for instance, evasion of social security contributions can go hand in hand with compliance with the minimum wage or with regulations on holidays, and in depth studies are needed to establish which legal constraints tend to be applied, and which tend to be evaded.

and with all of the social benefits to which waged workers are legally entitled. In Brazil, non-protected wage employment is estimated on the basis of the absence of the compulsory labour contract registration notebook (workers lacking *carteira de trabalho*). In Mexico, non-protected wage employment is estimated by non-receipt of legal benefits. During the 1980s non-protected wage employment rose in Argentina, mainly in micro firms; in Buenos Aires it reached 30% of urban wage employment in 1988, about ten points above the level at the beginning of the decade.<sup>21</sup> In Brazil, the share of non-protected labour in non-agricultural wage employment was comparable, 28% in 1988, but it had increased much less, from 26.5% in 1979.<sup>22</sup> In Mexico, in 1991, it was either 20% or 34%, depending on the coverage of the estimate (Salas and Zepeda, 2003; www.inegi.gob.mx). Figures are not strictly comparable across countries due to different definitions, coverage and methodologies, but the relative similarities in rates of non protected employment, and therefore in levels of non compliance, are consistent with the comparable incidence of non wage labour costs in these three countries. Still, labour and social security regulations may often be evaded not only because of their associated costs but also because this makes it possible to avoid expenses ensuing from other taxes and regulations.

#### *d. In synthesis*

In summary, at the end of the 1980s we find some diversity in employment protection regimes, specifically in the restrictions on dismissals and on temporary contracts. This diversity did not necessarily extend to other areas, as for example regulations on working hours or maternity protection were very similar and, further, there were small differences in the incidence of non wage labour costs. Prior to 1988, protection was somewhat weaker in Brazil, but this was redressed with the 1988 reforms, and in Mexico labour protection was in general stronger. Diversity tended to be reflected by comparative labour market indicators.

### **3.2. Employment protection systems and non wage labour costs: reforms in the 1990s**

Of the three countries examined in this paper, the “flexibilizing” labour reforms implemented in the 1990s were drastic only in Argentina. Still, as we will see, by the early 2000s they had partially been reversed. In Brazil, as a result of the changes to improve protection established in the 1988 constitution, some piecemeal reforms were made during the 1990s, to relax some constraints in the regulation of the individual contract. In Mexico, the many reform proposals, coming from the government, political parties and employer organizations, never achieved the implementation stage. In what follows I describe the reforms applied in Argentina and Brazil and, more summarily, some of the reform proposals circulating in Mexico, focussing on regulations on contracts and dismissal as well as others that were intended to reduce labour costs.

In **Argentina** reforms pursuing “external flexibility” and labour cost reductions progressed steadily,<sup>23</sup> even if there were partial drawbacks at times of elections or owing to negotiations with trade unions. In relation to employment protection, two stages may be identified: one,

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<sup>21</sup> Wage earners not contributing to social security; Beccaria and Orsatti (1990). If those employed in household services are excluded, the proportion is somewhat lower; for instance, in 1992, 23% of wage earners of Argentina’s the three major cities did not receive social benefits (data for Buenos Aires-Cordoba-Rosario, in Marshall, 2003).

<sup>22</sup> Based on data in Cacciamali (1992).

<sup>23</sup> Reforms and reform proposals included other areas, such as collective bargaining, not discussed in this paper.

between 1991 and 1998, during which reforms in the direction of “flexibilization” were systematically deepened; the other, from 1998 to 2000, when progress was less unidirectional. Reforms dealt with temporary contracts and their associated social security costs (1991, 1995, 2000), dismissals (1991, 1998), and non-wage labour costs in general (1994). Officially, the rationale behind these reforms was that, by facilitating flexible contracts and dismissals and by cutting down non-wage labour costs, they would stimulate employment creation and also help to reduce non-compliance and precarious employment relations. Reforms may be ordered chronologically:

**1.** The so-called Employment Law (*Ley Nacional de Empleo*) of 1991 changed the labour code. It reinstated the ceiling to lay-off compensation (previously eliminated by the 1989 law), although at a level higher than the earlier one of three minimum wages, now set at three collectively agreed earnings exclusive of seniority benefits. The same law introduced “promoted” temporary employment contracts, which were exempted, partially or totally, from payment of social security contributions. Their utilization was subject however to several restrictions, among them that they could be used only on the condition that collective lay-offs had not taken place in the last year, and that workers hired through these contracts should be in addition to the pre-existing employment volume. There were also limitations on the workforce proportion that could be hired under these contracts (100% in firms with less than 5 workers, 50% in firms with 6-25 employees, and 30% in the rest). Of the four “promoted” contracts created by the 1991 law, three were targeted at specific groups: “Employment promotion” (*Fomento del Empleo*) was addressed at unemployed workers, including those dismissed from the public sector due to administrative rationalization. It exempted employers from paying 50% of payroll taxes for the retirement and family allowance schemes, the national employment fund, and the health care scheme for the retired. The second programme, *Práctica Laboral para Jóvenes*, offered work experience to young workers (up to 24 years of age) with technical or professional skills; and thirdly, *Trabajo-Formación* was targeted at unskilled young workers looking for their first job. Both PLJ and TF were exempt from payroll taxes with the exception of contributions to the health care scheme and the national employment fund. The fourth promoted contract was not targeted, as it facilitated temporary contracts in the event of new activities, its tax rebate was equivalent to 50% of social security contributions.<sup>24</sup> Workers employed with “promoted” contracts were entitled to advance notice of termination and, except those with *Práctica Laboral* or *Trabajo-Formación*, to a one-half the monthly wage compensation at the end of the contract. In the same law some protective measures were included, as shared responsibility of user firm and intermediating labour agency for social obligations was reinstated, and regulations directed at preventing collective lay-offs via negotiation between employers and trade unions were introduced.

**2.** An across-the-board rebate of social security payroll taxes was decreed in 1993.<sup>25</sup> The reduction applied to employer contributions to the retirement scheme and the health care systems for active and retired workers, to family allowances, and to the employment fund. The rebate varied across regions according to zone coefficients determined by poverty level and distance to the capital city, from 30 to 80% (Marshall, 1997). Initially, the rebate benefited manufacturing,

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<sup>24</sup> The rebate applied to the same contributions as in *Fomento del Empleo*.

<sup>25</sup> Reductions in non wage labour costs were expected to follow also from the reforms to work injury protection (1992; 1995) - that, according to the government, was to reduce costs from an average of 12% of the wage bill to less than 3% (MTSS, 1996) -, and to the family allowance scheme. These reforms are not discussed in this paper.

the primary sector, construction, tourism, and research and development. In 1995, as a result of increasing fiscal problems, the amount of the rebates was reduced but at the same time they were extended to all economic activities, and in 1996) previous levels were re-established (Beccaria and Galin, 2002).<sup>26</sup> The correlate of the decline in payroll taxes was that in 1996 government forgone revenues were equivalent to 1.2% of GDP (Ministerio de Trabajo y Seguridad Social [MTSS], 1996). According to Beccaria and Galin (2002), the average rate of employer contributions declined regularly until 1998-99, to rise once again in 2001-02.

3. The labour code was modified again in 1995. This time part-time and trial period contracts were given formal separate status. The trial period already existed because in the preceding code dismissal compensation was awarded only after three months of continuous employment with the same firm. Now it was stipulated that it could last three months, but the period could be extended to six months via collective agreements. Part-time employment also had been allowed previously, with pro-rated payroll taxes and social benefits, but had no explicit legal status (Marshall, 1992). The labour code reform also introduced new contractual forms: the apprenticeship contract (minimum 3 months, maximum 2 years) for unemployed workers aged between 14 and 25, with substantial non-wage labour cost reductions (Montoya, 1996), and a special temporary contract (minimum 6 months, maximum 2 years) applicable to workers older than 40 years, disabled workers, ex-soldiers of the Malvinas/Falklands war, and women in general, with a 50% rebate on payroll taxes except those for health care, but not entitled to severance pay at termination.<sup>27</sup>

4. Furthermore, the 1995 law regulating conditions in small firms permitted the firms to modify, through collective agreement, dismissal regulations, and allowed for a shorter advance notice period. "Small" firms, with up to 40 workers and sales not exceeding an upper limit established by an advisory committee, were also exempt from complying with the requirements (in the law of 1991) that temporary contracts should be validated through collective agreements, be registered at the unified labour authority and, in certain cases, pay compensation at termination.

5. The new labour code reform of 1998 eliminated the "promoted" temporary employment contracts created in 1991 and 1995, and reduced the trial period from three months to one month, although allowed that the trial period could be lengthened to six months via collective bargaining.<sup>28</sup> At the same time, modifications to advance notice and compensation reduced the cost of unfair dismissals, by reducing the number of days of advance notice for workers with up to three months in the firm, or in the absence of notice, by eliminating the obligation to pay the wage due from dismissal to the end of the month. The reform also imposed a stricter relation between period of service and dismissal compensation, by changing the compensation from one month wage per year of service or fraction exceeding three months, to 1/12 of monthly remuneration per month of service or fraction exceeding 10 days also; minimum compensation of 2/12 of wage, was legislated instead of two months of wages. These changes were made to

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<sup>26</sup> See Beccaria and Galin (2002) for details on later, more circumscribed, changes in social security contributions.

<sup>27</sup> The proportion of workers that could be employed under this modality was limited, the limit varying with firm size: 100% in firms with up to 5 employees, 50% in those with 6-25, and 10% in the rest; proportions could be increased by collective agreements.

<sup>28</sup> Contracts under the trial period were exempted from contributions to the retirement scheme but not to other components of the social security system.

reduce the cost of dismissal of workers with less seniority. According to the Labour Ministry ([www.trabajo.gov.ar](http://www.trabajo.gov.ar)), dismissal costs of newer employees were to be reduced by more than 50% due to modifications in advance notice and compensation. Nevertheless, the cost of dismissal due to economic reasons was increased relatively, from one half the compensation for unfair dismissal to two thirds (Beccaria and Galin, 2002).

6. Finally, in 2000, another labour code reform made the trial period contract fully subject to social security contributions and other mandatory benefits, but maintained exemption from advance notice, expression of cause of dismissal, and compensation in case of termination contract at any time. The three-month limit was reinstated and could be extended to six months in collective agreements (12 months in the case of small firms as defined in the 1995 law). There were, however, restrictions on the use of trial contracts, for example, they were permitted only once for the same worker, and it was not acceptable to employ systematically different workers under trial contracts for the same permanent job. The same law introduced incentives to the expansion of permanent employment, offering rebates on social security contributions if workers hired with trial contracts were subsequently incorporated with permanent contracts in addition to existing personnel.<sup>29</sup> Rebates were larger if new contracts were for women head-of-households, workers aged 45 and over, or young workers of either sex aged 24 or less. If unemployed female or older workers were incorporated, then the incentives included wage subsidies. The law also established restrictions on the role of cooperatives, in particular that they could not act as labour agencies.<sup>30</sup>

7. Given the dramatic social consequences of the early 2000s crisis, with open unemployment reaching over 21% in May 2002,<sup>31</sup> an “emergency” measure taken in that year doubled compensation for unfair dismissal (by 2004, at the time of writing, this measure was still in force). It was expected that this would moderate unemployment growth. Other decrees limited lay-offs due to *force majeure* or to lack or decrease of work (Beccaria and Galin, 2002).

After drastic changes during the 1990s, the employment regulations prevailing in the early 2000s were not dramatically different from those that had pre-existed the economic reforms of 1991. The most important surviving changes in this area were the reduced dismissal compensation for workers with less seniority (transitorily doubled by the 2002 decree), and the possibility of extending the trial contract up to six months (twelve months in small firms) via collective bargaining. Nonetheless, specific, less protective regulations for small firms remained, although small firms account for a relatively large share of employment. On the other hand, the increased range of possibilities for changing regulations through collective bargaining has a potential for a more drastic impact.

In **Brazil** reforms to labour regulations were geared, as in Argentina, to “flexibilize” the employment contract, but were more circumscribed to specific aspects and, in contrast to

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<sup>29</sup> According to Beccaria and Galin (2002), spurious use of these possibilities was widespread.

<sup>30</sup> Because corruption was involved in its sanctioning, the reform law of 2000 is to be repealed, and a new reform was approved by Congress in February 2004 (at the time of writing these changes are not yet applicable as the new sanctioning process has not yet been completed).

<sup>31</sup> Data are from the household survey (*Encuesta Permanente de Hogares* [EPH], Instituto Nacional de Estadística y Censos [INDEC]).

Argentina, most reforms were made only later in the 1990s.<sup>32</sup> In 1994 a law was passed granting special conditions for small firms with reference to holidays, prevention and sanitary conditions, and administrative formalities (Vega Ruíz, 2001), relatively minor aspects. The law on cooperatives of 1994 had made explicit that there is no employment relationship between cooperatives and their members.<sup>33</sup> The main modifications were sanctioned in 1998, and these included regulation of part-time contracts (up to 25 hours per week); elimination of restrictions on the use of fixed-term contracts: previously admitted only for temporary situations they were now to be permitted (for up to two years) as long as authorized through collective bargaining;<sup>34</sup> and the possibility of temporary suspension of employees for up to six months with an income equal to the unemployment benefit (Ciudad, 2002; Cook, 2000; Vega Ruíz, 2001). In 1999-2000 the apprenticeship and similar contracts were regulated.<sup>35</sup>

In **Mexico**, as it is well known, there was no labour law reform, but there have been several projects under discussion. According to de la Garza (2002), employer organizations have issued reform proposals since 1988. At that time, the proposals considered different aspects of flexibility, such as the regulation of employment termination in general and of lay-off compensation in particular. Employer organizations again presented a proposal for reform in 1994 that included regulations on dismissals and temporary and other special contracts. There were also reform initiatives from the government and political parties, for instance from the PAN (*Partido de Acción Nacional*) in 1996, addressing *inter alia* dismissals (flexibilization through a seniority bonus that would replace all components of the existing compensation) and temporary contracts (creation of the apprenticeship contract with a trial period), and regulations on subcontracting and on weekly working time and overtime (de la Garza, 2002).<sup>36</sup> It has often been asserted that in spite of the absence of legal reforms in Mexico many changes were achieved through collective bargaining; some of those changes took place even well before the 1990s.<sup>37</sup> From the analysis of collective agreements of both federal and local levels in the mid 1990s, de la Garza (2002) concluded that most of them guaranteed substantial functional flexibility, moderate numerical flexibility and scarce wage flexibility, and that only a minority, possibly concentrated in large firms, had introduced new flexibilizing clauses during the first half of the 1990s. On the other hand, Herrera and Melgoza (2003) found, with reference to manufacturing, that de-regulation was increasing, given that many central issues had ceased to be formally regulated. For example, the share of firms having written, formal instruments (collective agreements, specific accords, internal regulations of firms) addressing employment contracts, use of labour and organization of production, had decreased by 100% between 1995 and 1999. Nonetheless, this process was less pronounced in large enterprises, but rather, was concentrated

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<sup>32</sup> As in Argentina, in Brazil too there were reforms and reform projects in the area of collective labour legislation, not examined in this paper.

<sup>33</sup> Cook (2000: 23), with reference to the 1994-98 period, indicates that "...although not a government initiative, a cooperatives law put forward by a PT deputy to help landless peasants was increasingly used by employers to create false cooperatives"...so as to avoid their legal obligations with employees.

<sup>34</sup> There were limitations, however, on the number of workers with these contracts, and prohibition of re-employment under fixed-term contracts of workers dismissed.

<sup>35</sup> See Cook (2000) for further details on reforms and the reform process.

<sup>36</sup> For more details see de la Garza (2002) and Cook (1998).

<sup>37</sup> Zapata (1998) examines some of these changes since the 1980s.

in micro, small and medium firms. Furthermore, employment in *maquiladora* industries increased considerably in this period, rising by an impressive 500% in absolute numbers in 1985-2001, as their structure diversified, mainly after the signing of NAFTA (Bendesky, 2003; Carrillo and de la O, 2003). From 9% of Mexico's manufacturing employment in 1985, and 15% in 1990, the employment share of the *maquilas* increased to almost 31% in 2001. This meant a growing sector where, as we have seen, application of labour regulations was weaker since non-compliance was frequent. Not only did unions acted more laxly in the *maquilas* but also the distinctive social profile of the *maquila's* workforce, mainly women, implied less opposition to employer decisions. However, during the 1990s union intervention diversified, varying between areas, as did the composition of the labour force, and employer practices in the *maquilas* possibly should be reassessed.<sup>38</sup>

Working time regulations experienced few changes, and only in Argentina and Brazil. In Argentina there were some reforms in 2000 concerning overtime work that, maintaining pre-existing overtime costs, flexibilized the ceiling to overtime hours as it was left in the hands of the Secretary of Labour to relax limitations, restricted only by the legal daily and weekly minimum rest periods (Beccaria and Galin, 2002). Besides, all along the 1990s working time flexibility clauses were introduced in many collective agreements. In Brazil, the 1988 constitution had permitted some flexibility in hours of work, and in 1998 there were new changes as the "hours bank" (pre-existing in some collective agreements) was legally recognized; this system makes it possible to reduce working hours at times of low activity, for 120 days, and to credit these unused hours to the worker, to be spent at times of high activity with a 10 hour daily top limit (Vega Ruíz, 2001).

Between 1991 and 1996 the incidence of non-wage labour costs in Argentina, for workers with permanent contracts, fell from 65.6% to 47.5%, relative to wages per hour. In 1998, the costs were similar at 47.7%, as a result of declining employer contributions to social security (from 41.9% to 25.0% of wages) and, although less so, to work injury protection (from 3% to 2%), (Szretter, 1999; manufacturing sector). This level was before the reduction of dismissal compensation at the end of 1998.<sup>39</sup> Social security reform in Mexico, implemented in 1995, did not involve changes in the level of employer contributions, and therefore did not affect labour costs.<sup>40</sup> But before this reform, during the first half of the 1990s, according to Tokman and Martínez (1995) the incidence of non-wage labour costs had increased (manufacturing sector); it had risen in 1990 as compared to 1980, and again in 1994-95 as compared to 1990, due to the contributions to retirement and health care, and an additional payroll tax, while other contributory items remained constant. By 1995 total non-wage labour costs amounted to 46.7% of gross wages (27.4% in the case of contributions alone). Cacciamali (1999) presents estimates showing that in Brazil non-wage labour costs represented some 47.8% of wages (27% social

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<sup>38</sup> On trends in employment and unions in *maquila* industries, see Carrillo and de la O (2003).

<sup>39</sup> Szretter (1999) presents data on incidence of non wage labour costs also for other types of contracts; "promoted" temporary contracts and the trial contract show distinctly lower incidences; at that time these contracts accounted for 3.7% and 1.5%, respectively, of registered employment in manufacturing and services.

<sup>40</sup> The reform of the IMSS included a new option for employers, who are now allowed to reclaim back 40% of their contributions to the health care and maternity system if they show that they are able to provide an adequate, alternative service to their workers (Moreno et al., 2003; no information about actual implementation or impacts).

security, insurances, etc.; 20.8% wage supplements; an additional 1.3% and 2.6% corresponding to advance notice and penalty on dismissal are not included as they are considered to be part of the firms' operational costs).<sup>41</sup> Cross-country comparison of these figures (to be considered with some caution as the data come from different sources) again reveals, as in the 1980s, very similar levels of incidence resulting from, or in spite of, different tendencies in each country.<sup>42</sup>

### 3.3. Labour policy outcomes

The "employment law" of 1991 and the 1995 reforms in Argentina, as well as the "unemployment package" of 1998 in Brazil (Cook, 2000), were presented as policies devised to foster employment growth so as to solve the growing unemployment problem. In Argentina, some reforms were also expected to reduce non-compliance. In Mexico, labour legislation was not changed. Have the differential paths followed in relation to labour regulations and non-wage labour costs had visible impacts on comparative employment performances?<sup>43</sup> Do employment structures demonstrate the effects of changes in labour regulations in Argentina and Brazil? In what follows, I address these issues by looking at trends in the structure of employment in terms of contracts (importance of temporary contracts) and degree of compliance (share of non-protected wage employment), and at employment performance through the analysis of employment output elasticities.

#### *a. Temporary contracts*

Changes in the regulation of contracts in Argentina had some effects on the employment structure. The initial widening of possibilities for temporary contracts, as formulated in the 1991 national employment law, met with a modest response. Between 1992 and 1995 "promoted" contracts increased almost four times, but in 1995 they still amounted to 5,600, on average, per month (data from MTSS). Non-targeted temporary contracts, permitted in the event of initiating new activities, accounted for most contracts under "promoted" modalities (55% in 1995), followed by "employment promotion" (37%), while the two contracts involving a training component were seldom, and decreasingly, used (only 8% in 1995; data from MTSS). The limited success of these initial "promoted" temporary contracts has been attributed to the restrictions on their use stipulated in the same law, in particular the requirement for union consent, which made them scarcely attractive to employers.

By contrast, the contractual options provided by the 1995 law faced less restrictions and succeeded in arousing employers' interest. Between 1996 and 1998, before the elimination of "promoted" temporary contracts by the law reform of 1998, the share of temporary employment more than doubled, from 8% to 17%, if we include trial contracts, and practically doubled if we

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<sup>41</sup> Cacciamali (1999) is citing J. Pastore, "A batalha dos encargos sociais", *Folha de São Paulo*, São Paulo, February 28, 1996. See also Pochmann (1999) on the incidence of non-wage labour costs in contracts for an indefinite period, including the cost of dismissal (13<sup>th</sup> wage, holiday pay, FGTS, employment termination, insurances, social security, etc.). Paes de Barros et al. (1999) present data that show a higher incidence of non-wage labour costs in Brazil, having increased from almost 47% in 1982-88 to 56.6% in 1990-98, mainly as a result of increases in social security compulsive contributions, followed by the vacation bonus.

<sup>42</sup> These figures are not comparable with those cited above for the 1980s or early 1990s, from FIEL and Riveros. No estimates are readily available for the early 2000s.

<sup>43</sup> Unemployment trends are not discussed in this context.

do not (table 1). In agreement with the fact that since 1991 user firms had been made responsible together with the labour agencies for the workers employed through agencies, this type of temporary contract represented only 2% of wage employment, at their peak in 1998. In 1997-98, the share of trial contracts was about 5-6% (MTSS, *Encuesta de Indicadores Laborales* [EIL]). The structure of recruitment changed considerably; temporary contracts (including the trial contract) reached almost 80% of new recruitment in 1997.<sup>44</sup> An additional indication of the extensive use of temporary contracts was the increase of the share of workers with tenure of up to three months to almost 15% in 1997-98, compared with 10% in 1992.<sup>45</sup>

**Table 1: Temporary employment: percentage share of wage employment, 1996-2002**

	Argentina <sup>1</sup>	Argentina <sup>2</sup>	Brazil	Mexico
1996	8.2 III Q	4.8 III Q	nd	nd
1997	16.9 IV Q	12.0 IV Q	nd	7.2
1998	15.3 III Q	9.4 III Q	nd	10.0
1999	----	6.3 III Q	nd	10.8
2000	----	5.0 III Q	nd	11.2
2002	----	2.8 II Q	nd	10.9

nd: no data

Q: quarter

<sup>1</sup> Temporary contracts include fixed-term and trial contracts, and contracts through labour agencies

<sup>2</sup> Temporary contracts include only fixed-term contracts and contracts through labour agencies

Sources: Argentina: temporary contracts, establishments with 10 and over employees, Buenos Aires, employment survey of the Ministry of Labour (MTSS) (Informe de Coyuntura Laboral, December 1998; *Estadísticas Laborales, Revista de Trabajo*, 5(13), Nov. 1999; *Encuesta de Indicadores Laborales*, several issues); Mexico: proportion of “eventuales” (casual workers) insured at the Mexican Institute of Social Security (Instituto Mexicano de Seguridad Social [IMSS]).

There was increasing union opposition to what was regarded as an “abusive” and spurious utilization of the trial contract that, besides being used to screen new workers, often was employed as a regular temporary contract to avoid dismissal compensation. Before the 1999 presidential election, the need to obtain union support and workers’ votes was reflected by the new labour code reform of 1998 that, as we have seen, eliminated all the temporary contracts created in 1991 and 1995 as demanded by unions, although at the same time reducing the cost of dismissal. Following the 1998 reform, and with the persistent recession of economic activity, the share of temporary contracts again went down substantially (to less than 5% in 1999 in the case

<sup>44</sup> Data from MTSS for Buenos Aires, firms with 10 or more wage earners; data include fixed-term and trial contracts as well as persons employed through labour agencies (Marshall, 2001; Perelman, 2001).

<sup>45</sup> Own estimates with data from EPH, INDEC, for Buenos Aires-Cordoba-Rosario, wage earners exclusive of household services.

of fixed-term contracts), while employment through labour agencies continued to oscillate at low levels (1-2% or less; MTSS, EIL).<sup>46</sup>

No figures on temporary contracts are available for Brazil,<sup>47</sup> but data for Sao Paulo show that the share of workers with shorter tenure (up to six months) declined during the 1990s, from some 20% in 1991 to 14% in 2002 for protected wage employment, and from 60% to 49% for non protected wage employment, with corresponding increases in the average length of job tenure (www.SEADE.gov.br). The proportion with up to two years (maximum permitted for fixed-term contracts) did not change. This might reflect simply lack of new recruitment, but also the fact that the incentives for flexible contracts (relaxation of constraints on fixed-term contracts; regulation of part-time contracts) enacted in the second half of the 1990s did not affect the structure of wage employment, while the increased penalties on dismissal favoured the lengthening of job tenure. This trend in job tenure is consistent with Cacciamali and Brito's (2002) findings that, in 1998, the clauses on flexible contracts that had been introduced in collective agreements represented a small proportion of all clauses dealing with forms of flexibility. They suggest that this might have contributed to expand informalization. This situation has to be assessed in the light of the previous remarkably high degrees of turnover linked, as we have seen, to both workers' resignation to have access to FTGS funds and the low penalty on dismissals before the 1988 constitutional reform. Nonetheless, Cacciamali and Brito (2002) report also that 68% of a sample of 2200 Brazilian firms made use of some form of flexible contracts (primarily subcontracting, used by 56% of those firms), mainly in manufacturing and the service sector (the proportion increasing with firm size), allegedly to reduce labour costs.<sup>48</sup>

In Mexico, use of temporary contracts continued by 2002 at its historical level of about 10%, although it had been preceded by lower rates, for instance in 1997 (table 1).<sup>49</sup> Within the manufacturing sector, the share of workers lacking indefinite contracts, such as subcontracted and part-time workers, did not increase during the 1990s, perhaps due to the fact that low wage levels, training problems and low union protection were disincentives, deterring employers from resorting to flexible employment forms. Part-time and subcontracted workers together represented less than 2% of employment in 1999 (de la Garza, 2003).<sup>50</sup> From an in-depth empirical investigation, de la Garza (2002) concluded that there had not been profound changes in employment practices within the firms, possibly because contracts and labour relations had already been very flexible. In any case, stability in the employment structure is consistent with the continuity of legal regulations.

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<sup>46</sup> During 1999 data on trial contracts ceased to be shown separately, and those with trial contracts were subsumed in the category of workers with indefinite contracts (MTSS).

<sup>47</sup> Cacciamali and Pires (1995) noted that studies on temporary employment are almost non-existent in Brazil.

<sup>48</sup> Cacciamali and Brito (2002) are citing J. P. Chahad, "Trabalho flexível e modalidades especiais de contrato de trabalho: evidências empíricas no caso brasileiro", Ministério do Trabalho e Emprego e Fundação Instituto de Pesquisas Econômicas, São Paulo, 2001.

<sup>49</sup> Hernández Laos (2000) finds a similar level of temporary contracts in 1996, based on data from the National Employment Survey.

<sup>50</sup> De la Garza (2003) presents figures for 1991 and 1999 for these two types of contracts.

*b. Non protected employment, enforcement and non compliance*

Even when temporary employment had been at its peak in Argentina, and in spite of the above described rebates on payroll taxes, non-protected wage employment increased *pari passu* with use of legal temporary contracts (table 2), and continued to rise with the incipient recovery of late 2002-2003. Whereas in 1992-95 the wage employment share of non-protected workers had been about 23-25%, it increased to some 31% after 1997.<sup>51</sup> Contrary to the expectations behind the reform, the offer of more flexible temporary contracts failed to stop the progress of non-compliance. Later, once the 1998 reform had eliminated “promoted” temporary contracts, the proportion of workers with no social security contributions continued to rise, so that non-protected employment, from representing 31% in 1996, rose to 33-34% in the early 2000s (with a short lived decline at the trough of the 2002 recession) and, in the private sector, again with the exception of 2002, from about 38% to some 43% in 2002-2003 (all urban areas; Marshall, 2003).<sup>52</sup> There are indications that the flexible contracts provided by the 1995 legislative reform were used in certain economic segments (medium and large firms) to reduce non wage labour costs, while the smallest firms increasingly relied on non protected employment to cut down payroll taxes as well as the added value tax and substantial local taxes with heavy incidence on profits (Marshall, 1998). By 2003, over 70% of wage employment in micro firms was not registered in the social security system, as against 33% in medium and 14% in large firms (private sector; Marshall, 2003). Micro firms represented 33% of private sector employment in 2003, and accounted for 54% of non-protected employees (EPH, INDEC). In part, micro businesses reflect the process of extensive subcontracting in certain sectors (for instance, privatization of public utilities was followed by subcontracting of many activities previously undertaken by the state enterprise).<sup>53</sup> The relatively substantial increase of non protected employment in the private sector between 2002 and 2003, about 4 percent points, could also be explained in part by the doubling of dismissal compensation in 2002. In Brazil, non-protected employment also rose (table 2), and in Mexico the share of waged workers not receiving legal benefits showed some increase during the 1990s (table 2).<sup>54</sup> Data in Salas and Zepeda (2003) suggest that the increase in the share of non-protected employment during and after the 1995 crisis (1995-97) was concomitant with some expansion of small firms within urban employment, to about 44%.

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<sup>51</sup> Own estimates based on EPH, INDEC (Buenos Aires-Cordoba-Rosario; proportion of workers not receiving any of the legally stipulated social benefits and not contributing to social security).

<sup>52</sup> These data do not include household services (usually non-protected) and beneficiaries of government employment programs (Marshall, 2003).

<sup>53</sup> Typical examples are found in telephones and electricity. Expansion of subcontracting within manufacturing industries has been analysed in case studies (see e.g. Giosa, 2000, and references cited therein, in relation to subcontracting of production of parts and of services in the automobile industry and other oligopolistic sectors).

<sup>54</sup> In table 2, I present two alternative series for Mexico, one, with a wider urban coverage, showing much higher rates of non protected wage employment than the other (see [www.inegi.gob.mx](http://www.inegi.gob.mx) for more details). The two series of annual data do not describe coincident annual variations.

**Table 2: Percentage share of non-protected workers in wage employment, 1991-2002**

	Argentina		Brazil	Mexico	
	(1)	(2)	—	(1)	(2)
<b>1991</b>	23.2*	nd	27.9	33.8	20.3
<b>1995</b>	23.6	30.7**	33.2	39.3	24.9
<b>1999</b>	30.9	33.2	37.2	40.3	23.6
<b>2002</b>	29.1	33.2	37.9	40.8	23.9

\* 1992

\*\* 1996

Argentina: (1) wage earners (excluding household services and, in 2002, beneficiaries of employment programs ) without all social benefits (Buenos Aires-Cordoba-Rosario, EPH, INDEC). (2) wage earners (excluding household services and, in 2002, beneficiaries of employment programs) with no social security contributions (urban areas, EPH, INDEC).

Brazil: wage earners without “*carteira de trabalho*”, based on data in IPEA, *Boletim de Mercado de Trabalho - Conjuntura e Análise*, 22, 2003, Anexo Estadístico.

Mexico: (1) wage earners without social benefits, INEGI, National Employment Surveys, urban areas. (2) Ibidem, INEGI, *Banco de Información Económica*, 48 cities (National Urban Employment Survey).

Note: data are not comparable across countries, as concepts and methodologies differ

Sources: own estimates based on Instituto Nacional de Estadística y Censos (INDEC), Argentina; IPEA (based on Instituto Brasileiro de Geografia e Estatística [IBGE]), [www.ipea.gov.br](http://www.ipea.gov.br), Brazil; Instituto Nacional de Estadística, Geografía e Informática [INEGI], [www.inegi.gob.mx](http://www.inegi.gob.mx), and Salas and Zepeda (2003), Mexico.

Non-registration of the employment relationship is but one of the transgressions to labour laws. It has been a characteristic feature of the Argentinean labour administration to have few inspectors and a negligible activity of control of compliance as well as low penalties. Figures for 2000 are revealing of the low number of inspectors relative to the number of waged workers averaging federal and provincial inspectors, (one inspector for each 14,000 workers), a rate comparable to that found in Brazil (data in Beccaria and Galin, 2002). “Labour controllers”, appointed as from 1996 to identify non-registered workers, seldom initiated effective controls (ibid.). In 2000, some 14% of all private sector firms registered at the social security system had been inspected, figures that must be considered with some reservations as the revenues originating in penalties applied was extremely low in comparison with the estimated tax evasion through non-protected employment (ibid.). In Brazil, there were over 2,000 inspectors from the Labour Ministry in 2002, and over 300,000 firms were inspected reaching almost 20 million wage earners; there were almost 93,000 transgression detected, and the proportion of items not complying with labour laws that were regularized thanks to the intervention of labour inspectors rose during 1996-2002, from 65% to above 80% (data from Ministério do Trabalho e Emprego).

Although following different trajectories, in all three countries the share of non-protected employment increased, irrespective of changes (or lack thereof) in legal regulations and non-wage labour costs and irrespective of the evolution of the level of economic activity.<sup>55</sup>

<sup>55</sup> Although some regulations may have contributed at certain times to its expansion, e.g. the 2002 increase of dismissal compensation in Argentina.

*c. Employment output elasticities*

In the 1990s, after the reforms and non-wage labour cost reductions in Argentina, employment output elasticities (table 3) did not exceed their historical levels during expansionary phases (and in fact employment output elasticities were much lower in the 1991-94 expansion that followed the economic reforms of 1991).<sup>56</sup> Temporary contracts were used to replace permanent workers but had no positive impacts on employment creation. In the 1995 recession, however, very high employment output elasticity shows a reversal in relation to the 1980s, when economic crises had not been accompanied by declining employment (Marshall, 1998). In part, this could be traced to easier dismissal of workers with temporary contracts but in fact the general “anti labour” climate of this period and weaker union influence also facilitated lay-offs. The recession of the early 2000s resulted once again in a negative employment-output elasticity (employment did not fall with output), but this must be considered with caution because, as from 2000, some employment programmes started to have an impact on the volume of employment (this is discussed below). Besides, in 2002, as we have seen, lay-off compensation was doubled, and this also could have been a deterrent to shedding labour.

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<sup>56</sup> Figures refer to overall employment but, as the employment share of waged workers remained approximately at the same level throughout the 1980s and 1990s, conclusions may be extended to trends in wage employment (Marshall, 1998).

**Table 3: Employment output elasticities, 1982-2002**

Elasticities corresponding to annual average rates of variation of employment and output in each economic phase

<i>Expansions:</i>			
<b>Argentina</b>		<b>Brasil</b>	<b>Mexico</b>
(1)	(2)		
[0.67 (1983-84)]			
[0.84 (1986-87)]			
[0.29 (1991-94)]	- 0.09 (1994)	0.43 (1993-97) [0.45]	0.67 (1988-94)*
[0.64 (1996-97)]	0.64 (1996-98) [0.66]	0.02 (1998-99) stagnation [-1.14] 1.08 (2000-02) moderate expansion [1.08]	0.51 (1996-2000) [0.48]
<i>Recessions:</i>			
<b>Argentina</b>		<b>Brazil</b>	<b>Mexico</b>
[-0.24 (1981-82)]			
[-0.18 (1985)]			
[-0.63 (1988-90)]		1.56 (1992) [1.56]	
[ 0.58 (1995)]	1.04 (1995)		#
	0.03 (1999-2002) [-0.15]		0.75 (2001)

\* Estimates by López (1999). # According to graphs presented by López, the employment output elasticity for 1995 is negative

Note: Periods start with year of first rate of change

[ ] average of annual elasticities in each economic phase

Argentina, (1) and (2) based on different GDP series (at constant market prices of 1986 and 1995, respectively)

Source: own estimates based on: GDP constant 1995 prices, Economic Commission for Latin America and the Caribbean [CEPAL]; GDP constant 1986 prices, Argentina, MEyOSP; employment: INDEC, Argentina (in Ministry of Economy [MEyOSP], Informe Económico); IBGE, Brazil; INEGI, Mexico.

Employment output elasticities in Brazil, low during the 1993-97 expansion and even much lower throughout the 1998-99 stagnation, increased noticeably in 2000-2002, a period of very modest expansion (table 3). In this period, in contrast to earlier ones during the 1990s when GDP increases had been accompanied by increases in non-protected wage employment but not in protected wage employment, the elasticity was higher for protected workers (1.68) than for non-protected workers (1.47),<sup>57</sup> a fact that might be attributed to the availability of fixed-term or other flexible contracts, even though we have not seen evidence of increasing use of these employment forms. The elasticity corresponding to the 1992 recession is relatively high, at a time when the cost of dismissal had already been raised.<sup>58</sup>

In Mexico, where labour reforms were not implemented, employment output elasticities during the 1990s expansions (table 3), as compared with their historical trends, fell slightly: 0.59 in

<sup>57</sup> Own estimates, based on CEPAL (GDP) and IPEA (employment in metropolitan areas, according to employment status).

<sup>58</sup> Data to compare elasticities in the 1990s with previous decades are not readily available, and this hinders in particular the evaluation of employment output elasticity trends in recessions.

1970-81, 0.67 in the moderate expansion of 1988-94 (López, 1999); 0.51 in the expansion period 1996-2000 (table 3). Nonetheless, the 0.75 elasticity in the 2001 recession shows that existing regulations did not hinder employment retraction (assuming that the impact of the recession on wage employment was at least as large as on total employment, to which estimates refer), and while no data are available for estimating the employment-output elasticity corresponding to the 1995 recession, graphs presented in López (1999) suggest that it had been negative.

**Table 4: Employment output elasticities in manufacturing**

Annual average elasticities corresponding to each phase of the economic cycle

	<b>Argentina</b>	<b>Brazil</b>	<b>Mexico</b>
<b>Expansions</b>	0.78 1983-84	0.82 1983-84	0.07 1984-85
	-0.45 1986-87	0.68 1989	-0.08 1987-90
	-0.43 1991-94	<i>-0.54 1993-97</i>	<i>0.30 1996-2000</i>
	<i>-0.44 1996-98</i>	<i>1.81 2000-01</i>	
<b>Recessions</b>	3.40 1981-82	10.60 1982-83	0.79 1982-83
	0.41 1985	0.47 1988	0.98 1986
	0.40 1988-90	0.33 1990	<i>1.86 1995</i>
	<i>0.86 1995</i>	<i>1.89 1992</i>	<i>1.37 2001</i>
	<i>2.99 1999-2000</i>	<i>1.48 1998-99</i>	

Note: italics, source differs from previous years for the same country, as detailed below

Sources: Argentina, Marshall (1998) with INDEC, Encuesta Industrial (EI) for 1981-1994, and own estimates based on INDEC, EI, 1995-2000. Brazil, Marshall (1994) for 1981-1990, metropolitan regions, based on data from CEPAL, *Economic Study for Latin America and the Caribbean*, several years, and own estimates based on IPEA (from IBGE) and CEPAL, for 1991-2002. Mexico, Marshall (1994) for 1982-90, based on CEPAL, op. cit., and own estimates based on INEGI for 1995-2001 (complete data for 1991-94 are not available).

In the manufacturing sector we observe in the three countries a tendency to increasing employment-output elasticities in recessions (if we exclude the 1982 crises in Argentina and Brazil, when elasticities had been very high), but pre and post 1990 figures are not strictly comparable (Table 4). Still, in Argentina the elasticities corresponding to recessions increased during the 1990s, and were high in Brazil and Mexico in the same decade (table 4). However, at times of expansion of economic activity elasticities were negative in Argentina (employment falling when manufacturing output was increasing) and low in Mexico, whereas in Brazil they were negative in 1993-97 but high in 2000-01 (table 4). Some trends of employment output elasticities in manufacturing are consistent with policy reforms, (for example, the increase of the elasticity in recessions in Argentina in the 1990s, first in a context of growing use of flexible contracts, and then of reduced dismissal costs, the decline of elasticity, in 1990 as compared to 1988, when the cost of dismissal was increased in Brazil, and the higher elasticity in 2000-01 after flexibilization from 1998 in this same country). Other trends, however, are clearly independent from institutional changes.

### **3.4. Conclusions**

By the early 2000s regulations on contracts and dismissals were the most restrictive in Mexico (see tables B and C, Appendix). It is difficult, however, to assess how Brazil and Argentina are ranked as compared with the pre reform period, in terms of how lenient regulations are, since most of the temporary contracts promoted during the 1990s in Argentina have disappeared while in Brazil possibilities have been expanded. Regulations on temporary contracts in Argentina remained permissive in comparative terms, in particular considering the trial period, even if “promoted” contracts no longer exist, while in Brazil some of the pre-existing restrictions have been relaxed. It could be said that both have lax regulations on the employment contract. Regulations on dismissal have been made less costly in Argentina (before the emergency rise in 2002 in response to the crisis), perhaps changing its relative score from intermediate to permissive, while in Brazil it was changed, already in 1988, from permissive to intermediate. On balance, one could venture that regulations in the two countries now resemble each other much more than in the pre reform period, not necessarily in their specific contents, but in the degree of protection granted.

Given the oscillation in labour policy in Argentina, by early 2002 the structure of formal employment had not changed significantly in any one of the three countries in terms of flexible versus indefinite contracts, but all three show increasing shares of non protected waged workers along the 1990s, although less steadily in Mexico. Clearly, in Argentina, government promotion of temporary contracts, while it lasted, contributed to shape employer practices, as apparently did the substantial rise of dismissal compensation in 2002, which seems to have moderated the rate of lay-offs during the crisis. But while the latter could be considered to have checked unemployment growth, the creation of flexible contracts had no visible impacts in improving employment performance, as employment-output elasticities remained at their historical level at expansion times. In Brazil, the flexibilization of fixed-term contracts might have helped to increase employment-output elasticities but there is no direct evidence in support of this notion. The impact of labour reforms and non-wage labour cost reductions on employment creation is at best ambiguous and, besides, employment sensitivity to the recession also changed in Mexico, in spite of the absence of legal reforms.

#### **4. Employment programmes and income maintenance schemes for the unemployed**

Before the mid 1990s, labour market policies addressed to the unemployed or to unemployment had been extremely sparse in Latin America, or existed only on paper. As more programmes emerged and their coverage widened, the subject started to receive some attention (see e.g. Martínez, 1996; Marshall, 1997), much more so since the late 1990s (as illustrated by the several publications of CEPAL in 2002) with the expansion and diversification of labour market policies to respond to the continuous increase of unemployment and poverty in most Latin American countries.

Labour market policies include a wide range of forms of government intervention, from schemes for the unemployed or to reduce unemployment to training programmes of a general scope, such as schemes for young or adult workers irrespective of whether they are employed or unemployed. In this section I focus only on employment programmes and income maintenance schemes for the unemployed, with or without training components. These may be divided into 1) cash transfers to the unemployed, 2) employment creation programmes, 3) assistance to sectors with a potential for employment generation, 4) supply-side programmes such as training for the unemployed or incentives to retire from or to delay entry into the labour force, and 5) intermediation and placement.

Subsidies to the unemployed, subject to eligibility criteria, may or may not require, in exchange, participation of beneficiaries in training or job projects. Unemployment insurance schemes are the typical example of cash transfers, which may, though seldom require participation in training or work schemes. Other programmes may require participation, although some of them only on paper, as in actual practice it might be rare or even faked. Employment programmes strictly speaking include state direct employment creation, generally of temporary jobs (and here there might be some overlapping between job creation programmes and subsidies to the unemployed demanding participation in work projects) and direct subsidies to employment creation in the private sector.

Assistance to sectors with a potential for job creation typically refers to financial and other help to the self-employed and to micro and small employers, but could be extended to include other larger development projects (in which case, often the border between labour market and economic policies is not clear cut). Supply-side measures encompass a variety of tax incentives, educational policies with impacts on the age of entry into the labour force, early retirement and other retirement policies, training programmes for the unemployed to improve skill matching, etc. The processes of intermediation and placement generally involve government agencies, but government encouragement or discouragement to private profit and non-profit labour agencies may also be considered (although the role of private labour agencies may alternatively be assessed in the context of facilities to use temporary contracts).

Occasionally, indirect incentives to employers via labour cost cuts and relaxation of restrictions have been included among the labour market programmes to stimulate employment creation. Indirect incentives have usually consisted of rebates on payroll taxes and on the cost of dismissals, as well as increased facility to lay-off and employ temporary contracts, but it may also refer to other labour policy incentives such as wage control or bargaining decentralization. Indirect incentives, in contrast to direct subsidies to the private sector for job creation that

materialize only in exchange for actual new hiring, are offered unilaterally by the government, and may or may not be followed by the creation of additional jobs. Some of the indirect incentives were discussed in the previous section.

In this section I consider, with reference to Argentina, Brazil and Mexico, subsidies to the unemployed, employment creation programmes, training programmes for the unemployed, and intermediation and placement. Assistance to sectors with a potential for job generation is also examined, but less thoroughly. First, the different programmes existing in the early 2000s<sup>59</sup> and certain of the earlier schemes are described, and next I analyse levels of expenditure in labour market programmes, their coverage, and some of their labour market impacts.

#### **4.1. Programmes**

##### *a. Cash transfers to the unemployed*

##### *i) Unemployment insurance schemes*

At least until 2002 unemployment insurance systems had not been created in Mexico.<sup>60</sup> In Argentina, the unemployment insurance scheme was established in 1991, and in Brazil in 1986. Funding for the scheme in Argentina comes mainly from the National Employment Fund, financed out of a payroll tax. Only wage earners dismissed without a fair reason or as a result of collective lay-offs, or who terminated employment themselves due to a just cause, and those whose temporary contract has ended, are eligible. Employees in construction, agriculture, household services and public administration, are not eligible. Requirements include contributions of at least 12 months in the three years preceding termination of employment, or 90 days in the preceding year in the case of labour agency workers. Benefits (with a minimum level and a ceiling) are linked to the latest actual wage, and the amount decreases with the duration of compensation. The amount of the benefit should be established by a national council; at the time of the scheme's inception threshold and ceiling were equivalent, respectively, to three quarters and one and a half of the minimum wage. The duration of compensation varies according to the length of contributions to social security in the three years prior to employment termination, with a minimum of four and a maximum of 12 months (Conte-Grand, 1997). From 13 thousand beneficiaries per month, on average, in 1992, the number of beneficiaries rose to over 200,000 ten years later (MTSS).

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<sup>59</sup> Their characteristics are summarized in tables D and E, Appendix.

<sup>60</sup> There is a compensation scheme for workers aged 60 or over, based on employer contributions and workers' voluntary contributions. According to Samaniego (2002), by 2002 the Mexican federal government was planning to create an unemployment insurance scheme, and in that year a pilot programme was to be implemented in those areas that in 2001 had the largest declines in formal sector employment (see Samaniego, 2002, for more details on the plan).

**Table 5: Unemployment and unemployment insurance**

Argentina, 1995-2002

	unemployed (thousands)*	unemployment rate, %	% UI expenditure/GDP	UI, expenditure million \$	UI beneficiaries, average per month (thousands)	% UI beneficiaries/unemployed
<b>1995</b>	2033	17.5	0.14	375	122.3	6.0
<b>1996</b>	2077	17.2	0.15	398	128.7	6.2
<b>1997</b>	1739	14.9	0.11	314	95.4	5.5
<b>1998</b>	1585	12.9	0.10	293	90.7	5.7
<b>1999</b>	1809	14.3	0.13	361	114.2	6.3
<b>2000</b>	2019	15.1	0.14	387	124.5	6.2
<b>2001</b>	2510	17.4	0.16	444	144.7	5.8
<b>2002</b>	2509	21.0	0.19	602	200.4	8.0

\* October

Brazil, 1995-2001

	unemployment rate	% unemployment insurance exp./GDP	% total FAT expenditure/GDP
<b>1995</b>	4.6	0.73	0.88
<b>1996</b>	5.4	0.65	0.82
<b>1997</b>	5.7	0.56	0.73
<b>1998</b>	7.6	0.61	0.78
<b>1999</b>	7.6	0.51	0.66
<b>2000</b>	7.1	0.41	0.55
<b>2001</b>	6.2	0.43	0.59

FAT: Fund of Worker Protection

Source: CEPAL (GDP; unemployment rate); INDEC, number of unemployed in Argentina; MTSS, unemployment insurance beneficiaries and expenditure in Argentina; Ramos (2002), GDP share of FAT and of unemployment insurance in Brazil.

In Brazil, the unemployment insurance scheme is financed by a tax on enterprises that goes to the fund for worker protection, FAT.<sup>61</sup> The unemployment benefit is a variable proportion of the

<sup>61</sup> The FAT was created in 1988 with the constitutional reform, absorbing other previous existing funds. In 2001 its expenditure in relation to GDP was 0.59%, including unemployment insurance (0.43% of GDP), the *abono salarial* (a wage supplement of one minimum wage to be paid to all workers employed in the formal sector who earn up to two minimum wages, with an expenditure equivalent to 0.08% of GDP), training schemes (0.04%), intermediation (0.01%) and support to micro and small firms.

latest wage, but cannot be lower than the minimum wage,<sup>62</sup> and its duration depends on the employment record with a minimum of three and a maximum of five months. To be eligible, workers should have been dismissed without a fair cause or have terminated the employment relationship themselves due to employer non-compliance with the contract. They should have a record of six-month wage employment immediately prior to dismissal and no alternative income sufficient to support the household.<sup>63</sup> The system, from providing a benefit to an average of some 13,000 unemployed monthly in 1986, had a coverage of almost 400,000 in 2002 (Ministerio do Trabalho e Emprego).

*ii) Other cash transfer programmes for the unemployed*

Many of the Argentine labour market programmes have been in actual practice cash transfer schemes for the unemployed even if on paper they required participation of the unemployed workers in community or state projects. Such had been the case of the *Programa Intensivo de Trabajo* addressed to long-term unemployed workers, created in 1993 and discontinued in 1995, initially administered by local governments and later handed over to the catholic-church-administered *Caritas*, of the other six short lived programmes created between 1993 and 1996.<sup>64</sup> The same held for the more relevant *Trabajar* programme, which started in 1996 and was discontinued in 2002 (in its latest versions, such as *Trabajar II* and *III*, with closer World Bank monitoring, participation in work schemes seems to have been extensive), all involving in their design, work in community or other projects. It is now also the case, partially, with the much more significant *Programa de Jefes y Jefas de Hogar Desocupados* (JHD) initiated in 2002, which I examine below. There are numerous provincial programmes that could be included in this category of labour market policies (as well as many others to be classified under other categories) that will not be described here.<sup>65</sup> Cash transfer programmes for the unemployed do not seem to exist in Brazil (other than unemployment insurance) and Mexico at the national level.<sup>66</sup> In any case, the border between this category of programmes and the next one, 'direct employment creation', is often unclear.

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<sup>62</sup> On how the amount is to be calculated in relation to national treasury bonds see Conte-Grand (1997).

<sup>63</sup> More information can be found in Conte-Grand (1997), Andraus Troyano (1998), and Ramos (2002).

<sup>64</sup> Details are in Marshall (1997).

<sup>65</sup> A detailed account of the provincial programmes existing in 2001 can be found in Facelli et al. (2002). In that year, total average monthly beneficiaries of provincial employment programmes, considering those provinces for which data were available, amounted to 203 thousands. Some 64% of funding for these programmes, implemented in the provinces, came out of provincial government revenues, 4% of national revenues, and 32% of both combined.

<sup>66</sup> The Mexican *Oportunidades* (previously called *PROGRESA*) (1997-) is not considered here because, as its predecessor the *PRONASOL* (1988-94), it is an anti-poverty programme (cash transfers to poor families); on the programme see, *inter alia*, Yaschine (1999) and Gertler and Boyce (2001).

## *b. Employment creation programmes*

### *i) Direct employment creation*

With the profound recession of 2002 in Argentina, a new programme, the *Programa de Jefes y Jefas de Hogar Desocupados*, was established. It is a job creation programme in part, in part a programme of cash transfers to the unemployed who have no access to the unemployment insurance.<sup>67</sup> The *Jefes* programme is financed out of general national government funds (in 2002 in part reallocating funds from other areas of expenditure) and taxes on exports; in 2003 funding from a World Bank loan was added (Pautassi et al., 2003). The plan provides a benefit,<sup>68</sup> lower than the minimum wage, to unemployed persons with children, that should be heading households, who in exchange must participate in training or community activities at least four hours daily. A sub-scheme was devised to furnish them with working materials to develop micro projects. Data on the proportion effectively working or in training are sparse; existing estimates for a few areas showed that about 26% were not in that situation (cited by Pautassi et al., 2003). The *Jefes* is the sole programme with an important number of beneficiaries (a monthly average of 1.3 million in 2002) and a relatively high level of expenditure (data from MTSS). Registration of new applicants was closed in early 2003 but, according to informants, there were new beneficiaries who were permitted to register at the discretion of different administrative institutions, continuing with well established clientelist practices (*Página 12*, 18-02-2004). Additionally, the *Programa de Emergencia Laboral* of 2002 granted a similar monthly benefit to some 300,000 unemployed that had no access to the *Jefes* programme, and who had to work in community projects (Pautassi et al., 2003). In 2003 this programme was discontinued.<sup>69</sup>

In Brazil, programmes of direct employment creation have not been implemented at the national level. Even though a number of emergency programmes to create jobs for the urban poor were devised at the federal level from 1997, with the increase of unemployment and poverty, and particularly from 1999 after devaluation, they were never implemented. However, there are several states' and municipal programmes, of small scale and with minor labour market impacts. One example is the emergency unemployment assistance programme in the state of Sao Paulo, which included work in state agencies six hours daily, four days a week, and one day training or literacy courses, with a benefit set above the minimum wage (Rocha, 2001).<sup>70</sup>

In Mexico, the *Programa de Empleo Temporal* (PET), initiated to face the consequences of the 1995 crisis and consisting of work in community projects with intensive use of unskilled labour, was targeted to the poorest segments. By 2000 it was addressed to marginal rural areas, fostering labour intensive public works (improvement of social and productive infrastructure) to provide income to the poorest populations, over 16 years of age, in rural areas of up to 2,500 inhabitants.

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<sup>67</sup> At the time of writing, administration of the *Jefes* programme is being moved from the Labour Ministry to the Ministry of Social Development, evidencing the double nature (employment and anti-poverty) of this programme.

<sup>68</sup> Since its inception the benefit has been of Argentine *pesos* 150, and continued at this level at the time of writing.

<sup>69</sup> Data from MTSS on beneficiaries of employment programmes. By 2002-03 there were practically no beneficiaries of other national employment programmes, as most had been discontinued, except for *Recuperación Productiva*, with some 9,000 beneficiaries per month, on average. For details on the many Argentine national temporary employment programmes of the 1990s no longer existing in 2003, see Marshall (1997) and Goldbert and Giacometti (1998).

<sup>70</sup> All these emergency programmes are analyzed by Rocha (2001).

In 2002 priority was given also to retain population in their areas of origin. Its budget was divided into 20% for natural disasters and 80% for the normal PET's activities. From 660,000 beneficiaries in 1995, by 2000, the programme had increased to one million (Samaniego, 2002).

*ii) Subsidized employment in the private sector*

The above mentioned *Jefes* programme in Argentina is in part also a scheme to subsidize private sector employment,<sup>71</sup> as it is expected to place unemployed workers in private firms; the incentive to employers being that they have only to pay the difference between the state's subsidy and the wage corresponding to the job. The proportion placed in private firms is very small (according to data in Pautassi et al., 2003). "*Más y Mejor Trabajo*" (MMT), the *Plan Integral para la Promoción del Empleo*, is the Labour Ministry's plan, announced in 2003, to promote employment in the private sector in Argentina, with the multiple objectives of recovering lost jobs in firms with sufficient installed capacity, maintaining employment in firms affected by the crisis, facilitating the incorporation of unemployed workers who are social programme beneficiaries, and stimulating adaptation of the private sector to new productive processes through training and technical assistance. The programme also intends to strengthen productive sectors on the basis of knowledge and innovation. The plan offers alternative incentives: 1) \$150 per month for the addition to employment of a social programme beneficiary, to be supplemented by the employer up to the collectively agreed wage, and as long as there is a commitment not to lay-off or suspend workers; 2) the same incentive, but to maintain existing employment in economically viable firms in crisis; 3) intermediation, through the network of 200 placement offices including public and non profit agencies (trade unions, universities, employer organizations), that should provide also specialized services, etc.; 4) technical assistance via a network with the participation of diverse public institutions; and 5) training. Details on its implementation are not available.

Subsidized employment programmes did not seem to have existed in Brazil prior to late 2003 when the "First Employment" (*Primeiro Emprego*, PPE) programme was launched. This programme is expected to generate decent jobs for young workers without previous work experience, who did not complete secondary education and come from families with a per capita income of up to one half minimum wage, giving priority to the age group 16-24, that represents 44% of the unemployed. The aim is to assist 250,000 young workers in one year (Cella Dal Chiavon, 2003). One of its initiatives is to offer employers financial incentives (varying inversely with size of sales) in exchange for maintaining or increasing the average number of employees they had at the time of joining the programme, for at least 12 months, not counting the young workers hired through this programme.<sup>72</sup> In Mexico, programmes in this category were created after the 1995 crisis, and consisted of tax incentives (credits to be applied to tax payment, tax exemptions) from the federal or state governments to formal sector firms that generated additional employment, and state subsidies to new firms with up 100 workers (Samaniego, 2002). The programmes were short lived.

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<sup>71</sup> Previous programmes in this category are described in Marshall (1997) and Golbert and Giacometti (1998).

<sup>72</sup> Based on the web site of the Ministry of Labour and Employment, Brazil.

### *c. Direct assistance to sectors with a potential for employment generation*

In Argentina there were, within the Labour Ministry, programmes to help micro and small firms (Golbert and Giacometti, 1998), but, these were discontinued. In 2003-04 some schemes to help producers existed within the Ministry of Social Development.<sup>73</sup> In Brazil, the *Programa de Generación de Empleo e Ingresos* (PROGER) was established in 1994, with the purpose of granting special credits to sectors with no or little access to the main financial system, such as micro and small firms, cooperatives and other associative types of production, and the informal sector, in both rural and urban areas. Credit is accompanied by technical, managerial or professional training, technical assistance and monitoring of beneficiary businesses (Andraus Troyano, 1998). In 2001 there were contracts with 743,000 firms (Ramos, 2002). Estimates of the impact of PROGER on job creation varied; one estimate was that PROGER contributed to create, in 1996, almost 40,000 jobs directly and another 67,000 indirectly (Andraus Troyano, 1998). Other programmes to assist small firms or specific projects were also created in the second half of the 1990s.<sup>74</sup> *Primeiro Emprego* (described above) also includes a component to stimulate, via credit and assistance, entrepreneurship, self-employment and third-sector units among young workers. In Mexico there are at least three programmes addressed at, or including, micro and small firms among their targets; some of them are also addressed to the self-employed. Apart from the *Fondo para la Micro, Pequeña y Mediana Empresa*, that is not strictly an employment programme,<sup>75</sup> we find the *Programa Nacional de Financiamiento al Microempresario* (PNFM, starting in 2001), that gives credit, through intermediary institutions, to low income micro firms and self-employed workers having no access to financial services and with small productive projects and in this way helps to maintain and generate employment. There is also the *Programa Nacional de Apoyo para las Empresas de Solidaridad* (PNAES, 1993), created to provide financing and entrepreneurial capabilities to poor sectors with productive and organizational capacity, and no or limited access to formal credit (Samaniego, 2002).

### *d. Supply-side programmes: training for unemployed workers*

By 2003 the Argentine Ministry of Labour announced ([www.trabajo.gov.ar](http://www.trabajo.gov.ar)): a training programme, at the experimental stage, for working and unemployed persons, *Programa de Formación y Certificación de Competencias*, focusing on four manufacturing industries, as a

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<sup>73</sup> One example is the *Fondo de Capital Social*, a mixed enterprise established by the Ministry in 2000, that funds and advises institutions providing credit to micro firms, mainly small producers of agricultural and other primary sector exports. Loans have reached over 15 thousands micro employers (Cash, Economic Supplement of *Página 12*, January 11, 2004).

<sup>74</sup> PROEMPREGO (I created in 1996 and II in 1999) is a more traditional credit programme for a diversified set of projects, such as transportation, manufacturing restructuring in areas with unemployment problems, and tourism, that cannot be regarded as a labour market programme (Ramos, 2002). PROTRABAJO I and II, starting in 1999, finance strategic projects in the poorest regions (Ramos, 2002). PCPP (*Programa de Crédito Popular*) is a micro-credit programme with less financial resources than the others (Ramos, 2002),

<sup>75</sup> This programme was started in 2001, subsuming previous schemes with similar targets; its purpose is to help micro, small and medium firms competing successfully in national and external markets. It is addressed to a sector concentrating a large segment of employment as, according to Samaniego (2002), these three categories of firms represent 95% of Mexican enterprises.

result of proposals of employers and trade unions; the *Talleres Ocupacionales*, to provide short training courses in specific localities to unemployed and employed workers and to small and medium firms; a small scale pilot programme concentrated in a few geographic areas, the *Formujer*, intended to improve the employability of low income women; the *Transferencia solidaria de saberes productivos*, designed to provide training to NGOs promoting self employment and the development of micro firms, as well as to other enterprises and training centres in need of better knowledge on the demands for skill; and a programme to assist persons with disabilities developing economic activities (*Talleres Protegidos de Producción*). There is no information on their implementation.<sup>76</sup>

PLANFOR was initiated in Brazil in 1996, with the main purpose of improving the skills of the Brazilian labour force. It was addressed at the unemployed, to workers with high risks of becoming unemployed, to micro and small producers, and to self employed workers. It is financed mainly out of the FAT (the fund to protect workers), its expenditure representing some 7% of total FAT's expenditure in 2001 (data in Ramos, 2002). Between 1996 and 2001, 11 million workers were trained in the context of this programme, 68% of whom had at most two years of schooling. In spite of these large numbers, the amount is short of the envisaged 15 million or 20% of the labour force each year (Ramos, 2002). Oliveira Chaves (2001) as well as Fausto and Alves-Mazzotti (2002) stress the importance of PLANFOR activities for young workers, more than 1.5 million workers aged 15-21 having participated in PLANFOR activities in 1996-98.<sup>77</sup> *Primeiro Emprego*, as from late 2003, as we have seen is addressed to young workers without formal work experience, and the actions described earlier are linked to training. The Voluntary Civil Service plans to train 5,000 young workers until mid 2004 and to place at least 20% of them in jobs, and within the context of PROGER's "young entrepreneur" it is expected to provide skills to 16,000 youth, with financing out of FAT's revenues (Cella Dal Chiavon, 2003).

The Mexican SICAT (*Sistema de Capacitación para el Trabajo*, earlier PROJECT, training for the unemployed) emerged to facilitate access to employment to those who had lost their jobs in the 1982 crisis. In 2002 its objective was to provide short term training (in large, medium, small and micro firms, or for self employment) to workers with job access problems and to those affected by suspensions or facing high risk of losing their jobs, as well as to facilitate mobility of agricultural daily workers (Samaniego, 2002). The programme provides an income equivalent to the regional minimum wage plus medical expenditure, some materials, and help for transportation expenses. Regulated by the federal government, it is administered by governments

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<sup>76</sup> For information on the many training programmes created in the 1990s that did not survive in 2003, see Marshall (1997) and Golbert and Giacometti (1998).

<sup>77</sup> Oliveira Chaves (2001) lists many training projects in Brazil, designed for the youth, and undertaken together with different national and international organizations. On the implementation of PLANFOR in Rio de Janeiro, see Fausto and Alves-Mazzotti (2002).

of the diverse states.<sup>78</sup> The sum of the beneficiaries of all its component programmes had been only 12,700 in 1987, but in 1999 they amounted to 552,000 (ibid.).<sup>79</sup>

*e. Intermediation and placement*

Although in theory state employment services had existed in Argentina as of many decades ago, in practice their activities had been minimal, they were chronically understaffed, and no records were kept on job vacancies, job seekers or placed workers. By the mid-1990s there were some efforts at modernization in this area, but activities did not expand (Marshall, 1997). At that time, the Argentine Employment Service Network was created, incorporating public employment offices, public placement agencies and similar institutions, to register vacancies and workers looking for jobs, provide counselling and intermediation, undertake local labour market studies, collaborate on the administration of the unemployment insurance scheme, select personnel for employers, help in worker relocation, and assist the self employed and micro employers (Montoya, 1996). Since the late 1990s, the labour ministry's activities in this area have concentrated on providing technical assistance and training to a variety of public and private agencies (such as municipalities, non-profit private organizations, trade unions) that intermediate in the labour market, but state placement agencies at the national level have practically been discontinued. Of the agencies that replied to a survey of the Labour Ministry in 1999, municipalities represented some 30%, and the largest proportion of applicant workers placed by those agencies, both public and private, had been allocated to the employment programmes they were administering.<sup>80</sup> In 1998, 44% of the somewhat over 200,000 applicants had been placed, but only one third of the placed were in vacant jobs registered by employers.<sup>81</sup>

The National Employment System of Brazil (SINE) and the institutions of the Public Employment System aim to help place workers searching for jobs (Conte-Grand, 1997). Intermediation is funded out of the FAT, but its expenditure represents only 2% of FAT's total spending (Ramos, 2002). Since 1993-94 there has been a tendency to decentralize this function (Andraus Troyano, 1998). Between 1990 and 2001 the number of registered workers, of registered vacancies and of placements increased drastically. (Registered workers increased from 477,000 to 4.7 millions, registered vacancies from 284,000 to 1.4 million, and placements from 118,000 to 747,000, respectively). In 2001 the SINE offered potential job opportunities to almost 30% of the registered workers, but only 16% of the workers registered were effectively placed;

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<sup>78</sup> More details in Samaniego (2002).

<sup>79</sup> The Mexican *Programa de Apoyo a la Capacitación de Trabajadores en Activo*, created in 1987 under a different name (*CIMO, Programa Calidad Integral y Modernización*), is a more general training programme for employed workers designed to stimulate training in micro, small and medium firms, and to promote introduction of quality and productivity systems. It was redefined in 2002, to last 9 years, with contributions by the IDB, the federal government, employer organizations (who provide infrastructure) and beneficiary firms (that are in charge of a proportion of training costs). From 365 training events/technical assistance actions in 1988, these had increased to almost 73,000 in 1999 (Samaniego, 2002).

<sup>80</sup> The distribution of agencies was: 29.4%, municipal offices; 18.6%, civil associations, 13.4%, religious institutions; 12.4%, trade unions; 11.9%, educational institutions; the rest, national and provincial offices, and employer associations (MTSS).

<sup>81</sup> In 1999, 35% of applicants were placed, 15% in job vacancies, the other 20% in employment programmes (MTSS).

29% of workers losing their jobs but only 6.5% of vacancies were registered in the same year; finally, only 3% of all workers recruited in one month were recruited via the public system (Ramos, 2002). Nonetheless, in Brazil the role of public employment services is clearly much more developed than in Argentina. As from 1998 non-profit organizations such as trade unions have been allowed to participate in intermediation (Ramos, 2002).

In Mexico, the *Servicio Nacional de Empleo, Capacitación y Adiestramiento* (SNE) was established in 1978 to place workers, promote training of the unemployed and carry out regional labour market studies, under the coordination of the Secretary of Labour that, in turn, coordinates with states authorities and local committees, with participation of productive sectors (Samaniego, 1998). Between 1988 and 1997 its revenues came from a World Bank loan, the federal government and participating firms (these resources financed also the PROBECAT, later SICAT, discussed above; *ibid.*). Vacancies and workers seeking jobs are registered. In 1995, the equivalent of 32% of the unemployed (as reported by the National Employment Survey) applied to the SNE, and some 23% of those who applied were placed (*ibid.*). In 1996, with the economic recovery, the number of applicants declined, stabilizing at that level thereafter (somewhat over 400,000; Samaniego, 2002). In 1995-2001, on average, the equivalent to 32% of applicants had been placed (based on data in *ibid.*). Intermediation takes places mainly via *ferias de empleo* (“job markets”), training workshops to guide the unemployed, and employment exchanges.<sup>82</sup>

Private labour agencies also may play a role in intermediation and placement. In Argentina, the importance of labour agencies’ activities and their share in recruitment has oscillated with changes in labour legislation. Before the 1990s, as we have seen, they were favoured by regulations that freed user firms from any responsibility for the workers employed through intermediating agencies, but the later reinstatement of shared responsibility (1991) made this form of recruitment less attractive, particularly at a time when other temporary contracts had been instituted (Marshall, 1992). From almost 30% of overall recruitment in 1988 (Marshall, 1992), the share of private agencies in recruitment fell to a tiny proportion that varied seasonally (e.g. in November 2000 it represented 8% of recruitment, 1% in September 2001; MTSS). The agencies were used mainly for certain specific services.<sup>83</sup> Nevertheless, employment in labour agencies increased steadily between 1995 and 2000, to drop markedly in 2002, mirroring trends in economic activity (Korinfeld, 2003). Korinfeld (2003) considers that labour agencies could contribute to provide jobs to young workers and increase their employability, and reports that labour agency managers estimated that about 30% of the workers placed by agencies are then employed under permanent contracts by user firms.

## **4.2. Expenditure, coverage and labour market impacts**

### *a. Expenditure*

In Argentina, expenditure of the consolidated public sector (national, provincial and municipal levels included) in employment programmes plus unemployment insurance reached 0.99% of GDP in 2002 (tables 5 and 6), the highest level ever reached as, until 2000 it had been around

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<sup>82</sup> More details in Samaniego (2002).

<sup>83</sup> Estimates come from different sources (the 1988 estimate is based on recruitment only via newspaper advertisement in Buenos Aires; Marshall, 1992), and are not strictly comparable.

0.30% or less, and it was 0.36% in 2001.<sup>84</sup> The increase was due mainly to the *Jefes/Jefas de Hogar* programme, to which corresponds 92% of national government expenditure in employment programmes (MTSS). The profound crisis of 2001-02 contributed to the shift from the earlier residual compensatory policies to a stronger government commitment (Cortés et al., 2003).<sup>85</sup> Expenditure in unemployment insurance increased in relation to GDP, to some 0.19% in 2002, having been about 0.15% in 1996.<sup>86</sup> Between 1996 and 2002, relative to GDP, it fell and increased with the unemployment rate (table 5). In Brazil, the GDP share of the total fund for the unemployed (including training programmes, intermediation and unemployment insurance, the latter representing 0.41% of GDP and the former two 0.04% and 0.01%, respectively; Ramos, 2002) decreased from 1995 to 2001 (table 5). Increasing unemployment rates were not matched by increasing GDP shares of expenditure on unemployment insurance and other FAT's spending, but with declines (table 5). In fact, from 1995, 20% of FAT's revenues were shifted to the national treasury reducing the availability for labour market policies (Ramos, 2002). Although no estimates on total expenditure in labour market policies in Mexico are readily available, expenditure in three of the most important programmes (current expenditure in *Programa de Empleo Temporal*, programme for low income producers and assistance to small firms) represented about 0.13% of GDP in 2001 (table 6). Estimates on expenditure in training, probably substantial, are not available.<sup>87</sup>

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<sup>84</sup> Data are from the Ministry of Economy (MEyOSP) in [www.mecon.gov.ar](http://www.mecon.gov.ar), and MTSS. Expenditure on assistance to small and micro firms is not included, as data are not readily available.

<sup>85</sup> In the 1990s, state employment and anti-poverty policies had consisted in a number of small scale and short-lived programmes, often announced and advertised but not implemented or soon abandoned (Cortés and Marshall, 1999).

<sup>86</sup> Based on data from MTSS.

<sup>87</sup> Verdera (1998) presents data showing that, in Brazil, expenditure in active labour market policies in 1995 was equivalent to 2.09% of GDP, and to 0.61% in Mexico, but these estimates include programmes that cannot be considered to be labour market policies strictly speaking; in the case of Brazil, for instance, if PROEMPREGO (as we have seen, not strictly an employment programme) is excluded, the GDP share drops to 0.28% (ibid.).

**Table 6: GDP percentage share of labour market policy expenditure and unemployment rates**

	Argentina (2002)*	Brazil (2001)	Mexico (2001)
<b>unemployment rates (2002)</b>	21.0 <sup>1</sup>	7.3 <sup>2</sup>	2.8 <sup>3</sup>
<b>labour market expenditure:</b>			
<b>Total</b>	0.99	0.59 <sup>4</sup>	(0.13) <sup>5</sup>
<b>employment programmes</b>	0.80	0.08 <sup>4</sup>	(0.13) <sup>5</sup>
<b>unemployment insurance</b>	0.19	0.43 <sup>4</sup>	---

\* Preliminary

<sup>1</sup> urban areas; <sup>2</sup> six metropolitan areas; <sup>3</sup> urban areas; <sup>4</sup> only FAT; <sup>5</sup> only PET, support to low income producers, and fund for assisting micro, small and medium firms

*Source:* CEPAL; MEyOSP and MTSS (Argentina); Ministério do Trabalho e Emprego (Brazil); expenditure of the federal government, Cuenta de la Hacienda Pública Federal, Mexico D.F., and GDP at current prices, INEGI, Sistema de Cuentas Nacionales de México, www.inegi.gob.mx (Mexico).

Comparing across the three countries, levels of total labour market expenditure are ranked in the same order as their unemployment rates (Table 6), but in 2001 expenditure specifically on unemployment insurance in Brazil more than doubled the figure for Argentina, in terms of GDP, even though in that year the unemployment rate in Brazil was equivalent to about one third the rate in Argentina. Expenditure on unemployment insurance in Argentina or Brazil compares unfavourably to the level reached in some OECD countries, as it exceeds 3% in Denmark, 2% in Belgium and the Netherlands, and 1% in France, Germany and Spain, but it is closer to, in the case of Brazil even higher than, levels in the U.S. (0.25%) and the UK (0.32%).<sup>88</sup> In Argentina, the proportion of expenditure on “active” policies in relation to GDP, about 0.8%, is close to that found in Spain (0.9% in 2000; OECD data cited in Mato Díaz, 2003), and to the OECD average in 1998 (0.87%) but below the average for the European Union (1.07%; OECD, 2001).<sup>89</sup> In Brazil and Mexico it is much lower, but as we have seen in Mexico expenditure in certain programmes might not have been counted.

#### *b. Coverage*

In spite of the increase of expenditure in unemployment insurance in Argentina, coverage has been extremely low (about 6% of the unemployed, increasing to 8% in 2002; table 5), due primarily to the combination of stringent legal entitlement requisites and widespread non-registered employment (described above). A study based on data from the 1995 household survey (EPH, INDEC) showed that coverage was small even in relation to the segment of the unemployed entitled to compensation. In Buenos Aires, only some 17% of the unemployed had

<sup>88</sup> Data are for 1998 (www.oecd.org).

<sup>89</sup> The UK spends only 0.4% of GDP in active policies, but the Netherlands spends 1.6%. More data in OECD (2001).

been entitled to receive the unemployment benefit,<sup>90</sup> and only less than one half of this much smaller segment had actually been receiving the benefit (Marshall, 1996b). Young workers, women, persons with higher educational levels, employees from the real estate and financial sectors and from public administration, as well as from small firms, were over-represented among those who in spite of being entitled to unemployment compensation were not receiving it. This suggests that certain individual characteristics, such as higher education or a secondary position in relation to household income, often combined with a less formalized employment relationship, made workers less prone to request the unemployment benefit (Marshall, 1996b).

The monthly average number of beneficiaries of national government employment programmes increased from a mere 62,000 in 1996 to 1.3 million in 2002, 98% of whom were in the *Jefes* programme. According to data from the household survey, beneficiaries of employment programmes rose drastically in 2002, increasing their proportion in relation to wage earners, exclusive of household services, from 1.9% in 2000 to 3.9% in early 2002, and to some 12% in late 2002 and early 2003 (own estimates with data from EPH, INDEC, urban areas), and in May 2003 they were equivalent to an impressive almost 30% of the unemployed.<sup>91</sup> A somewhat different estimate yields that, in October 2002, 45% of the unemployed were employment programme beneficiaries.<sup>92</sup> In both cases, total unemployment is overestimated in the sense that part of the *Jefes* recipients might have been out of the labour force had the subsidy not been made available (I return to this below). In August 2002, according to data for four main cities (MTSS), 64% of programme beneficiaries were women, 80% had not completed their secondary education, 30% of female beneficiaries had previously been employed in household services (occupation of longest duration, 41% in the case of latest occupation), and 24% of men in the construction industry (job of longest duration, 35% if latest occupation).<sup>93</sup>

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<sup>90</sup> This figure resulted from subtracting from the unemployed, successively, first job seekers and the unemployed coming from non eligible economic activities, then those that did not qualify because the cause of unemployment was not dismissal or end of a temporary contract, and finally those who had no access because they had no contribution record (Marshall, 1996b). If, alternatively, only those who did receive a formal dismissal telegram (another requirement, with certain exceptions, to obtain unemployment compensation) were considered, eligible workers amounted to 12% of the unemployed.

<sup>91</sup> Own estimates, with data from EPH, INDEC, considering as unemployed also those that were beneficiaries of employment programmes. No data from this survey are available for pre 2000 years, but Marshall (1997) estimated that in 1996 the incidence of employment programme beneficiaries was equivalent to less than 1% of the labour force and to 4% of the unemployed (on the basis of MTSS figures, not comparable to the above mentioned).

<sup>92</sup> Based on number of employment programme beneficiaries in October 2002 (MTSS) and estimated total urban unemployed population in the same month (MEyOSP), the number of unemployed being the sum of the unemployed and employment programme beneficiaries.

<sup>93</sup> In 2001, i.e. before the existence of the *Jefes* programme, coverage of the employment programmes implemented in the Argentine provinces (including those with a training component but excluding credit assistance to micro firms; 3.8 % of them financed by the national government and 31.9% having combined funding from the national and provincial governments), was equivalent to 6.6% of the unemployed (this latter, the sum of the unemployed and programme beneficiaries), with some inter regional differences; coverage was somewhat larger among women, among those with primary education only, and among the poorest 20% in terms of family per capita income, but lower among younger workers (aged up to 29 years). Almost 54% of beneficiaries came from the lowest income 40% (household per capita income, including the state subsidy; more details in Facelli et al., 2002).

Unemployment insurance in Brazil was estimated to have covered some 40% of those dismissed without a fair cause (Ramos, 2002), with an average benefit exceeding the minimum wage (1.37 in 2003, in terms of minimum wages; Ministério do Trabalho e Emprego). On average, some 400,000 individuals per month received the unemployment benefit in 2002 (ibid.). According to data for 2001, the monthly average number of beneficiaries amounted to about 5% of total unemployed workers.<sup>94</sup> Global estimates on the monthly average number of beneficiaries of labour market programmes in Brazil and Mexico, that could be contrasted with the number of unemployed workers, do not seem to be available.

### *c. Impacts*

In Argentina there were few evaluations of the earlier labour market programmes now discontinued, some of which focussed on the IDB-sponsored project of youth training (*Proyecto Joven*),<sup>95</sup> and on the World-Bank-sponsored employment creation programme *Trabajar*. Since the creation in 2002 of the sizeable *Jefes/Jefas de Hogar* scheme, several attempts at assessing its targeting and labour market impacts have been undertaken. Studies by Galasso and Ravallion (2003), López Zadicoff and Paz (2003) and Cortés et al. (2003) indicate that beneficiaries tend to come mainly from the eligible population in terms of household income and number of children, but that some of them are from the non eligible population in terms of both the unemployment and the household head requirements, namely female spouses that have been out of the labour force before becoming benefit recipients. Despite the fact that coverage of the eligible population is limited, the programme is an effective mechanism of social protection. Cortés et al. (2003) show that programme beneficiaries come from the poorest households, with a larger number of members, with less members in employment and less income earners, and not likely to emerge from poverty without receiving social assistance, and that although the programme was designed for unemployed household heads, the proportion of female spouses was somewhat higher than in the population, and they often came from economic inactivity, while also a considerable proportion of the male household heads had been employed before receiving the benefit.<sup>96</sup> Galasso and Ravallion (2003) stress the adequate social coverage of the plan, to which contributed self selection due to the programme's work requirement; its inducements to labour force participation and inclusion among the beneficiaries of spouses (women, often coming from inactivity instead unemployment, and not household heads) would not have hindered adequate concentration in the poorest households. According to López Zedicoff and Paz (2003), non-protected wage earners have more chances of becoming programme participants than the unemployed, allegedly to continue working while receiving the benefit; in this sense, the programme would foster informality. Galasso and Ravallion (2003) conclude that the programme reduced unemployment but, as the plan induced labour force participation, basically of women, the reduction of the unemployment rate between May and October 2002 was of only 2.5 percent

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<sup>94</sup> Own estimate with data on unemployment from *Pesquisa nacional por amostra de domicilios*, 2001 (in [www.ibge.gov.br](http://www.ibge.gov.br)).

<sup>95</sup> Some of these evaluations are reported in Marshall (1997), where full references are cited. Jacinto (2000) also stresses the sparseness of impact evaluations.

<sup>96</sup> Using household survey data (EPH, INDEC, May 2001-October 2002) for a panel study, Cortés et al. (2003) found that 35% of male beneficiaries had in the three previous surveys always been employed, whereas 28% of female beneficiaries had in the same period always been out of the labour force.

points, instead of the 5.8 percent points decrease mentioned by the Argentine government and the World Bank., i.e. it produced the expected effects on the labour supply and unemployment.

The level and structure of unemployment undoubtedly depend on several institutional and economic factors, of which the existence or absence of unemployment compensation schemes and employment programmes is but one. The very limited coverage of unemployment insurance both in Argentina and Brazil makes analysis of the overall unemployment effects of unemployment compensation (discussed earlier) superfluous in these particular cases, although it could be more relevant locally, if in particular regions or sectors coverage were found to be wider. Still, Chahad and Fernandes (2000, cited by Ramos, 2002)<sup>97</sup> argue that, in the absence of unemployment insurance, the unemployment rate in Brazil would have been slightly above the actual rate because the rate of labour force participation would have been higher. That is, that unemployment compensation helped reduce labour force participation, having an effect on the labour supply opposite to the usually expected. Ramos (2002) holds that, although it has been usual to assert that the system of worker protection in Brazil (including unemployment insurance, FTGS and dismissal compensation) increased turnover, discouraged investment in skills and exacerbated informality, these claims have not been grounded on conclusive evidence. In particular, Ramos criticizes studies (such as Paes de Barros et al., 1999) that, on the basis of only very few surveys, contend that unemployment insurance has negative effects (for example, that it subsidizes persons that are in fact employed and earning almost three times the unemployment insurance benefit).<sup>98</sup> Still, Paes de Barros et al. (2000) found that only 50% of unemployment compensation recipients were actually unemployed, casting some doubts on the adequacy of coverage. In relation to other forms of labour market intervention, a study by FIPE/USP (cited by Ramos, 2002), analyzing data for six metropolitan areas, found that labour intermediation has no statistically significant impact on the likelihood of finding employment. The labour market impacts of other programmes in Brazil were found to be mixed.<sup>99</sup>

Evaluations of the impacts of different programmes in Mexico showed mixed results, but on the whole reported positive effects either on employment (in the case of the PROJECT, training scheme for the unemployed) or as anti-poverty measures (PET, temporary employment programme, support to micro employers and self employed workers), although in some cases indicating shortcomings in efficiency (Samaniego, 2002).<sup>100</sup>

Comparing among the three countries, even if the absence of unemployment insurance schemes in Mexico is consistent with the fact that the unemployment rate is lower in this country than in Argentina and Brazil, relative levels of unemployment obviously resulted from the combination of a number of factors, one of the most important being the huge labour emigration from Mexico to the U.S. (e.g. Hernández Laos, 2002). Moreover, the differential “sensitivity” of low productivity, informal activities to the pressure of excess labour, resulting from historical,

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<sup>97</sup> J. P. Z. Chahad and R. Fernandes, “Unemployment insurance and transactions in the labor market: an evaluation of Brazil’s program”, Report Research, FIPE/Ministério do Trabalho e Emprego, 2000.

<sup>98</sup> Paes de Barros et al. (2000) also evaluate negatively the impact of unemployment insurance on poverty, but in fact unemployment insurance systems are not necessarily conceived as anti-poverty measures but as labour protection schemes.

<sup>99</sup> See Ramos (2002) for details on evaluations of PROGER, PLANFOR, etc.

<sup>100</sup> For full details, see Samaniego (2002).

economic, social and cultural processes, may help explain not only Mexico's lower unemployment rate, but also Brazil's in relation to Argentina's (Marshall, 2002).<sup>101</sup> Consistent as well with the absence of unemployment insurance in Mexico, is the higher proportion of short-term unemployment in Mexico, compared with Argentina and Brazil. (Table 7). Moreover, the share of shorter-term unemployment in Argentina and Mexico had been more similar in 1991, when the scope of unemployment insurance in Argentina was negligible (Table 7). Nonetheless, the fact that in the three countries there are employment programmes of diverse scope that may be subtracting, for a shorter or longer period, their beneficiaries from the unemployment counts could also play a role in the duration of unemployment. Note incidentally that in Argentina the share of shorter-term unemployment decreased with the crisis of the early 2000s, as there was almost no new recruitment, but had also fallen in the 1997 expansion when, as we have seen, several modalities of temporary contracts had been made available. This, however did not seem to have helped reduce the incidence of longer-term unemployment. The same may be said of Brazil after 1998.

**Table 7: Percentage share of shorter term unemployment**

Proportion of unemployed with less than or up to three months without a job, in relation to total unemployed workers

	Argentina*	Brazil**	Mexico***
<b>1991</b>	65.6	55.5	69.5
<b>1994</b>	61.4	48.2	68.9
<b>1997</b>	48.6	45.0	72.3
<b>2000</b>	53.8	43.7	77.4
<b>2002</b>	42.4	37.5	74.8

\* Argentina: up to three months, Buenos Aires; \*\* Brazil: up to three months, metropolitan areas

\*\*\* Mexico: unemployment of up to eight weeks, 48 cities

Sources: INDEC; IPEA (based on IBGE); INEGI.

Clearly, analyses of the labour market effects of unemployment and employment schemes are only at the initial stage in Argentina and Mexico and, although they have been more usual in Brazil, in this country controversies have not been settled as yet. Among the many issues requiring further investigation are the impacts of cash transfer programmes (in conjunction with anti-poverty schemes providing cash or goods and services such as the Mexican *Oportunidades*), given the level and duration of cash subsidies (relative to the minimum wage for instance), on labour force participation, the informal sector, unemployment, labour market competition, wages and the wage structure, as well as the effects of financial and other assistance for the self-employed and micro employers on the incidence and behaviour of informal activities.

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<sup>101</sup> During the 1990s, employment performance was better in Brazil and Mexico than in Argentina, in terms of both the increase of employment and employment output elasticities. In Brazil this was mainly due to high labour absorption in the informal sector and in Mexico to both the formal and informal sectors, whereas in Argentina employment performance was poor and the elasticity of the informal sector insufficient (Marshall, 2002; this analysis was based on data from ILO's regional Panorama Laboral, prior to the change, as from 1998, in the methodology for estimating the informal sector).

### 4.3. Conclusions

In Argentina employment programmes emerged in the early 1990s, but they were confined to fragmented, small-scale, continually redesigned programmes, with no serious government commitment in terms of funding. They were repeatedly used spuriously to benefit the political clientele, and often announced to avoid the emergence of conflict, or at electoral times, but then not implemented or rapidly discontinued. It was only at the end of the 1990s, with the latest phases of the *Trabajar* scheme supported and monitored by the World Bank and, particularly, after the profound recession of the early 2000s and the creation of the *Jefes* programme in 2002, that their scope was widened and the government became really committed in terms of financial support, viewing it also as an important instrument for the control of social conflict. In the 1990s scarce government funding for employment policies and unemployment insurance had been consistent with the fiscal restriction embedded in the economic strategy (given that free convertibility, a fixed exchange rate and domestic currency appreciation precluded the increase of monetary emission, the high incidence of external debt payments, and the nature of taxation policies; Cortés and Marshall, 1999). The 2001 policy change in relation to both the exchange rate and debt payment, as well as some changes in taxation policy, relaxed the fiscal restriction (reinstatement of taxes on agricultural exports and devaluation increased government revenues, whilst reduction of debt payment decreased expenditure), enlarging the margin for funding the more massive employment programme demanded by the extremely critical social situation. Nonetheless, this scheme, rather than being a labour market programme strictly speaking, has basically operated as an anti-poverty scheme of cash transfers, supplemented by other overtly anti-poverty programmes not examined in this paper. To expenditure in employment programmes and unemployment insurance (0.99% of GDP in 2002, as we have seen) expenditure in “social assistance” could be added (0.97% of GDP); together they reach 1.96% of GDP. In the case of the principle present-day programme in Argentina, the *Jefes/Jefas de Hogar*, although the requisite of being unemployed household heads has often not been met, the work requirement, via self selection, helped to reduce the incidence of the ineligible population, and while in certain cases benefits were deviated with political purposes, the scheme on the whole seems to have fulfilled its anti-poverty role.

In Argentina, preceding programmes for the unemployed had been scattered, small-scale initiatives, but with crisis in the early 2000s expenditure and coverage increased markedly, and state intervention concentrated on anti-poverty cash transfers to moderate not only the incidence of poverty but also social conflict. In Brazil, by contrast, although relative to GDP funding has also been of limited scale and coverage has indeed been small, it looks as there has been a longer-term, more steady effort at labour market intervention, through the implementation of unemployment insurance, intermediation and training schemes, and assistance to small employers and self employed workers, even without considering the contribution of anti-poverty programmes. In Mexico too, labour market policies have been sparse, but nevertheless showed a trajectory to increasing consolidation. Labour market programmes moved from the experimental, transitory, small schemes in the 1980s, that emerged to face the economic crisis of 1982, to the programmes of the 1990s, that were extended to encompass non formal sector workers (earlier had been targeted to formal sector workers losing their jobs), had a wider geographic reach, involved different levels of government, and no longer were of a transitory nature but attempted to respond to structural problems (Samaniego, 2002). Were we to add anti-poverty programmes such as *Oportunidades* (with an expenditure equivalent to 0.23% of GDP in 2001), as well as

other social schemes, the overall scope of social and labour market programmes (officially, all these programmes are considered anti-poverty strategies), becomes more important, representing 1.1% of GDP,<sup>102</sup> but still short of the equivalent figure for Argentina. On the other hand, training systems that go well beyond the training schemes for the unemployed or for workers in high risk of losing their jobs have existed for a time in the three countries. Schemes designed to provide skills to the labour force as a whole were not discussed in this paper, and their role and impacts require separate analysis.

## 5. Final comments

The first part of this study on Argentina, Brazil and Mexico focussed on regulations on employment contracts and dismissals and on non-wage labour costs, the reforms undertaken, and some of their labour market impacts. From the analysis it is apparent that labour regulations do contribute to shape employer practices (the creation of flexible contracts was reflected in changes in the structure of recruitment and of employment; the tightening of job security reduced lay-offs) but they do not seem to have influenced employment generation. This is in agreement with findings of previous studies dealing with Latin American countries (Marshall, 1994, 1996a), showing once again that, contrary to the simplistic argument stating that relaxation of constraints on contracts and dismissals would suffice to improve employment performance, multiple causes intervene in the process of job creation, among which labour regulations are but one. It could still be argued that the reforms implemented were not the most adequate to stimulate employment generation, or that reforms were not deep enough to stimulate employment growth – hypotheses impossible to confront empirically. Changes in labour regulations and non-wage labour cost reductions might have occasionally (in certain contexts and for certain economic segments) been favourable to job creation, but they do not seem to be neither necessary nor sufficient conditions. At the same time, the analysis suggests that whatever labour regulations are, and irrespective of whether there was some partial dismantling of protective regulations or not, and of whether there were non wage labour cost cuts or not, the incidence of precarious wage employment relations - employment forms not complying with labour and social security regulations with their associated costs - continued to expand, at different paces, in the three countries. The advance of flexibilization via actual employer practices results from the cost-reducing strategies (costs that exceed those associated to labour) adopted mainly by the smaller firms to survive in increasingly problematic economic contexts, and has been facilitated by the laxity of control and enforcement. The first and primary task seems to be that of intensifying government control and improving enforcement, with active collaboration of trade unions.

The second part of the study dealt with the characteristics and impacts of programmes for the unemployed, including cash transfers, direct state employment creation, subsidies to the private sector in exchange for hiring additional workers, financial and technical assistance to economic segments with potential for employment creation, public employment services, and supply-side programmes such as training for the unemployed. In contrast to the long established systems of protective labour legislation in the three countries, a framework for labour market policies has only started to consolidate in recent years, in response to the increased demands for new forms of

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<sup>102</sup> Data on expenditure from Cuenta de la Hacienda Pública Federal, and GDP at current prices from Sistema de Cuentas Nacionales de México (INEGI, [www.inegi.gob.mx](http://www.inegi.gob.mx)).

state intervention, as the result of structural change, job losses, expanding poverty and worsening income distribution. Only stronger commitment of governments in terms of funding for labour market policies, more realistic eligibility criteria and emphasis on skilling, and coordination with anti-poverty programmes will enhance their effectiveness in helping the increasing number of unemployed workers. There are some positive indications, still incipient, in this direction. The programmes may be subject to the same criticisms they received in OECD countries, and also to others that are characteristic of the Latin American region, such as discrepancy between formal features and real application, and misuse of programmes for clientelistic and electoral purposes, but they still are necessary components of an encompassing employment policy in contexts where the process of job generation is too slow, and it is foreseeable that it will continue to be so, to absorb all available workers. Indeed, labour market programmes do contribute much more concretely to alleviating the problems of the unemployed than do “indirect incentives” via the dismantling of labour protection or through generalized rebates on non-wage labour costs that might reduce state revenues without guaranteeing employment generation.

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## Appendix

**Table A: GDP in Argentina, Brazil and Mexico, 1991-2002**

Rates of change, constant 1995 prices

	Argentina	Brazil	Mexico
<b>1992</b>	9.6	-0.3	3.7
<b>1993</b>	5.9	4.5	1.8
<b>1994</b>	5.8	6.2	4.5
<b>1995</b>	-2.9	4.2	-6.2
<b>1996</b>	5.5	2.5	5.4
<b>1997</b>	8.0	3.1	6.8
<b>1998</b>	3.8	0.1	5.0
<b>1999</b>	-3.4	1.0	3.7
<b>2000</b>	-0.8	4.0	6.8
<b>2001</b>	-4.4	1.5	-0.4
<b>2002</b>	-11.0	1.5	1.2

Source: [www.CEPAL.org](http://www.CEPAL.org)

**Table B: Regulations on unfair dismissal, early 2000s: selected characteristics**

	<b>Argentina*</b>	<b>Brazil</b>	<b>Mexico</b>
<b>compensation</b>	yes, after three months in firm, 1/12 of best usual monthly remuneration in latest year of employment, or during employment if shorter than one year, per month of employment;  maximum: three times average remuneration in corresponding collective agreement;  minimum: 2/12 of remuneration as defined above	yes, individual capitalization account (FGTS) that replaced one month per year of service compensation, plus  40% of accumulated FGTS fund penalty on employer	yes,  - three month wages, if reinstatement not requested (see below), plus wages due between day of dismissal and application of court's sentence  - special compensation for those not entitled to request reinstatement (see text)
<b>reinstatement</b>	no	no	yes, after one year in firm, option available to workers, with exceptions (see text)
<b>advance notice</b>	yes, replaceable by compensation;  between 15 days and two months, depending on length of employment (0 if employed up to 30 days)	yes, after one year in the firm, replaceable by compensation (8 days in advance if wages paid per week or day; one month if wages paid per fortnight or month)	no (written notice only)

\* See text for reforms approved by Congress in February 2004, not yet applicable at the time of writing.

Sources: National Legislation, Vega Ruíz (2001), Ciudad (2002).

**Table C: Regulations on fixed-term contracts, early 2000s: selected characteristics**

	<b>Argentina</b>	<b>Brazil</b>	<b>Mexico</b>
<b>situations/tasks in which they are permitted</b>	if agreed voluntarily for tasks that “reasonably” demand them	as long as authorized via collective bargaining	- for temporary tasks - to substitute workers
<b>duration</b>	five years maximum	two years maximum	one year maximum*
<b>renewals</b>	renewable but not “excessively”	maximum once	renewable for at most one year*
<b>compensation at end of contract and/or at dismissal</b>	- one half of dismissal compensation at end of contract  - after one year in firm, compensation for unfair dismissal as in contracts for indefinite period, plus compensation for damages according to ordinary law	if unfair dismissal, one half of wages due until end of contract	if unfair dismissal, one half of wages received if employment less than 1 year; otherwise, six month wages for first year and 20 days wages per year of service afterwards

\* Article 39 of the *Ley Federal del Trabajo* stipulates that if when the term ends the need for temporary work persists, the contract may be prolonged as long as it continues to be necessary, and article 40 states that workers with fixed-term contracts are not obliged to continue under this contracts for more than one year. This could be interpreted as establishing a maximum of one year for the duration of each contract, but also a maximum to renewals (AM).

Sources: National Legislation, Vega Ruíz (2001), Ciudad (2002).

**Table D: Unemployment compensation: selected aspects**

	Argentina	Brazil	Mexico
<b>unemployment insurance</b>	yes, from 1991	yes, from 1986	no
<b>eligibility</b>	<ul style="list-style-type: none"> <li>- unfair or collective dismissal</li> <li>- voluntary termination with just cause</li> <li>- end of temporary contract</li> <li>- activities excluded: see text</li> <li>- no retirement benefit</li> </ul>	<ul style="list-style-type: none"> <li>- unfair dismissal</li> <li>- voluntary termination with just cause</li> <li>- six month consecutive wage employment immediately prior to dismissal</li> <li>- no retirement benefit</li> <li>- no alternative own income sufficient to support family</li> </ul>	---
<b>contributory record required (social security contributions)</b>	<ul style="list-style-type: none"> <li>- at least 12 months in three preceding years</li> <li>- for agency workers, at least 90 days in preceding year</li> </ul>	---	---
<b>unemployment benefit:</b>			---
<b>* amount</b>	linked to latest wage, decreasing with the duration of the benefit, with a minimum equivalent to 3/4 and a maximum to 1 ½ of minimum wage at inception of the scheme	linked to latest wage, with a threshold of one minimum wage	---
<b>* duration</b>	depends on contributory record, minimum 4, maximum 12 months	depends on employment record, minimum 3, maximum 5 months	---

*Sources:* National Legislation, Marshall (1996 b), Conte-Grand (1997), Golbert and Giacometti (1998), Andraus Troyano (1998).

**Table E: Labour market programmes of national/federal governments, early 2000s: selected aspects**

	<b>Argentina</b>	<b>Brazil</b>	<b>Mexico</b>
<b>direct employment creation</b>	JHD, with participation in training or community work, benefit below minimum wage  help for micro projects	--	PET, community work, in marginal rural areas
<b>subsidized employment in private sector</b>	JHD/MMT, partial wage subsidy	PPE, subsidy to employers who hire young workers	eliminated
assistance to sectors with employment potential	small programmes for specific producers	PROGER, credit and assistance to micro and small firms, cooperatives, etc., and other programmes  PPE, credit and assistance to young workers, for entrepreneurship/self-employment	PNFM, credit to low income micro firms and self employed  PNAES, financing and assistance to poor sectors
<b>training for unemployed</b>	several small programmes announced (see text)	PLANFOR, large scale programme to provide skills to unemployed or in high risk of unemployment  PPE, training young workers	SICAT, short term training to unemployed or in high risk of losing job, benefit equal to minimum wage, materials, etc.
<b>intermediation and placement</b>	national services confined mainly to technical assistance and training to public and private intermediating agencies	SINE, with increasing but still limited registration of unemployed (29%, 2001), jobs, and placements	SNE, registered some 32% of unemployed (1995)

Abbreviations: see text

Sources: see text for each programme.