

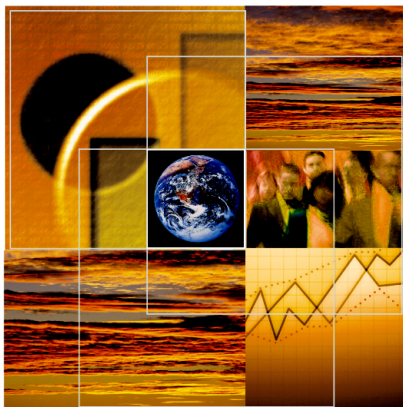


International
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Employment Strategy Papers

Macroeconomic reforms, labour markets and labour policies: Chile, 1973-2000

By Guillermo Campero



Employment
Analysis
Unit

Employment
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Preface

It is all too familiar now to researchers and policy makers how, over the past two decades, policies and economic reforms, across countries of the world, were shaped by the stabilization and structural adjustment programmes advocated by the Bretton Woods institutions. The prescriptions that came out of their neoliberal stance often included, among others, labour market flexibility reforms that would be compatible with the free-market engineering of growth.

Like all other countries, Chile, too, undertook an aggressive macroeconomic reforms programme, and alongside, labour market flexibility policies. The main outcomes of these, according to the author, have been that although some tangible growth success has been recorded, the employment generation goal was less than fully addressed. The labour market performed badly, unemployment rose to a historically high-level of 18 per cent, and the issue of quality of employment remained much to be desired. The paper contends that labour market flexibility in the 1980s had little effect on economic growth; instead, it led to undesirable labour market outcomes.

During the 1990s, however, labour market reforms were introduced to enhance social participation within the framework of an equitable development model. Distinguishing the narrow perception of labour market flexibility (as being “defensive”) from its wider perception (that allows sharing of responsibilities in wide ranging policies in competitiveness), the author believes that Chile, by adopting the latter view, is likely to move closer to a mature democracy. The importance of a Decent Work agenda, as espoused by the ILO, appears very much embedded in the current growth and development thinking in Chile.

The Employment Strategy Department, through its Employment Analysis unit, is carrying out policy research on a number of current themes which include, among others, the employment focus in macroeconomic policy decisions and the interaction between employment/labour market and macroeconomic policies in an era of globalization. This paper is one in this set of studies. The views expressed in the paper belong to the author and need not necessarily reflect those of the ILO.

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1. Introduction and principal results

This paper seeks to consider theoretical and analytical elements as well as some empirical evidence that can serve to identify the relationship between economic performance and the different legislation that regulated the labour market in Chile between 1973 and 2000. *The main aim is to examine the much disputed issue that liberalization of the labour market as it was applied in Chile was an important factor in facilitating economic growth.* The objectives and content of the macroeconomic reforms promoted by the military regime between 1973 and 1989 are therefore analysed, as well as the mechanisms under which it was believed such changes would provide patterns of steady growth in economic activity, productivity, employment and wages. Similarly, the paper analyses the 1990s, as a significant change of the labour market's role in economic performance, and the labour legislations that were introduced during the period.

The analysis shows that high labour market flexibility, as occurred during the first years of the military regime and after the enactment of the *Plan Laboral* in 1979, led to significantly different economic results. The first stage culminated in a severe recession at the beginning of the 80s, while in the second stage, which lasted up to 1989, growth resumed, though high open unemployment was a predominant feature of both stages.

The experience described shows that even with favourable prospects for job creation, the results for economic growth were negative in the first phase between 1974 and 1982. The main conclusion is that with simultaneous stabilization and adjustment policies on the one hand, and policies aimed at provoking structural reforms on the other, job-creating capacity was harmed. The labour market performed poorly with unemployment rates rising to historical highs. This conflict between short and long-term policy aims affected growth, and the greater flexibility of labour did not have any measurable effect on the situation.

Between 1984 and 1989, the economy was dynamic as a post-recession recovery was taking place that created demand for jobs and caused a significant drop in unemployment. In this respect, the structural reforms aimed at opening up the economy, reducing State involvement in the economy, and improving financial market regulation as well as promoting exports, were successful in promoting investment and reactivating economic activity. Under these circumstances, there is no evidence that the prevailing flexibility in the labour market, especially the greater freedom for hiring and firing, was the most significant factor in stimulating job growth. Rather, the relative abundance of labour and the high post-recession unemployment rate, which served to control wage growth, seem to be the main reasons for the high positive employment elasticity noted during this period of strong economic recovery.

During the nineties, the relationship between economic performance and labour market outcomes was positive (with the exception of recent years, due to the recessionary effects of the Asian crisis). These results were accompanied by growth patterns that increased productivity, employment and real wages with a process of labour reforms that re-established individual and collective rights, and with the strengthening of active labour market policies. Although, here, a direct relationship between new labour regulations and improved economic performance cannot be established, it can, however, be concluded that the essence of the reforms implemented was complementary to the country's successful "insertion" objectives, based on productive performance as the basis for competitiveness.

Indeed, if the dismantling of some aspects of the former labour law can be stimulating during a transitional phase, this alone does not imply the birth of sustainable labour legislation that responds to new competitive challenges. That is why there are

constant pressures for deregulating the labour market, due to the fact that national economic policies often achieve far less than they used to, and greater dependency amongst economies may not lead to the results expected by their promoters. What is needed is the development of an adequate legislation that brings together both an optimum degree of labour flexibility that promotes quality work, and economic growth that includes productive growth.

2. The reforms

The emergence of neo-liberal experiments is attributed to three main complementary factors¹: insufficient development of economies following the Second World War; the birth of a neo-liberal philosophy that was global and critical in its view of social processes based on strong State involvement and which offered sound-looking technical solutions; and a severe socio-economic crisis that ended with the collapse of the prevailing political systems of the time.

This is particularly the case in Chile as economic indicators stagnated compared with the region as a whole, as indicated in Table 1.

Table 1: Chile and Latin America: Compared indicators 1945-1975 (in %)

Indicators	Chile	Latin America
Gross national product	3.6	6.2
Gross national product per capita	1.5	3.2
Industrial product	4.4	7.8
Agricultural product per capita	0.2	0.9
Export volume per capita	-0.2	1.3
Consumer index price	30.0	8.0

Source: Ramos, J (1994)

In such a context, the development of the labour market was characterized by simultaneous social incorporation and exclusion². While a growing proportion of the labour force was able to incorporate itself into dynamic activities, a very large number of people who emigrated to the big cities were only able to find low productivity and poorly remunerated activities due to the economy's lack of dynamism.

2.1 The basis for reform

According to the neoclassical opinion, the main economic problem lay in the distortions caused by the economic policies of the industrialization model in force at that time. These policies were believed to affect adversely the performance of different markets and were a disincentive to job creation. The policies had four main features³: *anti-export*, derived from tariff barriers, an overvalued exchange rate, and a fiscal policy that put a tax burden on exports; *urban*, discouraging the use of the labour force in intensive agricultural activities; *capital intensive*, reducing import costs on machinery and equipment and; *anti-demand of jobs*, derived from non-salary related labour costs such as unionization,

¹ Ramos, J (1994): Neo-liberal economic policies in the South Cone countries of Latin America 1974-1983. Economic Culture Fund.

² PREALC (1991): Employment and Equity: The challenge for the 90's, Santiago, Chile.

³ Weller, J (2000): Economic Reforms, Growth and Employment. Labour markets in Latin America and the Caribbean. Cepal, Economic Culture Fund.

minimum wage and other features that increased the cost of hiring labour. In addition, it was believed that the structure of economic activity and the use of productive factors had developed in such a way as to be a disincentive to job creation.

Therefore, the need for implementing a set of economic changes arose. Such changes had to be aimed at eliminating distortions in the trade, fiscal, and financial areas, as well as in price and exchange rate policies, and also in labour policies. It was believed that these would have a positive effect on employment, due to greater economic growth, a redirecting of investment towards labour-intensive activities, and technical change that would increase demand for labour. Given the supposed relationship between capital and skilled labour, and with the large unskilled labour force that existed in Chile, it was believed that some pro-unskilled labour adjustments would favour unskilled labour, with a positive effect on their wages.

In general, the greatest positive effect on employment was considered to come from improved economic growth which would be the outcome of the complete reform package. In fact, the reform of the exchange rate policy was expected to lead to a competitive exchange rate, which would likely stimulate exports that favoured labour-intensive technologies. In the fiscal area, taxes on foreign trade would be reduced, thus giving an advantage to exports, while the new exchange rate policy and financial reforms would increase the relative price of capital, deterring imports. The elimination of price controls would encourage the production of mass, labour-intensive consumer goods, while the deregulation of the labour market would reduce labour's cost and thereby favour greater hiring.

2.2 Reforms implemented

The economic strategy implemented in 1973 by the military regime combined short-term policies aimed at controlling inflation and re-establishing balance-of-payments equilibrium, with long-term policies aimed at modifying development strategies through structural reforms.

This simultaneity of policies would particularly characterize the first adjustment period and the recovery of economic activity. In fact, the reforms accompanied stabilization policies aimed at a sharp reduction of the fiscal deficit (from 10.5 per cent to 2.6 per cent of GDP in just one year, 1976). These were complemented by a restrictive monetary policy, and finally with an over-appreciated exchange rate. This phase, as observed, ended with a deep recession at the beginning of the eighties.

The structural reforms embraced four main issues:

(a) An allocative market and a subsidiary State

What was sought was an economic system whereby the market would have the fundamental role in the allocation of the economy's resources, while the State would take a subsidiary role. Advocates of this system envisioned a State that was neutral, and thus did not favour a particular sector or group, so that its intervention would not alter the price system that guided the market.

Because of this, the military government adopted policies aimed at reducing the size of the public sector and the fiscal deficit, leading to a reduction in public employment and spending. Tax reform was adopted to diminish direct taxes, but at the same time a Value Added Tax was introduced. Many of the companies that were State-owned and that were part of the so-called "Socially Owned Area" were privatised. Finally, substantial reform was carried out on the social security system.

(b) Liberalization of capital markets

The measures taken in this area tackled such issues as ensuring that the price system worked correctly; eliminating loan cost distortions such as interest rate controls; restoring active ownership to the private sector of businesses nationalized by the previous government, and promoting the creation of new financial entities.

It was believed that the system would efficiently assign the financial resources for increasing savings and investment rates. This would, therefore, sustain a high and steady economic growth pattern.

(c) External opening

External opening would create productive structural transformations in employment and salaries. The measures consisted of reducing and narrowing tariff rates, eliminating quantitative and other licensing restrictions on imports, as well as adopting an anti-inflationary exchange rate policy. This, however, led to a steady appreciation of the currency, as a result of increasing capital inflows.

Another expectation of external opening concerned the effect on demand for unskilled labour. According to international economic theory, an opening towards foreign markets of developing countries like Chile, relatively abundant in unskilled labour, would provide a relative price increase in unskilled labour-intensive goods that would increase demand for these workers along with an upswing in their salaries, relative to more-skilled workers. This would thus reduce wage dispersion. This is because developing countries export goods that are relatively intensive in the use of unskilled labour and at the same time import goods that are relatively skill-intensive. With the openness and liberalization of trade it was believed that the demand for unskilled work would increase and that skill-intensive work would diminish, decreasing the pay-differential amongst both types of workers.

Moreover, since export sectors must offer quality products, a price differential is expected between exportable goods and those intended for the domestic market, thus producing higher relative salaries in the export sector.

(d) Deregulation of the labour market

The authorities of the time considered economic growth as the main source for creating new jobs. Consequently, it was believed that this should be complemented by a labour relations system that did not burden the efficient operation of the labour market while creating more employment.

Chilean labour legislation of the sixties and the early seventies had a strong protective tendency. This was clearly seen in barriers to dismissal, high severance pay, indefinite strikes, pay-rates for certain occupations and sectors, State intervention in salary setting, etc. There were also special regulations for certain professions (petroleum workers, copper mining, railway workers, etc.) that further added to its complexity.

After the military coup of 1973, and until *Plan Laboral* was put into force in 1979, labour relations were severely altered as union activity was suppressed and collective bargaining and legal strikes were banned. Although the majority of the individual contract laws were kept on record, they were not closely supervised by the labour authorities.

The military regime's economic team considered earlier labour legislation and regulation responsible for inefficient performance and for distorting the allocation of

resources in the economy.⁴ The new Labour Code of 1979 embodied the economic team's belief in labour flexibility.

2.3 Impact on growth and on the labour market

To analyse the results on employment and wages, two things will be considered: first the development of the main economic and labour variables in respect to the cycles recorded within the period; and second, the changes seen in the strategy of trade openness.

Table 2: Chile: 1974 – 2000. Selected indicators (On a yearly average % variation and average rate of open unemployment with special programmes)

Periods	GNP	Employment	Unemployment	Real Wages	Minimum Wages	Productivity
1974-1983	1.7	0.1	18.4	3.5	0.5	1.7
1984-1989	6.4	6.7	13.8	1.0	-4.6	-0.3
1990-2000	5.8	1.8	6.2	3.8	6.3	4.0

Source: Author, based on INE and Banco Central

During the first period under analysis (1974-1983), there was low economic growth and no job creation, as well as the highest unemployment rates ever recorded in the economic history of the country. The simultaneous adoption of policies to stabilize and restructure the functioning of the economy had a negative effect on economic activity and on the labour market, despite the latter's new-found flexibility.

The military government implemented a stabilization programme that was meant to reduce the then high inflation rate. While this was operating in parallel with an acute deterioration of exchange rates, the depressive effects on production and on the labour absorption rate increased. In 1975, GDP fell by 12.9 per cent as a result of the double impact produced by the fall in terms of trade (petroleum price increase and copper price fall) and by effect of the adjustment policies and trade liberalization. Unemployment was more than double its historical rate by reaching 22 per cent in 1976, and the first emergency employment programmes were implemented.

Although economic activity showed signs of recovery until the eighties, open unemployment showed a distinct inflexibility to go down. In fact, economic activity registered high and sustained growth between 1976 and 1981, favouring job creation, even though it did not significantly diminish unemployment rates, since they were maintained at an average of 18 per cent.

The growth recovery stage would come to an abrupt end in 1982, when the Chilean economy experienced yet another recession. The recession was a product of the international interest rate increase; the industrial and financial sectors' high and extensive foreign debt that had been promoted by the economic authorities of the time, and the suspension of credits from abroad. The result was a sharp fall in production of 14.1 per cent in 1982, followed by an additional fall in 1983 of 0.7 per cent. Job creation dropped 12.1 per cent and 2.9 per cent respectively. This raised unemployment levels to an all-time high of 26.1 per cent, or 31.3 per cent if the participation in special employment programmes is considered.⁵

⁴ For further details on reform issues, see Velásquez. M (1993).

⁵ Emergency Employment Programmes were implemented for the first time in 1975 (Minimum Employment Programme, PEM) so as to diminish recessionary effects. Later in 1982 these were expanded to other segments of the population, where we are able to highlight Occupational Programmes for Heads of Household (POHJ). In 1976, those enrolled with PEM represented 5.4 per cent of the work force and

Among the factors that explain the development of the labour market, the opening to external markets stands out. The trade reform of the seventies that reduced tax barriers and eliminated special preferences, was accompanied by a real and steep devaluation of the economy at the end of 1973. The application of mini-devaluation based on earlier rates of inflation was insufficient in preventing an appreciation of the currency. By 1976, the exchange rate policy was explicitly being used as an anti-inflation stabilizing mechanism by revaluations aimed at braking inflationary expectations. In 1979, a sort of fixed nominal exchange rate was established, which lasted for three years.

As a result, the exchange rate as a price signal was abandoned; instead the over-valued exchange rate served as a price cut that boosted imports. This first period, where the main factor of adjustment had been the drastic drop in aggregate demand, would end with a growing external imbalance that proved impossible to finance.

In the second period under consideration (1984 to 1989), the Chilean economy began a period of sustained growth under the framework known as the structural adjustment programme. Its implementation was carried out to re-establish, in the short-term, the external equilibrium and in the mid-term to structurally adapt the pattern of growth. It was believed, therefore, that in an open economy a quick productivity rise in transactional goods would increase reserves, facilitating, as a consequence, aggregate production growth.

The real devaluation rate and the tariff increase, implemented after 1982 encouraged the production of tradable goods, generating a sign of stability in the growth of exports. This allowed the import-competing domestic sector to make good use of the time to adjust. The effect on exports was positive, with the sector becoming a dynamic source of growth. After 1985, exports showed sustained growth, from US\$3.8 billion in 1985 to more than US\$16 billion in 1995.

Concerning industrial employment, it was not until after the devaluation of 1982 that all companies, regardless of their size, required more workers, differing from the first stage, when only the bigger companies increased absorption of labour.

The link⁶ between the adjustment and restructuring, and the labour market, in a context of external constraint, can be understood as the relation between increasing the *domestic savings rate* and the *share of wages*. In this context, a forced increase in savings would decrease the wage share, due to the short-term contraction effect on salaries and employment, that is derived from policies aimed at improving the trade balance. But, the fall in wages is only one of the alternatives since the adjustment could have come from a fall in profit margins and capital rental return. However, this conflicts with the need to create incentives to re-direct investment towards the production of tradable goods, especially if this process happens when there are high international interest rates.⁷

Therefore, in a first or *transitional* instance, the opening up to foreign markets will have a contraction effect on production (especially non-tradable goods) that would likely dampen employment and income. In a second or *consolidating* instance, there will be high expansion rates in productive activity (particularly trading), and along with it employment recovery linked to increases in pay.

maintained themselves in similar figures until 1981 (4.8 per cent). In 1983, it reached its highest levels 13.5 per cent and then it decreased steadily until it was closed down in 1988.

⁶ This mechanism, as shown by Garcia (1991) was revealed in literature by Kaldor (1956) and with respect to Latin America by Frenkel and Rozenwurcel (1989).

⁷ Naturally here we have seen extreme situations for the sharing of the load: different combinations are possible in practice, though this demands greater selection degrees of economic policy. In fact the author analyses the adjustment process in other Latin American economies and its results in terms of the effects on the labour market are less than those recorded for the Chilean case.

The available data supports this interpretation since it states that between 1975 and 1985, the share of wages in GDP fell. This was due to the lower relative growth of real wages (4 per cent) in respect to productivity (6.2 per cent), but principally from the persistently high open unemployment rates (or reduction of productive employment as a whole).⁸ Instead, between 1986 and 1989, the forced savings mechanism stopped working since there was a savings coefficient increment with a growth in wages, as a result of strong expansion of waged employment. This led to a marked reduction in the high open unemployment levels, while wages recorded important increases, although they did not exceed the productivity growth rate.

However, *it is essential to point out that the absence of more selective policies and the non-existence of an effective social security net complementary to greater flexibility of the labour market, caused the high price paid by an important number of workers. This distinguishes the Chilean experience from others that took compensation mechanisms into account.*⁹ *These are the factors that pushed forward the new strategies launched in 1990.*

The third period to be considered starts in 1990, when democracy had just been reinstated. The main results obtained show a high and sustained growth in economic activity up to 1998, along with a persistent employment dynamism that substantially reduced open unemployment rates. At the same time there was an increase in real wages and in the total average productivity per worker employed, a feature that notably differentiated this period from the eighties.

The steady growth would only be interrupted in 1999 by the effects of the external shock caused by the economic crisis in the Asian countries that produced a GDP fall to 1.0 per cent and an adjustment process in the labour market that inflated unemployment rates and significantly reduced job creation.

Needless to say, the results that characterized economic and labour market development in the nineties were accompanied by labour reforms pushed by the new authorities in order to stimulate, on the one hand, social participation so as to achieve the labour policy objectives with a high degree of social justice, something that was extremely important in the democratic legislation reconstruction phase; and, on the other hand, because the legislative framework established by the military regime contained evident defects in respect of labour representation, social protection and the effective capacity to produce an equitable development process.

Therefore, with the re-establishment of democracy labour reforms became a high priority, as it was necessary to achieve wide consensus on what was a difficult transition process. There emerged a certain basic consensus with respect to the development model: the need to create a stable legislative and legal framework for the development of economic activities; continuation of the open economy strategy; and safeguarding macroeconomic stability.

The consensus gave birth to a process for creating social agreements that stimulated cooperation, reforms to labour legislation, the reinforcement of supervision; the development of labour training; and the improvement of the social security system.

⁸ See García (1991)

⁹ García (1991) analyses adjustment processes and their results in other Latin American economies like Costa Rica and Mexico, where less relative costs were recorded for employment, wages and the distribution of income.

3. Labour legislation and economic performance

In this section, evidence will be provided on the relation between the different regulatory standards of the labour market with the results obtained in each of the periods analysed regarding issues such as economic growth, development of employment, wages and productivity. In order to do this, it is useful to highlight the different regulatory standards under which the Chilean labour market has historically worked, and at the same time identify the main trends recorded in growth and in the principal variables of the labour market.¹⁰

Table 3: Economic Performance and Regulatory Standards: The Chilean experience, 1973-2000 (main tendencies)

Periods	Regulatory Standards	Economic Growth	Employment Growth	Unemployment	Wage Development	Productivity Development
Up to 1973	Complex legislation and of a strong protectionist tone	Low	Low	Low	Stable	Low
Between 1979 and 1978	Deregulation in practice and of repression of union activity	Low	Low and growing	High	Increasing	Low
Between 1979 and 1989	Labour Plan: Low level of regulation and union power	High in recovery	High	High and decreasing	Diminishing	Diminished
From 1990	Active labour market policies: Labour flexibility with protection	High	High	Low	Increasing	Increased

Source: Author.

Prior to the analysis of the final results obtained, the concept of flexibility must be examined in order to obtain a conceptual standard that provides better evaluation.

Flexibility could be understood as the *capacity to adapt to change*, where in an open, outward-looking, competitive type of economy, it acquires much greater relevance. In the present context, the specific concept is that of *labour flexibility*.¹¹ This includes two aspects: labour market flexibility and labour flexibility as a productive factor.

The first refers to the economy's capacity to regain optimum equilibrium after an external shock or in the face of changes in market conditions. This type of flexibility does not work where there is segmentation or difficulties for workers with similar characteristics to move from one segment of the market to another. This could be due, among other things, to regional differences, workers' characteristics, or because there are different legislative standards.

Similar effects will cause inflexibility to real wages, for example not letting wages vary when labour demand drops will lead to a less than optimum labour allocation, creating unemployment just like the inflexibility in employment, expressed through employment rigidities or other impediments that effectively limit workers' movement from one job to another. High downsizing costs will affect the optimum allocation of

¹⁰ Romaguera, P. et al. (1994).

¹¹ "Amadeo", E. and Camargo, J. (1993) "Labour flexibility, productivity and adjustment", PREALC, Santiago, Chile.

work before the economic cycles, and the costs associated with the movement of workers will cause low mobility, which would result in negative effects on efficiency.

The second segment of *labour flexibility as a productive factor* is understood as the adaptive capacity of the very same labour productive factor. In this case, it will depend on the degree of flexibility of human capital and the potential growth rate of labour productivity. In fact, if human capital is too specific or if modifying it requires allocation of important resources, then the system tends to operate with a greater relative inflexibility. On its own, productivity plays a central role in the flexibility issue, since an adjustment carried out in this way would substitute the traditional options in the event of a shock by reverting to workers' dismissal or through a drop in real wages.

It is important to keep in mind that there are interdependencies, in this case negative ones, between the determinants of labour market flexibility and those that relate to the flexibility of work as a productive factor. In fact, in economies with high wage and employment flexibility, limited-term labour contracts tend to predominate. This leads to a low average length of employment time, high unemployment frequency and real wages that vary widely within the cycles. This affects long-term prospects for workers with greater potential for creating higher quality products and services, strengthening, therefore, the average quality of work, and at the same time, the level of salaries.

On the one hand, short-term contracts generate uncertainty and distrust, reduce motivation and affect mid and long-term productivity growth. Similar arguments are applicable to real wages when they are too flexible, since from the worker's point of view, not only does the level but also the variation of the real wage affect well-being.

On the other hand, if work contracts are prolonged in time, the companies will tend to be more conservative when hiring new workers and will try to predetermine their potential quality. In these cases, low productivity workers will affect the company's long term average rate of productivity. This will make businesses develop ways to increase workers' productivity through incentive schemes, improved working conditions, pay incentives linked to performance, and training opportunities.

In summary, legislative reform that promotes greater employment stability encourages investment in the labour force and induces the adoption of flexible pay schemes and much better labour relations. This greater flexibility of work as a productive factor permits the workers' human capital to be utilized in different production lines or in the development of different tasks. It is in this fashion that employment stability, with permanent investment in general training and highly skilled labour, results in greater productivity and flexibility.

It is therefore possible to state that high flexibility in employment and real wages tends to reduce the flexibility of work as a factor of production, by not only affecting human capital flexibility but also productivity growth. This suggests that there is an optimum desirable level of flexibility, which is certainly lower than the maximum.

3.1 Deregulation and the "Plan Laboral": 1974-1989

As demonstrated in the previous section, the deregulation of the labour market was one of the four main reform issues that the military regime implemented as of 1973, since it was held responsible for encouraging its inefficient performance and distorting the allocation of the resources and along with it, the creation of productive jobs. What was required in consequence, according to the authorities of the time, was a flexible labour market that would lead to the adjustment of the new relative price structure. This would at the same time push forward the structural reform process.

The experience recorded between 1973 and 1989 can be divided into two sub-periods, in respect to the regulatory standards of the labour market. The first from 1974 to

1978 was characterized by a degree of increase in flexibility of the labour market through deregulation. The second started in 1979 with the application of the so-called *Plan Laboral*.

This new legislation was designed to be integrated into global standards of economic performance, based on giving the market the main role of allocating resources. The design of the new labour law was aimed at the “progressive elimination of existing barriers that artificially increase the cost of labour and hinder a greater level of hiring, becoming the principal causes of the chronic unemployment that has affected the country.”¹²

In this respect, after an initial period of open repression against the unions, their operations came to be confined to the company level. Collective bargaining issues and strike regulation mechanisms were also kept at company level. The government sought to avoid a repeat of obligatory, massive and inflationary salary readjustment, favouring instead the hiring of workers. Notwithstanding what went before, the new law still allowed economy-wide wage indexation, yet the system of pre-announced wage-indexation became dysfunctional once a deep recession set in at the beginning of the eighties.

Additionally, during this period special exemptions and systems that benefited given professions or labour groups were suppressed. Things such as mandatory professional identity cards for specific activities, special minimum wages, licences, business hours special compensations, and so on were eliminated.

As regards employment flexibility, the new regulation allowed employers to dismiss employees at will. They were also allowed to hire temporary workers, and were able to adjust salaries and reduce labour rights in comparison to those workers under indefinite contracts.

Thus new forms of hiring plus restrictions imposed on trade unions and employment insecurity created a flexible labour market and a labour force that was disciplined and cheap.¹³ However, contrary to the forecasts made by the authorities, results showed that by the mid- 1970s the open unemployment rate not only increased rapidly but also showed a significant reluctance to decrease, even though a recovery was recorded after 1975.

Such results showed that in general, a highly flexible labour market had no seeming effect on avoiding continued unemployment. The main question is why unemployment showed such reluctance, despite the fall in the real wage, wage flexibility as well as labour legislation that made employment instability official, reduced the cost of dismissal and initially banned and then restricted trade union activities and collective bargaining.

A wide range of reasons explain these results. On the one hand, some claim that it is not only due to the economic policies applied, but also to collateral labour force pressures and imperfect markets. On the other hand, there are those who claim that there are links with structural transformations that for a long period produced a decrease in GDP, aggregate demand, and therefore labour demand.

In the first half of the 1970s, the labour force increased due to population growth between 1955 and 1965, as well as an increase in the labour-force participation rate, in contrast to what happened in the 1960s. This effect, according to government economists of the time,¹⁴ was the consequence of pro-cyclical behaviour regarding the labour-force participation rate in respect to GDP growth, encouraged by a stronger incentive to imported goods consumption, as well as by better information on job opportunities

¹² Odeplan (1978).

¹³ Lagos, R. (1995)

¹⁴ Cauas and Saieh (1979)

(reduced search costs), all factors that would have encouraged a portion of the unemployed to activate a job search.

Although evidence suggests that there was in fact a rise in the participation rate, the key question is which is the unemployment proportion observed that can be explained by above-normal increase in the labour force. In this respect, evidence that supports this explanation is poor, since at the time that the labour force increased, employment growth was low, and, therefore, both effects tended to increase unemployment. Studies intended to estimate this effect, ¹⁵ calculate that at most it would explain 25-35 per cent of the unemployment rate between 1975 and 1981.

As a consequence, other major reasons for the high and persistent unemployment rate would need to relate to economic policies that would likely affect employment demand. We can identify, as a prior reason, the official efforts to reduce the size of the public sector which meant an employment reduction of 15 per cent of the total employed labour force between 1970-1973 to only 7 per cent in 1980. At the same time, the effects of trade liberalization began to appear, especially the employment reduction in those sectors of the economy that were most exposed to international competition. This decrease could not be compensated by the planned expansion of the export sector.

Secondly, the aggregate or effective demand should be taken into account since it affects real wages and employment. Data shows that not only wages but also economic activity were below the recorded rate of 1979. It also shows that the lowest levels were reached in 1975, the year of the first recession. A similar effect took place in 1982-1983, during the second recession, when the unemployment rate went up by more than 11 percentage points.

It is worth noting that in 1973 the military government eliminated collective bargaining and automatic wage re-adjustment regulations. The following year, it established a general nominal wage increase based upon the past rate of inflation.¹⁶ In mid-1976, when the economy was actively recovering, the Government introduced an economy-wide wage policy based on indexation of the previous inflation rate, which later became an official standard of the 1979 labour law. In June 1982, automatic indexation was abandoned, due to its clear non-functioning in the face of a looming adjustment process. Once the indexation standard was abandoned, the private sector was given a free hand in respect to regulations, with the sole exception of minimum wages. Readjustment laws applied only to the public sector, though re-adjustments were lower than the inflation rate. Thus, from 1982 onwards a structural change in determining wages took place,¹⁷ and the public sector stopped leading the wage fixing process.¹⁸

A third structural element was the negative trend of the investment process, even though it constituted an essential element for the functioning of the economic model and of the liberalization reforms of the financial system. However, between 1974 and 1986, the proportion of gross domestic investment in GDP did not go beyond 16 per cent, lower than the 20 per cent recorded in the previous decade, which helps explain the low expansion of productive capacity and reduced employment generation. Among the reasons for this trend were lower public investment, due to stabilizing policies as well as to a deliberate public budget cut, a fact that was not compensated by the private sector, mainly

¹⁵ Arellano, J. (1984) and Meller, P (1984)

¹⁶ Cox (1986).

¹⁷ Mizala and Romaguera (1991).

¹⁸ Coeymans (1989), states that in the long run the importance of the unemployment rate when fixing wages prevails, which is not necessarily contradictory with those results obtained by Cortazar (1983), for in this latter case we can see the effect that official re-adjustment has on wage fixing processes in the short run.

because of high interest rates and by the capacity of financial reforms to generate long-term investment.¹⁹

After the recessive shock in the early 1980s, the Chilean economy experienced a high rate of growth, interrupted only in 1999. In a context of high debt and in a framework of negotiation with its banking creditors and international financial organizations, economic officials decided to set up a structural adjustment programme whose goal was to put savings and investments first, and promote economic growth by expanding export activities.

Thus, with trade opening, less inflationary pressures than in the past, trade conversion of external debt into wealth, and investment incentives, the long awaited economic recovery was finally achieved.

Pressures on price levels caused by repeated devaluation of the national currency were fought with a wage policy whose aim was to avoid wage cost burdens, especially through the public employment and minimum wage policies that are already in force. The relative abundance of the labour force, inherited from the high unemployment of the early 1980s recession, enabled growth to be employment-intensive.

Thus, GDP grew in a progressive fashion, at an annual rate of 6.4 per cent between 1984 and 1989, together with a 6.7 per cent per annum employment growth. The employment-product elasticity exceeded unity. Consequently, the open unemployment rate, though high compared to historical levels, began to decline from 28 per cent in 1983 to only 9.8 per cent in 1989. These figures did not include emergency employment programmes.

The growth strategy implemented was successful largely due to investment incentives, selling productive assets through a vast external debt reconversion programme, and greater returns from exports, which were encouraged by stable devaluation of exchange rate.

However, companies increased employment by using the unskilled labour force that had low labour costs and wages, which meant that jobs were created alongside relatively low productivity growth. In fact, during the period intensive labour force absorption took place, average total productive dropped per employed labourer. Productivity decreased at an average of 0.3 per cent per year, whereas average real wages increased at an average of 1.0 per cent after several years of decline. The purchasing power of the minimum wage had fallen too.

Regulations included in the *Plan Laboral* facilitated flexible operation of the labour market operation, as it deregulated hiring and dismissal processes. However, positive employment growth was directly linked to a sustained growth pattern and the relative abundance of the labour force during those years. On the other hand, the elimination of the indexation standard within decentralized collective bargaining at company level was complementary to wage restraint, and coherent with wage policy priorities within the structural adjustment programme.

Nevertheless, the decreased labour force availability due to unemployment reduction and the inadequate productivity increase showed how limited and unstable the applied strategy was. Employment expansion in low productivity activities, low wages and unstable work conditions, lack of investment in human capital, an authoritative approach toward labour relations, lack of genuine trade union representation and an increase in poverty were the setbacks to successful economic recovery.

Thus, greater labour market flexibility was markedly insufficient when coping with the new competitive challenges of productive effectiveness and qualitative increases in productivity.

¹⁹ Zahler, R. (1983).

3.2 Labour reforms and active labour market policies in the Nineties

When reviewing the main economic and employment indicators of that period, high and progressive GDP growth with increments in productivity can be seen, as well as a raise in minimum and mid-range wages. Many of these tendencies were reversed at the end of the 1990s due to the adjustment process that arose from the deterioration of external conditions, a GDP drop in 1999, a rise in unemployment and a slow recovery in the years following.

The evidence would speak for itself. Between 1990 and 1997, GDP grew at a 6.9 per cent annually and employment at 2.4 per cent, allowing a significant reduction of open unemployment to 5.4 per cent. At the same time, it was related to productive expansion since the average output per employed worker increased at 4.6 per cent annually, resulting in an increase of average wages of 4.2 per cent and of 5.8 per cent for the minimum wage.

It is worth noting that positive results concerning economic and employment expansion during the pre-adjustment period, appeared when substantial reforms were carried out on labour legislation inherited from the military regime, and when active employment market and social welfare policies were enforced. These policies tried to harmonize a regulatory framework that complemented optimum labour market flexibility with a proper exercise of individual and collective labour rights. The goal was to strengthen the Labour Administration and create new tools for social welfare.

As far as labour policies are concerned, strategies were conducted to maintain and improve Chile's successful insertion into an ever more competitive international market by constantly upgrading the country's competitiveness.

A strong and competitive position, based on increasing productivity and labour quality were understood as the right way of consolidating stable economic growth with equality. This is because productivity growth allows the space for generating wage increases, without causing inflation instability. *Thus, from a labour point of view, productivity appears as the main source of wage growth, making it an essential factor for overcoming poverty.* As Rogers²⁰ points out: "Competition requires a permanent search for productivity and quality increase, a task that not only needs investment, technology and growth, but also commitment, training and the involvement of the labour force. It is a different approach that needs different institutions and particularly new labour relations".

From this perspective, regulations concerning dismissals were modified, overruling those provisions that allowed employers to dismiss employees without having to justify the firing. Such types of firing became known as "dismissals because of company needs". The limit of years contained in severance pay received was raised, therefore, from five to 11 years, and an additional 20 per cent bonus was granted to all those cases that were taken to law courts and that proved to be wrongful dismissal. In addition, a new kind of severance pay was created for domestic servants, which would be paid for all causes (just or unjust dismissal). In the same way, the opportunity to get an "any event" severance pay was established, as long as there was a previously arranged agreement between the parties.

Regarding collective rights, the right to form central trade unions was acknowledged, strengthening their laws, protection, financing and work allowances. Trade unions were given a broader reach as it became possible to form a union in any area of economic activity, creating recognition in the areas that previously lacked collective representation, such as in agriculture. Trade unionists were given rights that allowed them to carry out their duties freely. Union protection laws were established and union quorum was reduced. Collecting union dues was simplified. Bargaining issues were expanded,

²⁰ Rodgers, G. (1997).

except those concerning employers' right to management. Where agreed upon by their respective workers and employers, sector-wide bargaining was allowed. The limit for 60-day-strikes was overruled; strikes could now be of unlimited duration. Replacement and individual reinstatement during a strike were conditioned by the employer's last offer. Succeeding administrations continued establishing new labour reforms. Regarding collective rights, several measures were enforced: better access to company information on collective bargaining rights to inter-company unions and that of workers for specific jobs or completed tasks.

On the minimum wage issue, Tripartite Agreements of the early 1990s passed significant laws that gave the minimum wage greater purchasing power, setting up two basic criteria for its re-adjustment: future inflation and labour productivity.

The Labour Board was given greater controlling powers to enforce labour laws. A bill was passed to increase its payroll and services by 50 per cent. In the mid-1990s the Labour Board obtained jurisdiction to oversee industrial safety and hygienic conditions.

A Trade Union Training Fund was created in order to finance trade union-supported activities to improve labour relations. In 1992, the "Chile Joven Programme" was implemented. The National Service for Employment and Training Service was completely reformed in the mid 90s, especially with regard to tax exemption at SME level, to reinforce labour training coverage in the country and facilitate employer-worker agreements by creating bipartite Training Committees.

Concerning social welfare, minimum pensions were increased and a set of regulations passed to ensure the yearly re-adjustment of pensions and restore the purchasing power lost during the military regime. Social security debt was discouraged and a series of measures were taken to increase levels of transparency and information provided to workers from the old and new system concerning their rights and duties. An unemployment insurance system was designed and passed in 2001, with the goal of providing unemployed workers with monetary support, training services and labour information to facilitate their reinsertion into work.

These reforms were not easy to carry out. Those against them claimed that the good results obtained during the 1980s were a direct consequence of the Plan Laboral: collective bargaining decentralization at company level, adapting it to its special needs, unchallenged power to dismiss, which encouraged hiring, low-cost social security benefits, which decreased labour costs, and a stable and non-conflictual labour environment that allowed investment and growth.

However, as already noted, the actual employment growth experienced during the late 1980s was a consequence of the post-recession recovery and was not accompanied by a productivity increase. *The evidence recorded during the 1990s shows that, on the contrary, it is possible to achieve progressive and high growth in a non-restrictive labour rights framework, where extended individual and collective labour rights, regulation of conditions for dismissal, labour standards supervision, and new tools for social protection are enshrined.*

Of all the above-mentioned reforms, the one that could jeopardize hiring costs is the one that concerns the increase in maximum severance pay per year of service in case of dismissal for *company needs*. However, there is no significant evidence that confirms important and negative effects on hiring, for a higher cost would only apply to that event (around 50 per cent of redundant employees acknowledge *company needs* as a reason for their dismissal) and would be significant only in companies large enough to have long-standing seniority workers on their payrolls.

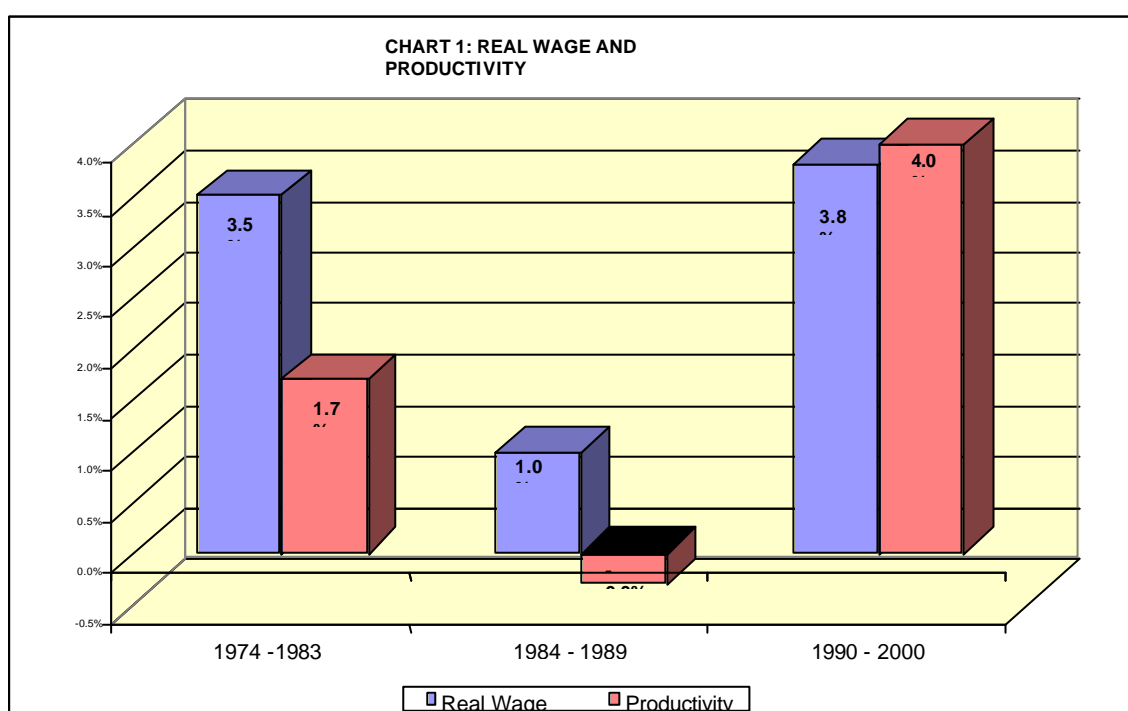
With respect to labour market segmentation, the analysis of the importance of informal employment in the economy during the nineties suggests that it has not changed

at all, being almost one third of the total labour force,²¹ and being found mainly at the poorest stratum of workers.

It is not possible to claim that tighter regulation of the labour market affects job creation, though it is true that inadequate and excessive regulation would obstruct new job creation and hinder progress when creating more productive jobs. In addition, it can be seen that job creation has been the result of successful macroeconomic performance, high investment rates, capital market reforms, tough fiscal policy complemented with labour market stability, and other related reforms.

In fact, although it is not possible to establish causal relations between labour reforms and implemented labour market policies, it is possible to conjecture about the effects on the economic performance, at least between real wage growth and productivity increase.

Available evidence shows that since the early 1990s, the link between wage growth and productivity growth has increased, making it possible to reach the planned inflation targets, hence improving the country's competitive edge.



Source: Author based on INE and Banco Central

In fact wage policy, applied on minimum wage re-adjustment and public sector wages, has taken into account productivity increases and future inflation rates to determine its real growth. Since this wage policy is used as a reference standard to determine private sector wage fixing, it is also possible that it has contributed to increasing employment.²²

²¹ ILO (1998).

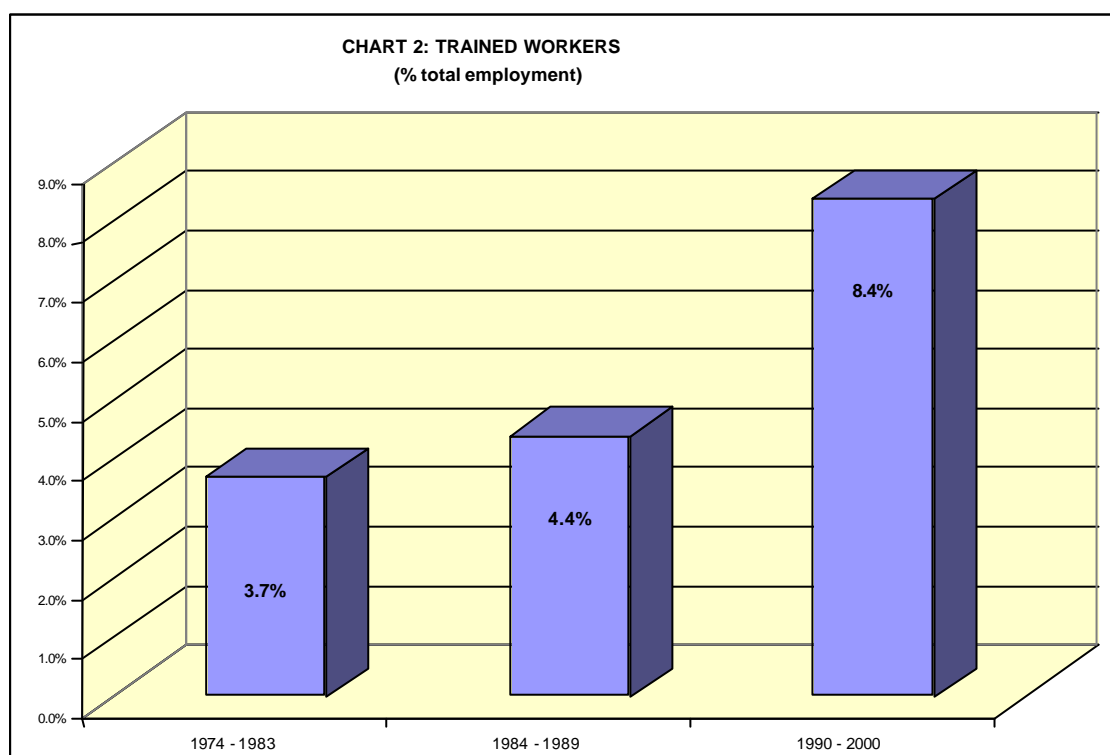
²² This effect was weakened between 1998 and 2000, when the minimum wage grew above the supposed growth base, that in practice did not really occur.

Greater investment in human capital

It is essential to point out that greater relative stability in employment favours investment in human capital, which offers other possibilities of adjustment by ways of increasing productivity.

In this respect, policies aimed at perfecting labour training systems included in the reform to the National Service for Training and Employment (SENCE) have been consistent with such objectives, because they have favoured the rehiring of those workers who no longer matched new market requirements.

The available information clearly shows the significant yearly increase in numbers of trained workers throughout the nineties.



Source: Author based on Sence

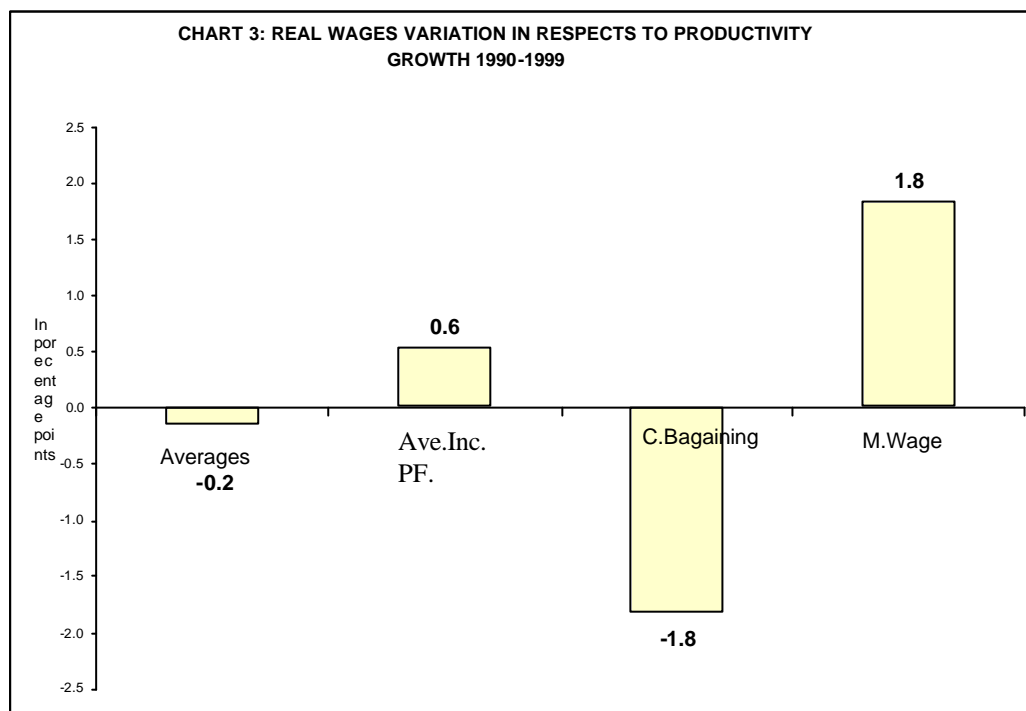
In the same way, the measures intended to provide incentives to SME participation have also been consistent in promoting worker participation in the decision-making process for training, together with employers. Labour training programmes specially designed to integrate youth into the labour market have the same objectives as the ones mentioned above. This youth programme is aimed at individuals with few resources, training them technically as long as there is a gap between the content of formal education and the requirements of their working life.

3.3 Collective bargaining and enterprise productivity

The functioning of markets does not necessarily guarantee that productivity gains will also mean increases in real wages, though expansive cycles and low unemployment rates increase the possibility of this happening. Situations such as oligopolies in the product markets and bilateral monopolies in the labour market, especially in the modern sectors of the economy, will determine wage levels, while their maintenance will be the result of collective bargaining processes. In this sense, the wage-productivity link seems to be

externally determined by legislative factors as well as by the management of wage policies.

Chart 3 shows the development of four income and wage indicators throughout the nineties in respect of the trends in the average production per employed worker. The real minimum wage shows the greatest relative increase, followed by average income of paid workers who belong to the Pension Fund Administration System. On the other hand, the gains obtained by those who engaged in collective bargaining show lower real increments than the average productivity growth. This means that the reforms have not led to imbalances or salary cost pressures higher than those recorded for the average of the economy.



Source: Author based on INE, SAFP and Banco Central

The new norms that favoured balanced and informed negotiations cannot but alter the innovation potential of labour processes. One of the advantages that qualitative development and expansion of collective bargaining provides is that through its intervention it is possible to achieve the basic agreements and commitments to raise productivity and, therefore, to share its benefits.

Finally, the measures destined to improve the control of the non-fulfillment of the existing legislation cannot be seen as rigidities that hinder the functioning of the labour market but as a genuine competitive factor. Indeed, if a particular employer is able to obtain more advantages than his/her competitors by breaking the law, incentives for improving competitiveness by ways of increasing productivity are significantly weakened.

4. Fundamental rights and principles at work under globalization and economic liberalization: A reflection based on the Chilean experience

As already noted, the transformation process that Chilean economy and society have undergone since the mid-seventies has been quite extensive. This was due to the structural changes to the economy, aimed at liberalizing and integrating the economy to world markets and investment, as well as the authoritarian political system under which these changes were put in force.

The Chilean experience was one of the first in Latin America and, therefore, has had a longer development period than other countries of the region that have been experiencing these processes for a much shorter time. Experience shows, at least in theory, the different cycles and problems that societies could go through if they undertake these same sort of transformations.

In this section the issues are analysed from a more sociological and public policy point of view, using the evidence from Chile as a basis. The problems and possibilities that emerged up when transformation took place to promote and implement the huge issue known as Decent Work (developed by the ILO), particularly in issues such as rights, social protection, employment as a source of well-being, and social dialogue, are discussed.

4.1 A process of uncertainties and opportunities

Firstly, it is important to address a global issue that has marked the entire process: the social-cultural issue of uncertainty. The changes within the parameters of development policies in Chile before the 1970s, characterized by State-protection, completely destroyed many people's perception of the rules for social and economic life. Therefore issues such as competitiveness, flexibility and economic openness were seen by various social sectors more as a threat than an opportunity. The mobility of the labour markets, the adaptability of labour competition, etc., were seen as synonyms of unemployment and insecurity.

This uncertainty was not only due to structural changes in the economy but also to the fact that they were implemented under an authoritarian political system. All change was seen as illegitimate, since none was a result of political and social consensus, but imposed by a military regime. The labour force reaction were basically defensive, especially as union organization and political expression were severely oppressed.

In other countries of the region in which a new economic model featuring liberalization, structural adjustment and integration into the global economy was implemented, an authoritarian regime was not necessary as in Chile. The perception of uncertainty in the face of change is an identifiable fact in most studies on such processes.

Therefore, there is one primary political and cultural challenge that cannot be ignored when analysing the possibilities and limits of such processes once the Decent Work agenda is put into motion. In fact, the speed and radical methods of structural changes that transform ways of life and deeply rooted social behaviour, even while offering new opportunities for improving the world of work, as in Chile during the late 80s, if not accompanied by social patterns that contribute to easing the tensions of major change, are unlikely to be trusted by society. Transformation policies and their stability

require governments, social groups and politicians to ensure that society will be able to benefit from the opportunities of change, as well as playing a leading role in it.

One certain way of achieving this lies in good governance and finding consensus on the objectives. This does not seem possible to achieve if the sometimes long hard road of opening up all the issues to social dialogue that avoids authoritativeness in decision-making is not taken. The tendency to take short-cuts could come at a high cost, since it does not take into account the social value of citizens' credibility.

Once the democratic system was restored in Chile in the 1990s, one of the principal concerns was to place the issue of labour legislation and its relationship to new economic processes and structures on the social and political agenda. The long debate on the so-called Labour Reforms provided not only thorough and quantitative changes to labour legislation, but also had the advantage of opening the debate on the issues that dealt with the new economic realities and their effect on the world of work. Because of this, many issues linked to labour flexibility, new forms of work organization, technological change and others were tackled and debated. The result was that the public agenda on labour relations was drawn up by Government, workers and employers together. This provided a greater sense of transparency, significantly reducing uncertainties and mistrust. This did not imply, however, total consensus on labour legislation among the parties involved, but it did open the way for social debate where all point of views were expressed. In this way, structural change and its effects on labour relations progressed as a normal component of democratic life.

This possibility of social involvement in the processes at hand, especially when they are of vital importance, is a basic condition for designing the set of specific policies aimed at introducing the mechanisms necessary to produce Decent Work and overcome the limitations that are too often created by transformation processes.

This is the first socio-political conclusion from the Chilean experience. It goes beyond the economic cycles of boom or bust that have been examined above.

4.2 Four challenges for a labour policy based on the fundamental principles and rights at work coherent with a liberal, investment-friendly macro-economic policy: Problems and opportunities based on the Chilean experience

(a) Employment and income

The Chilean experience, since the mid-seventies, has shown that macroeconomic policies that rigorously protect growth stability are a fundamental basis for investing and creating jobs. However, it is clear, particularly in the last ten years, that ensuring job quality is as important as increasing employment opportunities.

Evidence from Chile strongly indicates that extreme flexibility and liberalization of the labour market, by generating excessive rotation of workers, has a negative impact on business capacity to invest in human resources and raise professional skills, affecting quality and productivity.

The notion of quality, according to the experience in Chile, is that it not only has to comply with the idea of high productivity employment, but also with regulations that protect workers and that guarantee greater adaptive capacity to economic, organizational and technological change, as well as to wage and non-wage incentives for higher productivity.

Employment

In Chile, the need arose to design policies aimed at what could be called “protected flexibility and mobility” of labour.

This came about as a result of the debate on labour legislation issues and mechanisms. These include macro level as well as company level legislation, particularly in recent years, after the long and confrontational experience of the seventies when liberalization and flexibility models were implemented in markets that were practically unregulated.

The concept of protected flexibility and mobility has begun to be designed by different public, political and social actors who are looking for tools that will allow workers, employers and Government to develop *an articulated policy in the employment field that simultaneously maintains requirements for the needs of firms as well as the protection and opportunities required by workers.*

In the agenda of these debates, some issues that should be part of an integrated policy are highlighted:

- Modernization of legal regulations dealing with hiring and dismissal systems.

The need for both flexibility and basic protection for stability should be specifically addressed in the appropriate legal standard. *Special consideration has to be given to the need to design adequate contractual models for those sectors whose work is seasonal or transitory*, which in the Chilean case, tend to extend to different sectors of the economy. In these types of work, what is being attempted is to stop considering them as strictly “atypical forms of work”. In other words, they should not be looked at as a deviation from long-term stable work. This is because such forms of work are starting to be considered as quite normal in some sectors.

Therefore, what is sought is an adequate work contract status for a present reality, with regulatory methods to guarantee rights. Amongst some of the suggestions debated, “yearly” contractual forms have been considered. This means that seasonal workers can have an annual contract that specifies the actual periods when they will be carrying out productive activities, and at the same time guaranteeing them re-hiring by the same employer throughout the different seasons of the year. This will provide them with better access to the social security systems and a safer future for employment.

- Changes to the dismissal compensation mechanisms

The idea is that on top of the monetary remuneration for time of service, workers should get other benefits such as access to training and health services while they are unemployed. *What is being attempted is to supply workers with protections that guarantee better mobility in the labour market while they are unemployed.*

New legislation that combines compensation with other public and private resources has been suggested. Such compensation should guarantee workers at least some sort of income for a period of time that corresponds to the average time it takes to find new employment. An Unemployment Insurance System that addresses these needs has been implemented in Chile. It is organized and financed in a tripartite manner, covering a five month job-hunt period.

The previously mentioned subjects aim to tackle fundamental rights in the workplace, taking into account the new organization of the labour market, as well as the characteristics of an economy with market cycles that are constantly changing following its insertion into the global economy.

- Training and professional education programmes

These can be private or public, with direct links to productive activities, or designed to enhance workers' skills to make them more adaptable. Experienced in Chile has shown that in a high mobility labour market, it is important to provide workers with skills that will give them a greater degree of "employability", meaning that *workers must have the capability to mobilize themselves in a labour market that requires multiple professional skills.*

- Agreed flexibility

It has been deemed necessary to offer some sort of protection if dismissal occurs after market re-adjustments, as well as hiring mechanisms for new ways of work. It has also been considered that *it is necessary to find new and innovative methods that would avoid massive layoffs in the event of dramatic changes or adjustments in the labour market.* Among those instruments is the possibility of temporarily suspending contracts, working hours re-distribution, shift reductions, etc, giving collective bargaining bodies the power to identify those mechanisms for a bipartite agreement between trade unions and management. The key idea is that workers and employers could analyse what to do in case of re-adjustment situations, finding responses that will allow them to face a critical condition with a minimum amount of redundancy.

The importance of placing this in a bipartite bargaining context is that it will prevent misuse as it will be under collective administration.

- Mediation and competence certification

Another initiative that has been developed is *the establishment of mediation and opportunity information systems that will cover significant information concerning labour market offers and training opportunities through both public and private systems* that allow workers to be updated on the job opportunities the country has to offer.

A new system of professional competence certification is in development at both public and private level to provide employers with standardized information on employee profiles that would help identify a specific worker's degree of training or qualification. In fact this could certainly contribute to better connect supply and demand at national level, as well as provide better understanding of the professional and technical quality of the labour force.

Wages and incomes

The Chilean experience shows that in order to guarantee an adequate relationship between income and productivity, it is necessary to implement policies that can identify the needs of the labour market. *The relationship between income and productivity has been identified as one of the fundamental aspects for achieving a coherent relationship between labour policy and macroeconomic policy.*

The Chilean experience until the mid-eighties established that it is not possible to ensure competitive performance in the global market by simply reducing labour costs and deregulating dismissal systems. Evidence showed that the competitive potential for sustained growth of an open economy was not a consequence of a cheap labour force but of a highly trained and skilled one that could better match the ever-growing demand within a competitive international economy. As a consequence, linking workers' economic returns to productivity improvement was a requirement for sustained growth, not only

because greater economic competition was established but also because it allowed the labour force to feel part of the national success, enabling it to face labour market adjustments, as happens in open economies like Chile's. Thus the wage issue was not only a question of hard-earned reward but also a variable whose rhythm was linked to the real possibilities of a global economy as well as to companies' chances of being successful.

The following are some of the topics that have been part of the national debate among social and public actors:

- Wages and Productivity within collective bargaining

A key issue when engaging in any kind of collective bargaining is to determine the relationship between wages and productivity. Moreover, when wages are determined by macro factors, average national productivity index should constitute a fundamental indicator.

Similarly, the ability to implement medium and long-term (longer than one or two years) collective contracts has been discussed as a consequence of examining how free market economies tend to experience expansion-contraction cycles. Therefore, collective long-term contracts could be appropriate tools to establish prevention conditions when facing those cycles. For example, a long-term collective contract could establish indicators linked to boom and bust cycles, variations in the average economic productivity rate or other variables both macro and micro, and on this basis, establish the criteria for determining salaries. In other words, the idea is to *associate wages to economic cycles*.

- A national minimum wage policy

This must consider ranges within which the legal amount can vary according to the different social strata that participate in the labour market. For instance, during expanding cycles, a uniform minimum national wage that may evolve together with growth indicators could have a positive effect on employment. In contrast, *during deceleration cycles or recession, a differentiated range of minimum wages could be assigned*. For example, those first-time members of the labour force would get lower rates of pay than those who are already a part of it. This could decrease unemployment rates, mainly among youth. In the same way, a lower minimum wage for retired workers seeking labour reinsertion could give them new opportunities. These factors could make it easier to keep a job when a crisis situation occurs.

- Wages related to performance

Likewise, it is clear that an excessively rigid wage system is not always compatible with better employment conditions under good productivity performance. In this respect, it has been pointed out that a significant update is needed concerning wage systems, examining *variable wage modes linked to performance*, be they individual, collective or at a business or service level.

It is also important to consider tripartite institutions that could provide accurate information and recommendations about productivity indicators and management innovations. This would provide employers, employees and government officials with objective references when salary negotiating processes take place.

(b) Social welfare

In addition to the previously mentioned labour and wage protection legislation, the Chilean experience has shown the importance of designing at least two other policies:

One concerns modernization of the social security system. The need for a consensual concept of both public and private involvement towards social security and the role that it must play has been identified. *The Chilean experience as a highly privatized economy has shown how important it is that both sectors share the social security burden so as to guarantee better social security benefits and a larger percentage of the labour force that could use it effectively.*

The other important issue, is the need to design new and more efficient methods of social security access for those labour sectors that have temporary, partial, or self-employed contracts, and in general for those “atypical” labour force sectors. The Chilean experience shows that traditional social security systems do not match those atypical workers’ needs, making it necessary to design new mechanisms that may fulfill workers’ requirements. The lack of modalities that answer the needs of these new emerging ways of work has left these sectors excluded from social security benefits.

Likewise, a harmonious relationship between liberal macroeconomic policy favourable to investment and growth requires, in addition to social security mechanisms, a wider net of social protection. This means that workers should count on benefits that provide them with health care, professional education and training, unemployment insurance, as well as other policies that will protect their quality of life. Amongst these, many different possibilities have been mentioned; for instance when an economic slow-down occurs, workers would be able to renegotiate housing and basic services payments. Workers would stop paying them up until the time when the economic situation starts to show recovery.

(c) Rights at work

In this respect, the Chilean experience has been particularly complex. Union rights, collective bargaining, child labour and discrimination were severely limited in comparison to their pre-1973 status.

Even though the Plan Laboral of 1979 acknowledged the right to form trade unions and to collective bargaining, and established some general regulations concerning labour rights, the regime continued regarding workers’ organizing and social benefits as obstacles to free market performance. The key concept at that time was that employment growth and wage increase was a result not of a set of regulations ruling employers’ and employees’ relationships, but rather the outcome of free movements in labour demand and supply.

However, the experience between 1973 and the mid 1980s showed that extreme labour market liberalization meant neither appropriate distribution of wealth nor reasonably balanced employer-employee relationships. The evidence was clear in this respect and *excessive asymmetry between parties eroded the necessary social integration that productive organizations require for good performance*. Instead, concepts regarding workers’ quality and improved productivity or modernization of the firm, in the framework of asymmetrical power, were viewed with suspicion by workers, who felt that these were imposed by employers for their own benefit. All of this led to the creation of new mechanisms that would give workers greater social and cultural integration to the new economic and business realities that are a result of the globalization and liberalization process. It was concluded that workers’ integration to these new realities was a factor of great importance for guaranteeing the macro and microeconomic results that the newly implemented policies of the seventies were looking for.

Since the late 1980s, therefore, and especially throughout the 1990s, the role of unions, collective bargaining, and other labour rights were seen as contributing factors in achieving the economic growth goals.

In this respect, some of the most important issues debated are:

- *The need to modify the trade union stance from defensive to a more decision-making attitude regarding quality improvement processes, and the organizational design of business and productivity.* It was understood that the union's perspectives could be useful in improving labour relations and creating new forms to make workers' understand that their wages are related to productivity and their job-quality. The debate had not been resolved, nor has it been free of difficulties and controversy. Despite limited progress, it is important to highlight that neither extreme deregulation of labour relations and the minimization of the union's role showed to be a helpful factor in assuring good performance of macroeconomic policies favourable to investment, nor did the adequate performance of business in a competitive market.
- The importance that unions become a legitimate representation of the new diverse labour realities, one that is also able to express the ever growing heterogeneity of today's labour market. The classical idea of representing the labour world as a unique reality should be re-thought by unionists, replacing it instead by a new vision that gives a greater credence to each workplace reality. The previous issue implies freedom of action for the unions. *This means that workers should be allowed to organize themselves according to different labour conditions and cultural and social perspectives.* In an ever-changing and diversified multicultural economy and society, unions should be able to represent such a differentiation and the consequent heterogeneity that such a process could produce.
- It is important to differentiate the roles within different levels of unionization. Thus, federative and national (supra-company) levels could perform and design more general terms of action, allowing local unionism to deal with specific workplace situations. Currently, in contrast to the decades before the Seventies, *a global and open economy implies a highly diversified approach towards labour realities, a fact that was not present in closed and import-substituting economies.*
- The relevance of applying technology to union activities, especially when carrying out collective bargaining. This would allow the growing complexity in economic and productive activities, as well as the new organizational and management challenges of the company, to be faced more efficiently. This same requirement holds for employers, since negotiation that looks for quality and productivity requires that both parties, labour and business, behave according to objective information and indicators and not according to purely confrontational orientations that derive from distrust. In this respect, *the updated and permanent information that workers and employers share on the difficulties and opportunities of the companies becomes a fundamental tool.*
- The need to redesign the specific content that the different labour rights and workers' protections assume in the new situations that the labour world introduces refers to the fact that the limitation of rights is not important in an efficient liberal economy. What is important is how they can be designed in an innovative fashion in accordance with the requirements of the new realities that derive from such an economic model. In fact, the concrete way for designing fundamental rights in the workplace under current

conditions is not necessarily the same that characterized earlier economic models. The conclusion is that *the principles on which fundamental rights in the workplace are founded are perfectly compatible with the characteristics of a highly liberalized economy*. What becomes essential to identify is the specific modality that these could acquire in new situations and under constant changes. Moreover, a liberalized economy requires, as a social integration factor, a well defined set of labour rights, since if this does not exist, the risk of instability and confrontation in the labour field could grow. This would obviously affect its capacity to perform successfully when there is a high degree of competition like the one seen today in globalized economies.

(d) Social dialogue

Besides employment policies and the promotion of protections and rights, the Chilean experience has shown that the main element for achieving an understanding between labour policy and a liberal macroeconomic policy favourable to the kind of investment that results in social well-being and growth, is the ability of society to promote efficient social dialogue among social, political and governmental actors. *This dialogue allows society to democratically face the growth and modernization of society and negotiations, as well as the tensions and the conflicts that are a part of a thorough transformation process.*

It is a dialogue that is capable of designing the basis of a new social consensus, a fundamental condition for having equity, stability, legitimacy, and success with the new economic and social policy reforms. Developing this dialogue could contribute answers that strengthen conceptual and programming consensus amongst social and governmental actors. It could also offer real possibilities to progressively overcome disagreements. To achieve this, one must clearly define the objectives of the social dialogue. It also becomes essential to identify the priority issues of such dialogue, as well as the most suitable procedures and requirements for it to operate in a balanced fashion between the parties.

According to the Chilean experience the first objective is to create the conditions for overcoming any mistrust between the different social and political actors. As stated, economic liberalization processes have created radical transformations in the way of life, organization of work, even in multiple moral value aspects, all of which have produced tensions, and have often produced social confrontations. Moreover, as a consequence, these processes have not been provided with the basic social consensus necessary for their stability and credibility. The current labour legislation in force has been questioned as an answer to the liberalization processes. It is from this that the first objective of recovering trust gains an even greater importance.

A second objective is to clearly identify the benefit of giving social dialogue activities some kind of legislation. Two perspectives have been formulated in the Chilean debate around this issue. One favours the creation of permanent legislation on key issues such as employment policies, contractual policies and social security and participation. The valuable intellectual, human, material and legislative resources that are found in governments, as well as among social and political actors, could have a very active role similar to those found in the European Social Economic Councils. The other is aimed at by maintaining social dialogue in a legislative framework that is less formalized and more flexible. The first option is based on the idea that more social dialogue legislation could ensure its stability and a greater control capacity of the application of its agreements. The second alternative argues that greater legislation could make social dialogue bureaucratic, and that it is more convenient to only set basic operation standards. In this way, the modalities that it will be adopting along the way will follow more closely the real processes that will be created in the world of work.

The selection of one or the other position according to the debates carried out in Chile, depends on the degree of representation and of dialogue capacity of the social actors. If, in fact, there is high representation and dialogue capacity there would be no need for a highly formalized legislation. On the other hand, if these conditions were not present, designing a more formalized legislation could create a tool for promoting the interest of social actors to participate in a space that offers them the opportunity for bipartite and tripartite dialogue, encouraging them to organize and represent, as well as progressively transform, social dialogue into an efficient tool. In the Chilean debate more elaborated legislation could be conceived as an initial process for promoting a culture of dialogue. Once advances are made, it is claimed, it would be more convenient to lean towards more flexible and less formalized forms, so that the social actors themselves would progressively assume the social dialogue responsibility.

In reference to social dialogue issues, the debate has stated the importance of designing national-level objectives and assuming commitments that could be evaluated over time. On the other hand, if social dialogue concentrates solely on momentary problems the probability that such dialogue will acquire a relevant position as a mechanism for creating consensus on fundamental economic and development issues could be lost. The experience in Chile seems to show that one must learn to distinguish between a labour relation at business level, where collective bargaining would be the fundamental tool, and social dialogue whose agenda should concentrate on sectoral and macro-social level issues.

Lastly, according to the Chilean experience, social dialogue should be defined as a process that will acquire different modalities over time, much more than just a institution that upholds the needs of a determined moment or stage of the social economic process. This is because the new social economical development forms are extremely dynamic and recurrently undergo cycles and changes.

In summary, it is suggested that the fundamental rights and principles in the workplace issue in an economic liberalization and globalization process similar to the one Chile underwent, is a theme that has progressively acquired much greater relevance. What is important is that such relevance has not only been the result of a theoretical debate on principals and rights. It has also been the consequence of the evidence that the Chilean economic social process has shown in the sense that *a liberal macroeconomic policy favourable to investment can only be efficient if it assumes as one of its own objectives the need for a labour policy that ensures suitable compatibility between regulations aimed at protecting labour well-being; the demands of competition; and the quality of a globalized and open economy.*

Indeed, this conclusion is being gradually distilled, though still not free of controversy. There is, however, every indication that it will end up imposing and manifesting itself in public and private policies in the long run.

Although the different issues tackled in this paper belong to the experience of one country, they can still help in providing a much wider reflection upon a renewed and current vision of the fundamental principles and rights in the workplace.

Table 4. Selected indicators: Chile, 1970 - 2000

Years	GNP (% var)	Employment (% var)	Unemploy [†] (labour f. %)	Real wages (% var)	Productivity (% var)	Minimum wage (% var)	Unionization rate (employ [†] %)	Bargained salary readjustment (real rises)	Trained workers (tot. empl [†] %)
1970	2.1	1.6	5.7	10.4	0.5	--	--	--	--
1971	9.0	3.2	3.8	25.3	5.8	--	--	--	--
1972	-1.2	1.0	3.1	1.0	-2.2	--	--	--	--
1973	-5.6	-1.8	4.8	Na	-3.8	--	--	--	--
1974	1.0	-0.1	9.2	Na	1.1	-4.8	34.0	--	--
1975	-12.9	-8.0	16.8	-3.3	-4.9	10.8	35.4	--	--
1976	3.5	0.0	17.8	5.5	3.5	4.4	33.7	--	--
1977	9.9	5.6	17.7	8.1	4.3	18.0	32.9	--	2.0
1978	8.2	6.1	18.3	6.2	2.1	-0.9	33.2	--	3.6
1979	8.3	2.3	17.5	8.4	6.0	0.2	19.1	--	4.0
1980	7.8	3.5	15.7	8.7	4.3	-0.8	12.3	--	4.6
1981	5.5	5.1	16.1	8.9	0.4	-0.8	12.0	--	3.6
1982	-14.1	-12.1	26.4	-0.3	-2.0	-2.0	11.8	--	3.9
1983	-0.7	-2.9	28.5	-10.7	2.2	-19.4	10.0	--	4.0
1984	6.3	11.4	24.6	0.1	-5.1	-14.5	10.5	--	4.6
1985	2.4	6.3	21.0	-4.3	-3.9	-5.1	10.2	--	4.9
1986	5.6	4.9	13.9	1.9	0.7	-3.4	9.9	--	3.9
1987	6.6	7.4	10.8	-0.2	-0.8	-6.1	10.5	--	4.4
1988	7.3	6.3	7.0	6.5	1.0	2.1	10.5	--	4.3
1989	9.9	3.7	5.3	1.9	6.2	-0.4	9.2	--	4.5
1990	3.3	0.8	5.7	1.8	2.5	11.7	13.4	4.1	4.6
1991	7.3	2.3	5.3	4.9	5.0	9.0	15.1	2.5	6.3
1992	11.0	5.3	4.4	4.6	5.7	4.4	14.8	3.3	6.6
1993	6.3	4.8	4.5	3.2	1.5	5.0	13.4	2.4	7.1
1994	4.2	0.3	5.9	6.7	3.9	3.7	12.9	1.6	8.3
1995	8.5	1.0	4.7	4.8	7.5	4.5	12.3	1.7	8.5
1996	7.4	2.4	6.4	4.8	5.0	4.2	12.4	1.2	9.1
1997	7.4	1.9	6.1	2.4	5.5	3.6	11.5	1.3	9.6
1998	3.5	1.8	6.4	2.7	1.7	5.8	11.3	0.9	9.6
1999	-1.0	-2.2	9.8	2.4	1.2	9.0	10.9	0.6	10.3
2000	5.4	1.1	9.2	1.4	4.3	8.1	11.1	na	12.3

Source: Author, based on National Statistics Institute (INE), Banco Central, Work Directorate and National Service for Training and Employment (SENCE)

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