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State labour market intervention in
Argentina, Chile and Uruguay:
Common model, different versions

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Foreword

In this paper the author sets out to investigate whether the principles of labour market policy espoused in general in the member countries of the OECD are useful in the circumstances of Argentina, Chile and Uruguay. The structure of these economies is moving closer to that of OECD members and, in addition, recent changes in “governance” have expanded the role of the social partners. The author finds that the choice of forms of state intervention in the labour market in these three countries had not been independent of the labour market intervention model adopted by OECD members to confront their severe employment problems. This model centred on reconstitution of the work incentive, the relaxation of regulations constraining employers and the decentralization of collective negotiation.

The paper begins with a discussion of the OECD model of state labour market intervention. This is followed by a review of the evolution of economic and labour policies and of labour market trends in Argentina, Chile and Uruguay. State labour market intervention in the three countries in the 1990s is examined, focussing on employment policy. Finally, the scope and impact of those forms of labour market intervention are analysed and contrasted with the experience of advanced countries. The analysis suggests that in Argentina, Chile and Uruguay, even though the OECD model of state labour market intervention did shape their patterns of intervention, emulation has been only partial. It was also biased to the extent that state intervention through employment, training and income maintenance programmes has been weak, while the decentralization of bargaining and, usually, the reduction of employment protection were pursued much more decisively.

The author points out that apart from the contrasts between Argentina, Chile and Uruguay on the one hand, and advanced OECD countries on the other, there is substantial divergence in the application of the model among Argentina, Chile and Uruguay. Differences are, to some extent, the result of disparities in social and political pressure. The model’s core (relaxation of labour protection and decentralization of wage bargaining) was instituted in Chile under a military regime, whilst it is being implemented in Argentina under the disciplining impact of large-scale surplus labour, but within the political requirements of democratic functioning. Even though in Uruguay the situation resembles that of Argentina, the impact of unemployment seems to have been less harsh and the political constraints stronger, so that labour reforms are more gradual and less sharp.

One significant point is that while governments in all three countries, and particularly in Argentina and Uruguay, are pressed by the need to attain more adequate employment growth rates and reduce unemployment, in all three state labour market intervention is constrained by fiscal discipline. This naturally presents a major obstacle to the full working of the OECD labour market model.

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STATE LABOUR MARKET INTERVENTION IN ARGENTINA, CHILE AND URUGUAY: COMMON MODEL, DIFFERENT VERSIONS*

1. INTRODUCTION

In the 1990s, countries throughout the Latin American region initiated reforms to attain stabilization with fiscal discipline, and price, trade and financial liberalization, while redefining the role of the state. This followed the decade of stagnation and "economic adjustment" triggered by the debt crisis of the early 1980s. It had been then, when budget deficits, aggravated by the external-debt interest payments, could no longer be financed by international loans, that the developmental and interventionist state, linked to inward-oriented industrialization, experienced the most serious questioning. In fact, pervasive fiscal disequilibria and the intermittent adoption of the idea that state's intervention had become "excessive", suffocating private activity by either competing in the use of resources or extensive legislation, had prompted policy measures and law reforms in certain countries already since the 1970s, but by the end of the 1980s the view that growth strategies should switch to neoliberal prescriptions and state's functions should be revised was widespread.

In the 1990s the new growth model and the new paradigm of state regulation was consolidated, even though there were variations in the extent to which the principles were applied and several versions of the economic strategy. The diversity of experiences and the differences in the speed of application of the economic reforms reflected the influence of domestic socio-political forces, international pressure, and the depth of the preceding crisis. Reform naturally extended to labour market regulation, as the prevailing regulations were considered to have become anachronistic in relation to the new economic strategies, and, further, some of the labour market outcomes of liberalization appeared to call for new forms of state intervention. Among the countries that opted for a drastic version of economic reform was Argentina, where there had been an earlier but incomplete experimentation with economic de-regulation. Chile, for its part, was following systematically this path since the 1970s. And in Uruguay, also embarked in partial liberalization since the 1970s, the model was now endorsed more fully.

The objective of this study is to analyse, in this context, certain forms of state labour market intervention in Argentina, Chile and Uruguay in the 1990s. The option for specific forms of state labour market intervention, chosen from the array of instruments available, responds to the orientation of labour policy. Labour policy, in turn, is determined by the growth model and specific economic strategies, power relations as well as political and social alliances, and the particular economic and labour market conjunctures. Orientation and forms of intervention, of course, are also moulded by social-cultural institutions, ideologies, and historical trajectories, including the until then prevailing labour policy and its outcomes. On the other hand, in the cases analysed here among others, the choice of forms of state intervention in the labour market was not independent of international influence, namely the labour market intervention "model" developed in the advanced OECD countries to confront their severe employment problems in the 1980s and 1990s. This, as we will see, centred in the

* This study has been prepared within the project on "Labour market policies and programmes: Convergence between OECD and middle income developing countries?" The paper was written while the author was at the Population Research Center and the Department of Sociology of the University of Texas at Austin. reconstitution of the work incentive, the relaxation of regulations constraining employers, and the

decentralization of collective negotiation, assigning an important role to labour market programmes in the solution of the unemployment problem.

Next, therefore, I start with the discussion of the OECD model of state labour market intervention. This is followed by a review of the evolution since the 1970s of economic and labour policies, and of labour market trends, in Argentina, Chile and Uruguay. Then, state labour market intervention in the three countries in the 1990s is examined, focusing in employment policy. I describe labour market programmes, unemployment compensation, "indirect incentives" to the private sector, expected to lead to employment generation, and reforms to the regulation of collective worker rights, mainly of collective bargaining, presumed to favour job growth via wage outcomes. The selection of forms of intervention is based on the areas that were among government concerns in these countries. Last, I analyse the scope and impacts of those forms of labour market intervention, contrasting them with the experience of advanced countries. The analysis suggests that in Argentina, Chile and Uruguay, even though the OECD model of state labour market intervention did shape their patterns of intervention, emulation has been only partial and, in a sense, biased, in that state intervention via employment, training and income maintenance programmes, for reasons that are discussed below, has been weak, whereas the decentralization of bargaining and, with the exception of Uruguay where protection was already lenient, the reduction of employment protection, were pursued much more decisively.

2. THE LABOUR MARKET INTERVENTION MODEL

Contemporary disparities in unemployment levels and trends in employment rates among OECD countries, particularly between the U.S. on the one hand and the countries of the European Union on the other, have been discussed extensively. Leaving behind the initial gross stereotypes blaming labour protective institutions and the "requirements" of the new international order for high unemployment, many of the later studies centred on how are employment and unemployment affected by combinations of GDP structures, trends in sectoral output, employment and productivity growth rates, composition of public expenditure, demand behaviour in response to price changes, and labour institutions (e.g. Boltho and Glyn, 1995; Appelbaum and Schettkat, 1995; Borzaga, 1996). Still, however, substantial disagreement persists as to which are the main explanatory factors of cross national unemployment and employment differences, and the unemployment differential itself was found to have been overstated (Buchele and Christiansen, 1996).

This notwithstanding, and somewhat independently of the theoretical and empirical analysis of the determinants of the diversity of unemployment and employment performances, one "standard" model of state labour market intervention developed, mainly during the 1980s. The model was followed in different degrees (only partly or marginally in some countries, more fully in others) in the hope of curbing pervasive unemployment in OECD countries,¹ and it was to be viewed as a the standard for emulation in several countries of Latin America as well as of other regions. Departing from some still disputable, but only too often asserted, assumptions about how the labour market operates, this paradigmatic state labour market intervention model is oriented by three main objectives: reconstitution of the "work incentive" (allegedly undermined by employment and income security), relaxation of constraints on the managerial prerogative to hire, deploy, relocate and dismiss workers, and decentralization of bargaining structures. Given economic changes and international restrictions, fulfilment of these aims is considered to be a

¹ Of course, this refers to the emergence of a paradigmatic construct or model to be emulated, and does not mean to imply that the "standard model" was actually, homogeneously and fully implemented throughout OECD countries. Esping-Andersen (1996) notes for instance the differences in labour market strategies between Scandinavian (public employment led), Anglo-Saxon (neoliberal de-regulation), and "continental" European (labour supply reductions) countries.

prerequisite for reducing unemployment and strengthening the employment, and ultimately the economic, performance. The relative emphasis on each one of these objectives, and accordingly on the different instruments of intervention, vary across countries, depending *inter alia* on which had been their prevailing systems of social protection. In addition, as the unemployment problem is to an important extent attributed to individual deficiencies, other supply-side forms of intervention, such as those addressed at improving the individuals' employability prospects and skill levels, have been privileged.

In this context, labour law reforms have been a major concern in OECD countries since the late 1970s, and particularly the 1980s. Labour policies and legislative reforms in OECD countries paid particular attention to the regulation of employment and income protection, to wage determination regimes, and to working time arrangements. The reforms were expected to stimulate employment growth. Following these ideas, *inter alia* temporary employment was made easier, regulations on dismissal somewhat relaxed, access to unemployment insurance benefits made tighter, and cuts imposed on amount and duration of unemployment compensation. Changes in working time arrangements were proposed to "share" existing employment opportunities among a larger number of workers.²

At the same time, the OECD placed strong emphasis in state labour market intervention through the active labour market programmes (namely, employment services, training, subsidized private sector employment, direct employment creation in the public sector). As is common knowledge, labour market programmes have been differentiated according to whether they are "passive" or "active", in other words, to whether the government gives just some support (mainly income support to the unemployed), or undertakes some effort at the same time to relocate workers and improve their capabilities. In fact, the "active" labour market programmes characteristic of the 1980s and 1990s evolved from the earlier "active manpower policies" implemented in Western European countries from the early 1960s to face labour shortages, following the model of the Swedish programmes initiated in the 1950s.³ In the 1960s, with unemployment levels close to 1 per cent in several Western European countries, state labour market intervention sought to ease the prevailing (relative) labour scarcity, considered to be at the root of spiralling "wage-cost inflation". With a view at checking wage growth in excess over productivity increases, the main purpose of labour market policy was to increase the labour force available to work and to facilitate labour reallocation to the expanding sectors and regions, and the occupations with labour shortages, away from high unemployment localized enclaves (the unemployment "pockets") and declining industries (coal mining, shipyards, etc.). Thus, labour market measures and programmes were intended to stimulate labour force participation (among others, through tax incentives to married couples, creation of part-time jobs that would facilitate women's labour market incorporation), and geographic (providing accessible housing and relocation subsidies, for instance) and industrial/occupational (offering retraining) mobility. In some countries, they were coupled with governments' active participation in the recruitment of foreign workers, who were directed to areas and jobs with labour shortages through the tight control over work permits (the so-called "guest worker" programmes). The immigration policy typical of that period aimed at increasing the available workforce and regulating its distribution so as to satisfy labour requirements.

² The literature on labour market interventions is vast; OECD (1990) presents an useful synthesis.

³ In Gosta Rehn's model for Sweden, investment in advancing, high productivity sectors would "create jobs, and active labour market policy would shift workers from declining to advancing sectors" (Mabbett, 1995:143). See e.g. OECD (1990) on the origins of active labour market programmes, the early influence of the U.S. "manpower policies" and the difference between the Swedish and the U.S. models, as well as the transformation of active labour market programmes over time.

With the gradual change in Europe from labour scarcity to high structural unemployment, the orientation of labour policy was redefined. Active labour market intervention, in particular, was assigned new objectives, and its central features changed accordingly. Their main role now was to combat large-scale unemployment, and particularly the unemployment of specific, disadvantaged labour force groups (such as young workers and the long-term unemployed), by way of measures addressed to both employers and workers. One usual assumption behind the arguments in favour of active labour market programmes is that unemployment is to an important extent explained by inadequate skills relative to those demanded and by the dis-incentives to work. The idea of "active" programmes was given the connotation that the state is not "just" providing income support to the unemployed but increasing their employability, and also encouraging them to abandon the unemployment status, often assumed to be the preferential option for the jobless worker; in this latter case, one could say that there is little ideological difference between the promotion of "active" labour market programmes and of "workfare" oriented state intervention, the distinction between them residing in that the latter is mandatory.⁴ Active labour market programmes have been viewed as the alternative to aggregate demand management, as allegedly they would be able to reduce unemployment without fostering inflation: they would enhance "the competitiveness of unemployed outsiders" reducing the "aggregate wage pressure" and increasing "equilibrium employment".⁵ Contrariwise, it has been held that these programmes undermine competition and wage moderation, and eventually employment, as they "provide the unemployed workers with a more favourable alternative than open unemployment" (Calmfors and Forslund, 1991:1146).⁶

The specific labour policy followed and the combination of measures applied, from the range of options available, varied across countries. As we have noted earlier, the selection depends, among other factors, on social norms and cultural tradition, growth model and the economic and labour market situations, political exchanges and role of trade unions.⁷ There are substantial differences across OECD countries, for instance in the relative emphasis on active labour market programmes, unemployment insurance, and across-the-board measures. Anyway, for all the stress on active labour market programmes, only in a few countries the state allocated substantial sums to develop these programmes.⁸ And, even if we consider only those countries where active labour market programmes were favoured, expenditure profiles differed considerably.⁹ On the other hand,

⁴ On "workfare", see Standing (1990).

⁵ Calmfors and Lang (1995:601), commenting on arguments raised earlier by other authors.

⁶ See the same paper for caveats applying to this conclusion.

⁷ See, for instance, Esping-Andersen (1996) on the roots of the relative emphasis placed by "continental" European countries on labour market exit policies to reduce unemployment.

⁸ Without some optimum standard, it is difficult to evaluate how important is expenditure on active labour market programmes. For Calmfors and Skedinger, writing in 1995, the ... "shift towards more active measures has so far produced only very modest results", because in the European Union countries the share of labour market expenditure allocated to active labour market programmes increased only slightly between 1985-9 and 1990-3, and in Sweden it actually decreased (:92). Within the Scandinavian region, considered to be leading in active labour market programmes expenditure, there are substantial differences. According to Stephens (1996) active labour market policy "has often been viewed as an integral part of the Nordic welfare state/labour market regime" ... but... "Sweden is distinctive and has constituted a model for emulation by the other three countries" (:39). In 1970, when all had low unemployment, Sweden spent three times more than the others, and in 1987 when Sweden had markedly lower unemployment levels than the others it still spent more, in relation to GDP (ibid.). In 1995, active labour market programmes expenditure in relation to GDP in Sweden is more than double the amounts in Germany and France, six times the amount in the U.K., and three times the OECD average (data from OECD, 1996; see also table 2).

⁹ See tables 1 and 2 below. Considering the 23 OECD countries in table 1, there is little association between expenditure on unemployment related programmes (see definition in table 1) and the unemployment rate; one reason behind this would be the unemployment rate itself is affected by such expenditure; besides, the association seems to be somewhat higher within more homogeneous groups of countries.

Wallerstein et al. (1997) found that in the advanced European countries the move towards the decentralization of wage setting is more limited, and the pattern less uniform, than what earlier evidence (Katz, 1993) had insinuated.

Labour market policy outcomes, i.e. the extent to which the actual effects conform to the explicit policy objectives, have been the subject of substantial debate. Not only that: the expected outcomes themselves differ according to which is the theoretical perspective adopted. In any case, the corps of empirical evidence is far from conclusive; the findings on the effects of labour market intervention vary across countries and even within specific countries. The impacts on employment and unemployment of "flexibilization" of contracts and dismissal, of decentralization of collective bargaining, and of cuts to unemployment benefits, for instance, are controversial.¹⁰ Evaluations, in OECD countries, of the results of much more specific programmes, such as training schemes associated to state subsidized temporary employment creation and apprenticeship programmes, also led to dissimilar conclusions, which is not surprising as it is difficult to isolate the impact of any particular programme from those of concomitant institutions. Besides, in this case, evaluations themselves have been turned into policy making instruments, i.e. into mechanisms to legitimate, or else disqualify, state labour market intervention, supposedly on the grounds of factual evidence on the programmes' "effectiveness" (Peres, 1996).¹¹

Supply-side labour market intervention and the programmes of subsidized employment, in particular, received considerable criticism both in Europe and North America. It was found that, often, the latter did subsidize jobs that would have been created anyway had those programmes not existed (McFate, 1995), or individuals who would have obtained employment in any case ("deadweight" effects); that they produce "displacement" and "churning" effects, for instance by placing trained workers at the expense of others who then enter unemployment;¹² that the supply of more skilled workers did not create, as it had been expected, a demand for them; that training generally was of a low quality or equivalent to a mere "work experience" (McFate, 1995);¹³ and that tightening access to and cutting unemployment insurance benefits had negligible effects on the unemployment level. The mixed evidence does not provide decisive support to the notion of positive effects of labour market programmes on individual employability prospects (Grubb, 1994; McFate, 1995; Disney et al., 1992),¹⁴ and even less on the unemployment level, the ultimate target of active labour market

¹⁰ There are numerous and well known studies debating, theoretically and empirically, whether income maintenance has adverse effects on the work incentive or not, and if they do, how significant the effects might be (e.g. Atkinson, 1993), and the economic consequences of different employment protection regimes (e.g. Emerson, 1988; Marshall, 1994).

¹¹ See Perez (1996) on the different standards of evaluation used, and the role of evaluation in policy making.

¹² One mechanism of "displacement" is the substitution of eligible (for the subsidy) for non eligible individuals (on other mechanisms, see Disney et al., 1992). "Churning" refers to individuals repeatedly returning to programmes subsidized by active labour market programmes (ibid.). See also Grubb (1994) and Walwei (1995) on this and remedies to prevent some of these unintended effects (e.g. better targeting, additionality).

¹³ See also the criticism of Felstead (1993) and Peck (1993) to the U.K. occupational training schemes, and Lafer's (1994) on training policy in the U.S.

¹⁴ For instance, Disney et al. (1992), comparing Germany and the U.K., note the positive effects of several German but of only a few British programmes.

Table 1. OECD countries: Unemployment level and expenditure in unemployment related programmes (URP)^a (per cent)

	Unemployment*	URP/GDP**
Spain	19.3	3.02
Ireland	15.5	4.45
Belgium	11.2	4.04
France	9.9	2.53
Canada	9.9	1.84
Italy	9.3	1.02
United Kingdom	9.2	1.26
Australia	8.6	1.14
Greece	7.9	0.62
Turkey	7.9	0.09
Netherlands	7.7	3.62
Germany	7.5	2.02
Finland	6.9	2.15
United States	6.8	0.55
New Zealand	6.5	1.63
Portugal	6.4	0.51
Austria	4.7	1.14
Norway	4.0	1.81
Sweden	3.2	2.17
Japan	2.5	0.47
Luxembourg	1.6	1.5
Switzerland	1.3	0.29

^a URP (my definition) refer to programmes grouped in OECD (1990:56) in two categories; "helping unemployed and disadvantaged persons find regular jobs" and "socially motivated programmes for the jobless". The first group includes training for unemployed adults and those at risk; measures for the unemployed and disadvantaged youth; employment subsidies to private sector and to unemployed starting enterprises; rehabilitation and recruitment subsidies for the disabled; the second, unemployment compensation, early retirement, direct job creation and sheltered work for the disabled (:55).

* Average 1983-93, common definitions;

** Data for end 1980s.

Sources: unemployment rates, OECD (1996); expenditure on LMP, OECD (1990).

Table 2. Active labour market programmes: Spending profiles. Selected OECD countries, 1994-95

GDP share of ALMP, and distribution of ALMP expenditure (ALMP=100) (per cent)

	ALMP/GDP	Employm. srv.	L.M. Training	Youth	Subsidiz.empl.	Disabled
Denmark	2.32	5.2	43.1	6.9	25.0	19.8
France	1.17	13.7	38.5	22.2	17.9	7.7
Germany	1.33	17.3	28.6	4.5	30.1	19.5
Italy*	0.93	8.6	2.1	89.2	-	-
Sweden	3.00	9.0	26.0	7.7	30.0	27.3
UK	0.53	39.6	24.5	24.5	5.7	5.7
US	0.20	35.0	20.0	15.0	10.0	20.0

* 1992.

Source: on the basis of data in OECD, *Employment Outlook*, July, 1996.

programmes.¹⁵ The potential of labour market programmes should be assessed in the light of a clear diagnosis of the relative weight of the different determinants of unemployment (insufficient aggregate demand, productivity trends, etc.),¹⁶ in particular, of how (in-) significant might be the frictional and the so-called "structural" components, in other words, those unemployment forms that could be reduced, for example, by better information and placement systems, training intended to match worker qualifications and skills required, and sponsored regional mobility.¹⁷ In any case, there is growing recognition in OECD countries of the fact that supply-side labour market intervention might be able to regulate who is to become employed and who is to enter to or remain in unemployment, and therefore the structures of employment and unemployment, but has no or little influence on the level and growth trends of either employment or unemployment.¹⁸ Still, in countries with pressing, two digit unemployment levels, some of the traditional labour market programmes such as direct job creation or subsidized employment appear to be at least supplementary means to provide income support and some relief to the unemployment problem (alongside with policies addressed to poverty and with income maintenance schemes). For its part, investment in training is essential for economic survival in countries whose economic strategies have traditionally been based on skill intensive exports,¹⁹ as well as in those that more recently

¹⁵ For Calmfors and Skedinger (1995) most of the evidence on effects of active labour market programmes comes from research at micro level focusing in the impact on individual participants, whereas the number of macro studies is small. Moreover, they conclude that ... "the evidence for large favourable employment effects of active labour-market programmes is weak." (:107). See also Barrell et al. (1994), in connection with supply-side measures and alternative policies.

¹⁶ The empirical analysis of the role of active labour market programmes in relation to youth unemployment in Italy (Pugliese, 1995) is illustrative in this connection. The author concludes that in Italy's South "no active labor policies can compensate for the lack of economic policies aimed at activating labor demand" (:458). Contrasting the North and the South he finds that in the North "vocational training modifies and improves the characteristics of potential workers in a way that makes them better fit existing ... demand"... whereas in the South the vocational training that improves the skills of the unemployed youth does not respond to any local demand for labor, and those who participated are "thrown [back] into slack labor markets" (:449-50).

¹⁷ See Walwei (1995).

¹⁸ See Walwei (1995) for a concise review of the potential impact of different employment and labour market policies on the diverse forms of unemployment (in terms of the causes that generated unemployment), and also Snower (1995).

¹⁹ Stephens (1996) discusses the role of active labour market programmes in advanced, small open economies such as Sweden and other Scandinavian countries, where welfare states "were built so as to maximize the competitiveness of the domestic manufacturing export sector, ... and the end of tariff barriers represented ... only a quantitative change ..." (:57).

abandoned protectionist policies and opted for greater international integration, such as the Latin American countries.

Finally, also the impact of the degree of centralization of wage-setting institutions has been under debate in OECD countries already for some time. It has often been argued that both, centralized ('corporatist' or, more specifically, 'social corporatist')²⁰ and decentralized bargaining structures, as opposed to intermediate structures of negotiation, are conducive to superior labour market and, eventually, economic performances, because they restrain wage increase thus checking inflation and stimulating employment growth (*inter alia* Calmfors and Driffil, 1988; Freeman, 1988). The level of collective bargaining and the degree of bargaining coordination, trade unions and employer organizations, and/or tripartite, consensus building institutions were examined in order to identify the extent of centralization of bargaining structures.²¹ However, criticism of the analytical models and the weaknesses of the empirical evidence have cast some doubt on the validity of the standard argument.²² On the other hand, Rowthorn (1992) suggested that to evaluate labour market performance the degree of wage inequality also has to be considered,²³ and evidence for six OECD countries indicated that decentralized bargaining is associated with higher pay inequality (Zweimuller and Barth, 1994).

The stylized OECD model of labour market intervention, emphasizing instruments supposed to reinforce the work incentive and to give employers greater freedom in the manipulation of the workforce, and favouring decentralized negotiation and the active intervention of the state through supply-side measures, has contributed to shape state labour market intervention in several Latin American countries that embarked upon economic liberalization programmes. However, as it will become apparent in the analysis that follows, emulation seems to have been incomplete: the labour market intervention model has been followed closely as far as removal of social protection and stimulus to decentralization of wage setting are concerned, whereas active and passive labour market programmes have been copied only superficially, that is, they have not been backed by strong commitments and substantive efforts in terms of state expenditure.

3. Historical outlook

To provide the general background to the analysis of labour market intervention in the 1990s, I examine below economic and labour policy, and labour market trends in the three countries studied here, starting in the 1970s. It was then that the first attempts at economic liberalization were made; the new growth strategy was to replace the industrialization model based on import substitution for the domestic market, and social and labour policies, that until then had contributed to the expansion of internal consumption, were to be redefined; both were to have

²⁰ On some of the diverse meanings of 'corporatism' see Calmfors and Driffil (1988). Rowthorn (1992) narrows the definition to "...capitalist economies in which there are strong, and relatively centralized, employers' and workers' organizations" (:82). 'Social corporatism' was meant to refer to "the tripartite (business, labour, and the state) institutionalized involvement in the formulation and execution of economic and social policies" (Landesmann, 1992), but often is given a "consensus building" and "inequality reduction" connotation (for a thorough discussion see Teague, 1995). Moreover, the notion that trade unions exchange wage moderation for full (or a high level of) employment and social benefits is generally implied.

²¹ Calmfors and Driffil (1988), in their well cited paper, define degree of 'centralization' of wage setting as "...the extent of inter-union and inter-employer cooperation in wage bargaining with the other side", indicating that this definition differs from those that are based on either the level of bargaining or "the extent to which unions and employers join in aggregate bodies with varying powers *vis-à-vis* member unions and employers". For Freeman (1988), wage dispersion is a "hard" indicator of labour market structure, and he uses it instead of institutional variables, but together with union density, to test the hypothesis of a relationship between wage-setting institutions and economic performance.

²² For a review of the evidence and some of its weaknesses, see Pohjola (1992) and Walsh (1995).

²³ Rowthorn (1992) also highlighted the role played by "solidaristic" bargaining in relation to economic performance.

significant impacts on labour market outcomes. Economic strategies and labour policies are described first, and this is followed by the discussion of the labour market trends.

3.1 Economic model and labour policy

The discussion considers two periods: the first wave of economic liberalization, and, after the interlude of the debt crisis, the 1980s, that is, the decade of "austerity policies" and "structural adjustment" that followed. The analysis continues with an account of the economic strategies of the 1990s.²⁴

3.1.1 Economic liberalization in the 1970s

All three countries experimented with economic liberalization, and all three under a military regime, well before the wave of reforms that, in the late 1980s-early 1990s, followed the basic tenets of the "Washington Consensus". The military governments of Argentina (1976-83), Chile (1973-1989) and Uruguay (1973-1984) shared two guiding principles: one, that free-market oriented policies would make it possible to overcome the constraints faced by inward-looking industrialization, to achieve integration to the new international order, and to control inflation; and second, that the reduction of labour costs was indispensable for fostering investment. Wage cuts, trade liberalization and financial reforms were expected to modernize the economy, curb inflation and stimulate growth. The measures applied included tight fiscal policies, reduction of tariffs on imports, de-regulation of capital inflows, control of nominal exchange rates and promotion of exports.²⁵ Chile's government persevered in applying these principles systematically, even though after the recession of the early 1980s the operational strategy changed, but the liberalization experiment in Argentina, after a short lived improvement in economic performance, ended with that recession. Growth in Uruguay, led by export oriented manufacturing, was fostered for a short while, but halted with the crisis of 1982-84;²⁶ some aspects of the liberalization programme were to be preserved by the civilian government that followed, however.²⁷ Common outcomes of this period were a large fiscal deficit, exacerbated by the state's commitment to service the external debt that had originated in the private sector, continued inflation, and the contraction of manufacturing, affected by import competition and domestic currency appreciation.²⁸ In Argentina, moreover, the growth of external indebtedness in 1976-82 was to an important degree matched by the massive flight abroad of domestic capital, and not by productive investment.²⁹

In the three countries wage control, and total banning of or severe restrictions on trade union activity, collective bargaining and worker rights such as the right to strike, were the core of labour policy and central components of the economic strategy. To reduce non wage labour

²⁴ State labour market intervention in the 1990s, the focus of this study, is discussed later in a separate chapter.

²⁵ In Argentina the duration of these policies was short: the opening up of the economy to imports lasted three years, and the reduction of state expenditure two (although there was a more lasting increase in taxation, and this made it possible to control the fiscal deficit); total de-regulation of capital movements was achieved only in 1980 (more details are in Canitrot, 1981).

²⁶ On the causes of the crisis see Indart (1996).

²⁷ For details on the programmes in each country see Cortés and Marshall (1993), Marshall (1996d), Scott (1996), Paus (1994), Indart (1996), and Favaro and Bensión (1993).

²⁸ Marshall (1996d); Scott (1996); Indart (1996); Favaro and Bensión (1993). In Uruguay the share of manufacturing increased up to 1980, and then declined between 1980 and 1982.

²⁹ See Fanelli et al. (1990): some 70 per cent of the increase in the external debt in 1978-82, period during which the debt jumped to unprecedented levels, would be accounted for by capital flight.

costs other measures were taken, such as the cuts on payroll taxes in Argentina and Uruguay.³⁰ Employment protection was relaxed.³¹ In 1976, Argentina's labour code was revised extensively to curtail workers' rights, but in this area the change was much more drastic in Chile; after a period, 1974-78, with formal application of individual labour laws but little control of compliance, the new code of 1979 removed limitations on unfair and collective dismissal. Besides, to the outright repression of trade union leaders, prohibition of collective bargaining and the illegalization of strikes in 1974-78, followed the strong restrictions on union formation and the right to strike imposed by the new code, that, in addition, permitted firm bargaining only.³² In Argentina, the government sought also to intensify wage inequality, considered to have been excessively narrowed due to trade union interference; greater wage heterogeneity, reflecting productivity differentials across firms, was expected to undermine the basis of centralized collective negotiation and union strength, and to stimulate labour mobility (Marshall, 1996d).

Within this common labour policy orientation, there was some diversity in labour market intervention. In Chile - a country with a larger labour surplus in the rural sector - unemployment rose to very high levels after the onset of economic liberalization.³³ To face this dramatic increase in unemployment the government created the *Programa de Empleo Mínimo* (Minimal Employment Programme, PEM) in 1975, and later in 1982 the *Programa de Empleo para Jefes de Hogar* (Employment Programme for Household Heads, POJH). These programmes provided just a minimum income, too small to really withdraw the workers participating in the programmes from competing in the labour market (Velásquez, 1990),³⁴ and only absorbed a fraction of the unemployed, but still, had they not existed, the unemployment rate would have doubled. An unemployment insurance scheme that existed prior to this period was reformed in 1974, when it was extended to all private and public sector workers and requisites for access as well as benefits made more uniform; as some differences in benefits and financing persisted, it was reformed again in 1982, to achieve full homogeneity of benefits for both private and public sector workers.³⁵ The small unemployment insurance benefit was to help dismissed workers who did not participate in emergency employment programmes and neither received subsidies for disability or work injury (Velásquez, 1996).

By contrast, in Argentina the military favoured policies that would help restrain unemployment growth so as to prevent social unrest.³⁶ On the one hand, the government recommended employers not to undertake massive layoffs (Cortés and Marshall, 1993); on the other, immigration from neighbouring countries -- a usual but marginal contribution to the supply of labour -- was discouraged through a tighter immigration policy and by rising the cost of housing (elimination of rent control; control of shanty dwellings). In this period an unemployment compensation scheme limited to construction workers, whose activity was extremely unstable, was established.

In Uruguay, the government's labour market intervention at that time, other than wage control, was confined to creating the National Employment Service in 1974, that never reached

³⁰ Marshall (1996d); Bensión and Favaro (1993).

³¹ In Uruguay no change was introduced in this area, that in any case was scarcely regulated and provided limited protection.

³² Uruguay had no labour code.

³³ This is discussed below in greater detail.

³⁴ The PEM provided a remuneration close to the minimum wage to perform unskilled jobs; the POJH's benefit varied according to the skill level of participants. PEM's benefit decreased over time in real terms and as a proportion of the minimum wage (González, 1996).

³⁵ The characteristics of the unemployment compensation scheme have not been modified as yet (1997), and are examined below.

³⁶ The other causes that contributed to maintain unemployment low are discussed below.

the stage of real functioning, and to defining the new regime of unemployment compensation (1982).³⁷

On the other hand, the three countries had prior government supported schemes of occupational training in the framework of their public educational system, some of which created early in this century.³⁸ But, in Chile, with the military's policy of "state subsidiarity", the role of the state in relation to training provision was revised since 1976. According to the statute on training and employment of that year, the state was no longer to provide training directly but mainly to regulate, administer, co-fund and supervise it through the *Servicio Nacional de Capacitación y Empleo* (National Training and Employment Service, SENCE) just created, and therefore the state training institutes started to be eliminated; this was still the situation by the mid 1990s (Herrera and Ruiz-Tagle, 1996). The *Programa Empresas* (Enterprise Programme), to promote in-firm training by offering tax rebates, was instituted in 1976, as did a scholarship programme to improve the skills of low-income persons in precarious employment situations - youngsters looking for their first job, and informal and unemployed workers (Romaguera et al., 1995). In Uruguay, the *Consejo de Capacitación de Personal* (Council of Personnel Training, COCAP), established in 1978, started to operate in 1981 (Melgar n.d.).³⁹ And, in 1980, a law was formulated in Argentina, intended to foster occupational training, creating the *Crédito Fiscal* (Fiscal Credit), a tax allowance benefitting enterprises that sponsored training.

3.1.2 The debt crisis and “structural adjustment”: The 1980s

The domestically and externally induced crises, when the fiscal deficit could no longer be met with easy international credit, marked in the three countries the end of the strategies applied in the 1970s. In Argentina and Uruguay this meant abandonment of liberalization (partial in Uruguay) and coincided with the transition to civilian rule (1984 and 1985, respectively). The debt crisis was followed by stagnation in Argentina and slow GDP growth in Uruguay, both now under civilian governments. After the crisis, Chile's military government, still committed to the liberalization principles, modified tactically the economic policies.⁴⁰ The new strategy was conducive to improved growth and employment performances, initially favoured by the large level of unused capacity left by the severe crisis of 1982-83, and led by exports (Scott, 1996). Since 1984, the Chilean economy recovered, and there was some improvement in labour market conditions. In this context, the government discontinued the emergency employment programmes in 1986-88, although the number of participants enrolled in the programmes was still substantial (González, 1996) and open unemployment was still above 10 per cent. Officially, the programmes were suppressed arguing that such low productivity employment would end by deteriorating skills and work habits, and would trap workers in poverty, but the government probably also took into account the fact that they had become the locus of social and political unrest (González, 1996). The unemployment insurance scheme, that had been created at the time of the crisis, 1982, did not

³⁷ An unemployment insurance scheme already existed in Uruguay. A very partial scheme had been created in 1934, and extended in 1958-62. The characteristics defined in 1982 are still the same at present (1997), and are reviewed below.

³⁸ In Chile the public *Instituto Nacional de Capacitación Profesional* (National Institute of Professional Training) was created in 1966 to provide free occupational training (Mizala and Romaguera, 1996); precedents of state training programmes existed since the 1950s (Herrera and Ruiz-Tagle, 1996). The Argentine *Consejo Nacional de Educación Técnica* (National Council of Technical Education) was established in 1959; on precedents and later evolution see Montoya (1996).

³⁹ According to Rama (1994), until then no state training policy had existed in Uruguay.

⁴⁰ During the crisis of 1982-83 the nominal exchange rate was devaluated, tariffs were raised and firms going bankrupt became state owned; the external debt was taken by the state. Since 1985, the depreciation of the real exchange rate was continued, crawling peg was adopted to keep Chilean exports competitive, there was a tight fiscal policy and wage indexation was eliminated; a second round of privatization took place and tariffs were again reduced; a financial reform and debt conversion schemes were implemented, and social security was privatized (Scott, 1996).

expand its very small coverage, and the training schemes, with predominance of the *Programa Empresas*, continued. The relatively high level of unemployment together with weak employment protection contributed to discipline labour. Further, collective bargaining and union activity were regulated by the strict limitative guidelines established in the 1979 labour code. Real wages showed, however, a slightly rising tendency between 1985 and 1990.⁴¹

In Argentina, the civilian government (1984-89) had initially planned to base economic growth on the increase of manufacturing exports, but inflation and the need to obtain foreign exchange for servicing the external debt soon led it to give priority to price stability and to trade balance difficulties, while efforts were being made to re-negotiate debt repayment conditions (Marshall, 1996d). The so-called "heterodox" stabilization plan (known as the Austral Plan) of 1985, that in principle implied wage and price control, succeeded in curbing inflation only for two years, and it was followed by new stabilization packages that also proved unable to check the acceleration of the rate of price increase. Stabilization plans rested once again on government wage administration, and therefore labour policy centred on wage control, that was to reduce domestic consumption, cut down imports and expand exports. Collective worker rights including collective bargaining were restored, but negotiation over wage issues was not allowed until 1988, and real wages tended to decline.⁴² Besides, the labour code inherited from the military government was not modified.⁴³ On the other hand, the tax incentives offered to stimulate firms to invest and expand manufacturing exports failed to produce the expected reaction, and often were utilized in a fraudulent way. Investment continued to fall, and domestic capital held abroad did not return. The government term concluded with the deepening of the crisis and hyperinflation (Marshall, 1996d).

In Uruguay, an agreement with the IMF to renegotiate the external debt and secure international credit was the basis of the new programme that started in 1985, and whose main objectives were the control of inflation and the reduction of the fiscal deficit. Financial liberalization was maintained, and the process of gradual tariff reduction initiated earlier proceeded also after 1985 (Indart, 1996). Between 1985 and 1989 a good export performance contrasted with slow global growth, and inflation did not subside. In 1985 wage negotiation resumed, with government participation, and the limitations on right to strike were removed, but wages remained at low levels throughout this period.⁴⁴

The foregoing describes the policy and economic context that preceded the economic liberalization programmes applied in the 1990s: the second, and sharper, liberalization process in Argentina, the deepening of previous reforms in Uruguay, and in Chile continuity with the prevailing paradigm.

3.1.3 Economic strategies in the 1990s

With the new administration, that started in 1989, and after several failed attempts at reducing high inflation, an economic programme agreed with the IMF was applied in Argentina beginning in 1991. It was based on de-regulation, a tight fiscal policy and large-scale privatization, convertibility of the Argentine currency, a fixed exchange rate and the opening up of the economy

⁴¹ Data in OIT-ETM (1996): 1990= 100; 1980= 95.8; 1989= 98.2.

⁴² The wage freeze of 1976, concomitant to price liberalization, led to a 30 per cent fall in real wages; after 1984 wages showed some recovery but declined in the medium term (1983= 100; 1988= 93.3; real wages in manufacturing; source: CEPAL); more details are in Marshall (1996d).

⁴³ In 1984, a limited unemployment compensation scheme was created; it only granted family allowances plus a supplement equal to 70 per cent of the minimum wage to dismissed workers; workers not entitled to family allowances received a special benefit during 4 months (Conte-Grand, 1996).

⁴⁴ Real wages in Uruguay were (1957= 100), 1973= 69; 1984= 35; 1990= 42 (data in Indart, 1996).

to imported manufactures; the latter was expected to contribute to control inflation and, eventually, to serve to increase productivity and the competitiveness of Argentinean manufactured goods. Trade liberalization was deeper in the context of the regional integration agreement (MERCOSUR), in which also Uruguay is a partner. Stabilization was achieved and sustained. High interest rates ensured a continuous inflow of foreign exchange, essential to preserve the exchange rate fixed in 1991. Some cuts to government expenditure, the increase of tax revenues and, particularly, privatizations eased the fiscal deficit. Economic activity, including manufacturing, recovered until it was hit in 1995 by the Mexican-induced crisis. But reduced protection and the appreciation of the domestic currency led to the rapid growth of imports, increasing the trade deficit (even though exports, including non-traditional manufacturing goods, were expanding since 1988), and restructured the manufacturing sector. Growth rates decelerated as from 1993, particularly in manufacturing, and the effects of the Mexican crisis contributed to set a deep recession in 1995, from which the economy started to emerge in late 1996.

In Uruguay, the gradualist stance of the earlier government was abandoned (Indart, 1996). Since 1990, economic policy followed guidelines similar to those that oriented the Argentine government, but its implementation seems to have been less drastic in Uruguay.⁴⁵ The focus of economic policy was stabilization, basically through the reduction of the fiscal deficit. The fiscal situation reversed from a deficit of 6.4 per cent of GDP in 1989 to a small surplus in 1992. The deficit was tackled by increasing taxation (indirect taxes and social security contributions), reducing tax evasion and state subsidized consumption, and imposing wage cuts in the central government administration. But by 1994 the situation had reversed once again, the deficit now reaching 4 per cent of GDP (Indart, 1996). The opening-up of Uruguay to import competition continued; as in Argentina this was regarded as a means of combatting inflation and modernizing the economy. Together with Argentina, Uruguay completed regional trade liberalization within the framework of MERCOSUR, and again as in Argentina, the Uruguayan *peso* appreciated. The ensuing growth of imports was reflected in the declining GDP share of manufacturing throughout 1990-94.⁴⁶ The crisis of 1995 also had an impact on Uruguay's economy, but only indirectly through the contraction of Argentinean demand, as Argentina is an important investor in Uruguay and a consumer of Uruguayan goods and services (see CEPAL, 1995-96). But by 1996 manufacturing was resuming growth (EIU, 1997).

In the 1990s it was now in Chile the turn to a civilian government. The economic policy of the democratically elected government, that started in 1990, did not depart essentially from the basic traits of the economic model developed under the military regime, although moderate changes were introduced in social and labour policies.⁴⁷ When the new government initiated its term, the unemployment rate had already subsided to about 6 per cent, and manufacturing employment was rising regularly. According to Agacino et al. (1995), from the late 1980s manufacturing growth was linked mainly to the expansion of domestic demand, in turn stimulated by export growth.⁴⁸

It was clear that in Chile democracy and labour's somewhat improved position called for new forms of, and a new orientation for, state social intervention, although the main features of the economic strategy had not been challenged. And, as we will see, in Argentina the change of

⁴⁵ Privatization, for instance, was hindered, perhaps only delayed, by citizens' resistance, expressed in the *referendum* of 1992, when the population vetoed the government's privatization proposal.

⁴⁶ More details in Indart (1996).

⁴⁷ See e.g. Scott (1996) and Petras et al. (1994).

⁴⁸ On manufacturing performance during 1984-89, see Agacino et al. (1992). On the other hand, surveying the results of several studies, OIT-ETM (1996) concludes that the *direct* impact of exports on global employment growth appears to have been relatively small (but exports had positive effects on employment in specific sectors).

economic strategy was accompanied by a radical redefinition of labour policy, that encompassed several central areas, while in Uruguay changes were more modest and focussed in wage bargaining. This should not surprise, as the regulatory framework was undeveloped, and less restrictive, in Uruguay as compared with Argentina. But state labour market intervention is not only determined by economic strategies (and socio-political forces); it also responds to actual labour market trends, and it is based on a diagnosis of their causes. Therefore, some of the main labour market trends in the three countries between the mid 1970s and 1990 are briefly reviewed next, to focus then in the 1990s.

3.2 Labour market trends: Similarities and divergences

Economic transformations in the three countries have a correlate in the stages that may be identified in the evolution of the labour market, in terms of the labour supply and labour requirements, and therefore, of surplus labour.⁴⁹

3.2.1 The 1970s and crisis of the early 1980s

Argentina managed to keep unemployment rates down during the first period of economic liberalization (table 3) as, in 1976-1981, the wage employment fall that resulted from de-industrialization and state employment cutbacks was offset by declining labour force participation rates (owing to the increase in retirement and inactivity of males and the stagnation of women's participation),⁵⁰ reduction of in-migration to large urban centres, as well as growth of self employment; besides, as we have seen, massive lay-offs were discouraged, at least initially in this period, by the military government. Unemployment rose with the 1981 recession, in fact doubled, but still its level remained slightly above 5 per cent of the labour force. By contrast, in Chile the increase of unemployment was notorious from the very beginnings (17 per cent in the recession of 1975), and the crisis of 1982-83 brought it to about 30 per cent of the labour force, always counting the unemployed workers participating in state emergency employment programmes (table 3). Between the two recessions unemployment was very high, even though GDP was rising (tables 3 and 4). The employment level fell, and, in addition, at the same time labour force participation was increasing regularly; manufacturing and state employment (the latter due to severe cuts) were particularly affected (Romaguera et al., 1995).⁵¹

⁴⁹ Wage trends were indicated above. Certainly, also inequality and poverty were affected by economic strategies, tending to increase with economic liberalization, but they will not be discussed in this paper.

⁵⁰ Men's labour force participation continued with its longer-term declining trend, now intensified by lack of job opportunities. Female participation stagnated, after substantial growth in the previous decade, as a result of the combination of falling participation among the youngest and the oldest, and increasing activity among women aged 25-54, who entered the labour market to compensate for the job and income loss of the household head (Marshall, 1996d).

⁵¹ Labour saving changes in the composition of output have been mentioned among the factors explaining the negative employment performance in this period (see Romaguera et al., 1995). According to Agacino et al. (1992) the increase in manufacturing productivity during 1975-81 was mainly due to improvements in the organization of work processes, rather than to conventional technical change.

Table 3. Unemployment trends (per cent)

	Argentina	Chile*	Uruguay
1970	4.8	5.7	7.5
1974	3.4	nd	8.1
1975	3.8	17.3(14.9)	na
1976	4.4	18.1(12.7)	12.7
1977	2.7	17.7(11.8)	11.8
1978	2.3	18.4(14.2)	10.0
1979	2.4	17.5(13.6)	8.3
1980	2.5	15.7(10.4)	7.1
1981	5.3	15.6(10.8)	6.7
1982	4.6	28.0(19.6)	12.0
1983	3.9	30.3(16.8)	13.5
1984	4.4	24.4(15.4)	13.9
1985	5.9	21.4(13.0)	13.1
1986	5.2	16.0(10.8)	10.1
1987	5.7	12.2(9.3)	9.1
1988	6.1	9.0(8.3)	8.6
1989	7.1	6.3	8.0
1990	6.3	7.4	8.5
1991	6.0	7.1	8.9
1992	7.0	6.2	9.0
1993	9.3	6.4	8.3
1994	12.2	7.8	9.2
1995	16.6	6.6	10.3
1996	17.3	6.8 ^a	12.7 ^b

* Between parenthesis unemployment exclusive of workers in emergency employment programmes

^a Third semester; ^b Montevideo.

Sources: Argentina: EPH, INDEC (1970: INDEC, Encuesta de Empleo y Desempleo); Chile: Romaguera et al. (1994) and INE in OIT-ETM, new series, for 1990-5; Uruguay: Indart (1996:table A1) and *OIT Informa, Panorama Laboral '96*, 3, 1996.

Private and public investment in Uruguay increased during 1974-78 (Indart, 1996), but anyway unemployment jumped to return by 1979 to its previous levels, and then decline. With the crisis, in 1984 it had almost doubled to 14 per cent of the workforce. In spite of large-scale emigration, the supply of labour was expanding substantially, due to rising labour force participation rates, mainly of women, the youth and also older people. Output growth was accompanied by increases in wage employment in the private sector, but the employment share of manufacturing fell (Indart, 1996).

Table 4. GDP and unemployment trends

	Argentina		Chile		Uruguay	
	GDP(% ch.)	Unemp.(%)	GDP(% ch.)	Unemp.(%)	GDP(% ch.)	Unemp.(%)
1st liberaliz.* ^a	2.6	2.0	4.3 ^d	17.2 ^d	4.2	9.2 ^f
crisis* ^b	-4.3	4.9	-7.4	29.1	-2.8	13.1
adjustment* ^c	-0.04	5.5	6.2	14.9	3.9	9.8
1990-1995*	4.9	9.6	6.5	6.9	3.2	9.0
1990	-1.3	6.3	3.3	7.4	0.6	8.5
1991	10.5	6.0	7.1	7.1	3.2	8.9
1992	10.3	7.0	10.5	6.2	7.8	9.0
1993	6.3	9.3	6.0	6.4	3.3	8.3
1994	8.5	12.2	4.1	7.8	6.9	9.2
1995	-4.6 ^e	16.6	8.2 ^e	6.6	-2.8 ^e	10.3
1996	4.4 ^e	17.3	nd	nd	nd	nd

* Average annual rate of GDP change and average annual unemployment level in the period.

^a 1976-80 in Argentina; 1975-81 in Chile; 1974-81 in Uruguay; ^b 1981-82 in Argentina; 1982-83 in Chile; 1982-84 in Uruguay;

^c 1983-89 in Argentina; 1984-89 in Chile; 1985-89 in Uruguay; ^d Starting in 1975; ^e Preliminary figures; ^f 1975 n.a.

Sources: GDP Argentina, Central Bank of Argentina; MEOSP (1996); MTSS (1997); GDP Chile, Romaguera et al. (1995); GDP Uruguay, Indart (1996); GDP Chile and Uruguay, 1990-95, CEPAL, *Economic Survey of Latin America and the Caribbean*, 1995-96; unemployment.

3.2.2 “Adjustment”

Once the worst of the crisis was over in the three countries, the 1980s witnessed again contrasting trends: gradually mounting unemployment in Argentina that reached the peak by 1989 with the dramatic acceleration of inflation, high but approximately constant unemployment levels in Uruguay, and a declining rate in Chile. That unemployment increased in Argentina should not surprise as GDP stagnated (table 4), investment fell, and wage employment lagged behind the growth of the labour supply. Labour force participation rates rose, as adult women increased their labour market participation, once again responding to falling household incomes and the unemployment of household heads. Labour force participation was rising steadily also in Uruguay, and there are indications of reduced labour absorption due to increased manufacturing productivity (Marshall, 1993; Indart, 1996). In Chile, sustained, export-led, manufacturing growth now adopted a labour intensive pattern; manufacturing employment and the global employment rate increased.⁵² Growth of Chile's manufacturing from 1984 onward was associated with a more extensive use of labour and not with technical change, and this is reflected in the growth rate of manufacturing productivity (Agacino, 1992), that was only 0.8 per cent per year in 1981-90 (Marshall, 1994). Due to the multiplicative effects of export led growth, unemployment, still

⁵² Data from Instituto Nacional de Estadística (INE), Chile, in OIT-ETM (1996).

significant, started to fall persistently, and in 1989-91 it was below the rates in Argentina (table 3).

3.2.3 Labour market outcomes in the 1990s

In the 1990s, the "shock" economic reforms introduced in Argentina led to the systematic rise of unemployment, whereas in Uruguay, with the deepening of a process of economic liberalization that had started earlier, unemployment remained at the same, and high, level. In Chile, as we have seen, the new government basically endorsed the ongoing economic model; in this context, investment did not experience major change, and export and employment growth continued throughout the 1990-1996 period. By the mid 1990s manufacturing employment ceased to increase, but the global employment rate did not fall.⁵³

In Argentina, starting by 1991, the increase of urban labour force participation rates, mainly of women,⁵⁴ converged with a slight rise first, stagnation later and then a strong fall, in the employment rate. In fact, female unemployment rose mainly as a result of increasing labour force participation, while unemployment among men was the consequence of declining employment. Therefore, at a time of economic growth unemployment rose regularly, as it had happened, although somewhat more dramatically, in Chile in the 1970s. The employment rate decreased as a result of intense labour shedding in manufacturing (table 5) and, marginally, of state sector reforms, namely privatization. Manufacturing restructuring was triggered by the combination of trade liberalization and the appreciation of the domestic currency. Productivity increased visibly in certain industries while others, unable to compete with cheaper imports, closed down or diminished their scale of operation sizeably. In contrast to Chile, whose manufacturing profile became more labour intensive after 1984, economic transformation in Argentina seems to be following the path of increasing capital intensity.⁵⁵ Later, the strong recession of 1995, brought about by the Mexican crisis, aggravated the contraction of labour demand not only in manufacturing but in other economic activities as well. The growth of excess labour was expressed mainly in the increase of open unemployment as now the traditional outlet for surplus workers, labour intensive activities such as domestic service for women and construction for men, were no longer able to perform their former role in labour absorption (Marshall, 1996b). Increased levels of economic activity in early 1997 had only a slight positive effect on the unemployment rate.

The public sector plays an important role in Uruguay's labour market, accounting for about one third of wage employment.⁵⁶ Until 1990, the number of public employees had been increasing; the state reform implemented that year (discussed below) led to the reduction of civil service employment (-20 per cent between 1989 and 1992), but by 1993 previous levels recovered (Indart, 1996; Cassoni et al., 1994).⁵⁷ On the other hand, while in Chile the larger private firms lost grounds in the structure of non agricultural employment, and in Argentina

⁵³ Data from INE, in OIT-ETM (1996). Trends in manufacturing employment are discussed later.

⁵⁴ For some, this was due to increased employment opportunities brought about by the recovery, but as time passed it became clear that the dominant factor was the need to contribute to household income, particularly as unemployment expanded among household heads.

⁵⁵ See Bisang et al. (1996).

⁵⁶ In the late 1980s, the share of the public sector in total employment reached 24 per cent in Uruguay, as against 17 per cent in Argentina and 7 per cent in Chile (Marshall, 1990). During the early 1990s, state employment declined relatively in both Argentina and Uruguay (table B, Appendix).

⁵⁷ This increase could be hiding a change in the structure of state employment in favour of provincial administrations (Indart, 1996).

Table 5. Employment and output in manufacturing, 1991-95. Annual rates of change (per cent)

	AR	AR	CH	CH	UR	UR
	E	GP	E	GP	E	GP
1991	2.8 [-4.6]	[9.9]	3.0	5.7	- 5.4	[-0.5]
1992	0.8 [-0.5]	7.3 [10.2]	5.7	11.0	- 9.3	[1.5]
1993	-3.6 [-2.5]	4.5 [5.1]	8.4	5.1	-13.1	- 9.0
1994	-5.8 [-3.3]	4.2 [6.2]	-3.3	2.9	-17.8	4.0
1995 ^a	-6.1 [-3.8]	-6.5 [-7.0] ^a	-0.4	6.5	-10.6	- 2.8

^a Preliminary.

Sources: CEPAL, Economic Survey of Latin America and the Caribbean, several years (Uruguay, formal manufacturing; Argentina and Chile, total manufacturing; [] Argentina, employment: Encuesta Industrial, INDEC in *Boletín de Estadísticas Laborales*, 2nd Semester, 1996; manufacturing output, MEOSP (1996); [] Uruguay, manufacturing output, EIU (1997a), based on Central Bank of Uruguay.

they barely maintained their share, in Uruguay large private enterprises increased theirs.⁵⁸ Still, manufacturing employment fell continuously, and notoriously, in this period (table 5), suggesting productivity increases; this was clearly the case in 1996, when manufacturing output increased by 4.8 per cent but employment and hours worked both declined (-6.8 per cent and -4.8 per cent, respectively; EIU, 1997a).

The three countries have in common the fact that the youth unemployment rate is much higher than the average rate, but this has been exacerbated in Uruguay.⁵⁹ And, although the share of young workers in the labour force is similar in the three countries,⁶⁰ in Uruguay they account for more than one half of total unemployment (table 6), a fact that has not varied for over 20 years (Rama, 1994), and which was attributed to a supposedly more stringent legislation regulating youth employment and the coming of age in this country. Restrictions on youth (aged 14-18) employment, and a social security protection equal to that for adults, would allegedly discourage employers from recruiting young workers and stimulate non registered employment.⁶¹ Limitations on passage to formal adulthood would also hinder access to work

⁵⁸ Data in *OIT Informa, Panorama Laboral '96*, 3, Lima, 1996.

⁵⁹ In 1990 the unemployment rate of those with less than 25 years old was 14.0 per cent in Argentina, against an average rate of 6.3 per cent, and in 1995 the rates were 29.0 per cent and 16.6 per cent, respectively (data from the household survey [Instituto Nacional de Estadística y Censos, INDEC, Encuesta Permanente de Hogares, EPH; urban areas] in MTSS (1996b); in Chile, they were 13.6 per cent and 6 per cent, respectively, in 1990, and 12.7 per cent and 5.4 per cent in 1995 (INE, Chile, in OIT-ETM, 1996), and in Uruguay 26.6 per cent and 8.5 per cent in 1990 (Indart, 1996), and 24.6 per cent and 10.2 per cent in 1995 (ILO, *Yearbook of Labour Statistics*, 1996).

⁶⁰ In Uruguay, youth's higher labour force participation rates, particularly among young women, compensate for their smaller share in the total population.

⁶¹ Rama (1994) mentions as distorting restrictions, among others, the fact that workers aged between 15 and 18 employed in manufacturing firms are allowed to work up to a maximum of six hours daily or 36 weekly, should have a two-hour midday rest, are prohibited to work at night, and between two working days must have a 12 hour interval; that in practice there is no special wage for the young but adult's wage are paid; that parents must intervene in the employment contract, and a physician from the *Consejo del Niño* (Child Council) to provide a certificate of physical fitness.

Table 6. Youth unemployment and expenditure in active labour market programmes for young workers

	Argentina	Chile	Uruguay
Per cent youth/EAP*	22.2	17.3	21.9
Per cent youth/unemployment*	38.8	42.3	52.7
Per cent Y/ALMP**	24.7 ^a	21.3 ^b	nd

* Data are for 1995, population of 14 and over in Uruguay, 15 and over in Chile, no lower limit in Argentina. Youth: 15-24 in Chile; 14-24 in Uruguay; less than 25 in Argentina (14-24 were 21.6 per cent in 1991, Population Census, in ILO, 1996).

** Programmes exclusively targeted to young workers in relation to total expenditure in ALMP.

^a On the basis of envisaged spending for 1996; ^b Spent in 1994, on training programmes.

Sources: own estimates based on data in ILO, *Yearbook of Labour Statistics*, Geneva, 1996; INDEC, EPH; 1996; INE (Chile); MTSS (1996); Mizala and Romaguera (1996).

and relegate young people to marginal occupations: coming of age is at 21 years old, and this means that until that age young persons cannot own or administer property, incur in debt and sign agreements, and this, in combination with bank credit requirements, excludes them from initiating or undertaking business (Rama, 1994). However, labour legislation generally speaking would be more favourable to employment stability in Argentina than in Uruguay, and this would impose more limitations on employment opportunities for young workers, and further many of the regulations on youth employment are similarly restrictive in Argentina,⁶² although the introduction in 1991 of special flexible contracts for young workers, and the formalization of the apprenticeship contract in 1995 (examined below), might have lessened constraints on youth employment. Other factors, such as the larger weight in Uruguay of state employment, more stable than private sector employment and therefore providing less possibilities for new hiring, might help explain the fewer employment opportunities for young workers in this country. For their part, the few specific rules on youth employment in Chile, such as a lower minimum remuneration than that corresponding to adults and the existence of an apprenticeship contract (González, 1996),⁶³ could have encouraged, comparatively to other countries, the recruitment of young persons, but this does not appear to have been the case: the rate of youth unemployment is more than twice the average rate, and young workers account for some 42 per cent of the unemployed, a figure close to Argentina's (table 6).

In the three countries GDP increased between 1991 and 1994, to fall in Argentina and Uruguay with the crisis of 1995. The average GDP growth rates for the whole period 1990-95 place Chile somewhat above Argentina, close to each other if in Argentina we consider only the period since the economic reforms, 1991-1995; they are followed by Uruguay (table 4). However, labour market trends in the 1990s are clearly distinct in the three countries. Even though in this period the three show a regular increase in labour force participation, basically of female's participation, the rise has been sharper in Argentina, where conjunctural factors seem to have

⁶² For instance: equality of remuneration with adults performing the same tasks and working hours, certificate of physical fitness, intervention of parents, prohibition of night work, the six hour daily or 36 weekly maximum, apply in Argentina to workers in the age group 14-18 (although persons over 16 years old can get special authorization to extend the working day up to 8 hours and the working week up to 48; Labour Code, 1976, ILO, *Legislative Series*).

⁶³ This refers to the Apprenticeship programme, temporary contracts for workers aged less than 21 years old (see below). As we will see, contracts under this programme are rare.

played a stronger role (table 7). On the other hand, unemployment declined in Chile, rose substantially in Argentina, and more modestly in Uruguay.⁶⁴ These contrasting trends are only partly explained by differences in the behaviour of labour force participation; the evolution of employment, in turn determined by the broader economic trends, plays a much between Chile and the other two countries. Moreover, the fact that, on the whole, restructuring

Table 7. Labour force participation rates in the 1990s (per cent)

	Urban LFPR, females*			Urban LFPR, all		
	AR	CH**	UR***	AR	CH**	UR
1990	27.4	31.7	47.4	63.9	53	59.6
1991	27.7	31.5	47.5	63.2	53	59.5
1992	28.8	33.6	48.4	64.4	54.3	58.3
1993	30.3	35.2	48	66.5	56	59
1994	29.7	35.4	48.9	65.9	56	60.5
1995	31.7	34.5	(51.0)a	68.5	54.9	62.1
1996	nd	nd	nd	67.4	54.1	60.9

* Labour force participation rates of women are not standardized, and cannot be compared across countries. In Argentina they are calculated against the total population (EPH, INDEC, October), whereas in Chile and Uruguay against the population aged 15 and over and 14 and over, respectively. ** Total country. *** Montevideo.

^a 10 month average (January-October).

Sources: EPH (INDEC) in *Boletín de Estadísticas Laborales*, op. cit.; INE (Chile) in OIT-ETM (1996); Indart (1996); INE (Uruguay), 1995b; *OIT Informa, Panorama Laboral '96*, 3, 1996.

in Uruguay has been more gradual, although manufacturing employment was even more strongly affected than in Argentina,⁶⁵ might be behind the different labour market trends in Argentina and Uruguay.

4. Labour market intervention

The general orientation of labour policy reforms in each country is determined not only by the economic model adopted, by labour market trends and the political interplay, but also by the characteristics of the labour regulation system prevailing until that moment.

⁶⁴ One would expect the share of longer term unemployment to increase *pari passu* with mounting unemployment levels, and this seems to have taken place in Argentina, following a period when longer term unemployment had showed signs of receding, at the time of the economic recovery in the early 1990s. But the tendency is not marked, suggesting that many potentially long-term unemployed workers (for instance, those expelled from manufacturing, and hard to relocate) exited from unemployment, either to inactivity or to precarious self-employment situations. Conversely, in Chile, long-term unemployment tended to become less important within total unemployment as unemployment declined, but only if long-term unemployment refers to those that have been out of work for one year or over (data from household surveys; for Argentina, 1990-95, INDEC, EPH; for Chile, 1986-95, INE, Chile, in OIT-ETM, 1996). The opposite is also true: relatively more people have been unemployed for just a short period in Chile, and relatively less in Argentina.

⁶⁵ It was estimated that in Uruguay some 50,000 manufacturing jobs disappeared for the same reasons as in Argentina, as firms either closed due do lack of competitiveness or reduced personnel to increase competitiveness (Foreign Labor Trends - Uruguay, 94-27). See also table 5.

The Argentine government's "de-regulating" stand, as from 1991, encompassed the labour market. Successive Executive projects were intended to modify the *status quo* in individual as well as in collective labour rights. The axis of the reforms were employment protection and collective bargaining. Until then, the employment protection regime was placed in an intermediate position within the Latin American region in terms of restrictiveness of the managerial prerogative (Marshall, 1994), and the degree of centralization of collective bargaining was intermediate (industry-wide agreements clearly dominated although different levels of negotiation were admitted). Now, limitations on employment protection, i.e. greater flexibility in recruitment and dismissal, and decentralization of bargaining were expected to reduce costs, contribute to maintain price stability, keep wage dispersion in line with productivity differentials, and enhance external competitiveness. And, given the continuous worsening of the labour market situation, it was officially argued that the reforms would foster employment creation. An unemployment insurance scheme was created in this period and, to face mounting unemployment, several labour market programmes were designed. In addition, some measures to reduce the supply of labour were adopted, namely, attempts at strengthening the control of illegal immigration, even though the overall contribution of immigration to the labour force and to unemployment was negligible.

In Chile, in the context of the preservation of the essential features of the ongoing economic model, democratic conditions, the state of the labour market and political alliances led to some reforms in the benefit of labour after 1990. The starting point was a legal framework that, thus far, had granted only little protection and the minimal collective rights to the workers. Employment protection (contracts and dismissals) was tightened, and collective rights were somewhat improved. These reforms took place alongside with several tripartite agreements, that ensured labour's support to the economic programme in exchange for modest reforms and minimum wage increases.⁶⁶ According to the government's labour policy during 1990-94, the control of compliance with labour laws was to be the sole form of state intervention in intra-firm bipartite relations (González, 1996). On the other hand, several labour market, basically training, programmes were continued and some expanded.

Finally, in Uruguay, with its lax legal system of worker protection, government efforts after 1990 concentrated in changes in wage-setting institutions, so far characterized by the predominance of tripartite industry-wide collective bargaining, pursuing aims similar to those that guided wage policy in Argentina.⁶⁷ New institutions and labour market programmes were also created in this period, to confront unemployment and the acute employment problems of young persons.

Given that the employment protection reforms of this period, together with other measures to reduce labour costs, were officially viewed as incentives to employment generation,⁶⁸ they are discussed below as an indirect form of labour market intervention (the "indirect incentives"), after reviewing the direct forms, i.e. the active labour market programmes and unemployment compensation schemes.⁶⁹ Last, some changes in wage determination institutions, namely collective bargaining, and in other collective worker rights are analysed.

⁶⁶ On the successive tripartite and sectoral agreements see Foreign Labor Trends - Chile, 94-12, 1993.

⁶⁷ According to Foreign Labor Trends - Uruguay (1993), the administration starting in 1990 had envisaged changes in labour legislation that, however, did not take place (see below).

⁶⁸ In Chile, the reforms run counter to this trend, but will be considered in the same section.

⁶⁹ In the three countries, governments showed concern, at least in their pronouncements, in relation to the economic constraints affecting small and "micro" enterprises, and this led to some programmes to support them. This concern was linked often to the preoccupation about employment generation, and in this sense policies to strengthen the small firm are related to labour market policies, but due to their wider economic ramifications these policies will not be examined in this study, unless specifically directed at employment promotion, training, or wage determination.

4.1 Active labour market programmes

Internationally comparable data on active labour market programmes in OECD countries have been presented systematically by the OECD according to a standard classification. Labour market programmes include, alongside with the traditional schemes of unemployment compensation and the more recent early retirement schemes, some or all of the following: public employment services (to provide information, placement and counselling; support mobility; often administer the unemployment insurance system; and help to implement other labour market programmes); training programmes; subsidized employment (subsidies to firms and to unemployed persons planning to start a business); direct creation of employment in the public sector; and measures for the disabled (OECD, 1990). Training schemes may be combined or not with programmes of subsidized employment or with direct state employment creation. Some of the above were designed specifically for young workers. This standard OECD classification includes subsidized occupational training for employed adults and subsidized, or state administered, apprenticeship schemes (and, sometimes, non subsidized, in-firm training such as the German "dual" system),⁷⁰ that is, programmes not addressed to the unemployed or workers in precarious situations. However, classification of non targeted occupational training schemes for employed adults under the category of labour market policy is somewhat arbitrary.⁷¹

In any case, it is obvious that, on the basis of different criteria, many classifications of labour market interventions may be made.⁷² Labour market intervention may focus primarily in either employers or workers. Once established the policy objectives, measures with uncertain outcomes are different from those with guaranteed short term effects. It is not full proof, for instance, that improved individual employability through training will lead to a job, and even less to a positive effect on the overall unemployment rate; individual success in getting a job might mean replacement of a worker with outdated skills, who in turn might become unemployed or leave the labour force altogether. Similarly, across-the-board payroll tax rebates will not necessarily result in employment creation. By contrast, subsidies and rebates granted in exchange for effective targeted employment creation (subsidizing the wages of workers hired for newly created jobs, for instance) do subtract these workers from the counts of the unemployed in the short term, although whether this could bring about positive results of a more lasting nature is controversial.⁷³

The classification I follow below does not exactly match the OECD standard one, but it

⁷⁰ On the German "dual" system, see e.g. Bosch (n.d.).

⁷¹ In this vein, also university, industrial high school, and technical education generally, particularly when it is state funded or subsidized, could be also counted among the labour market programmes. It could be argued that occupational training implies a closer association between private sector labour needs and the skills imparted than does general or specialized technical education, and that this closer link would lead to a better matching between demand and supply. On the other hand, it has been stressed that participants in training schemes for the employed already are in the labour force and no longer in the schooling system (Disney et al., 1994), but this does not apply to "dual" and similar training schemes. On these topics, see also Grubb's (1994) discussion.

⁷² In OECD (1990), for instance, the standard categories are re-arranged so as to distinguish the programmes aimed at a regular job for the unemployed and those at risk, from the generally available programmes aimed at regular jobs, and from the programmes serving mainly social goals (unemployment compensation, early retirement for labour market reasons, direct employment creation [public or non profit] and sheltered work for the disabled). Programmes in the first group are regarded as directed to strengthen labour market adjustment and efficiency, but targeted on the disadvantaged.

⁷³ This distinction is important since, as we will see, some Latin American countries, for instance Argentina, show a marked preference for indirect incentives. In the advanced OECD countries emphasis is placed on direct and targeted incentives. In fact, in the OECD presentation of labour market policies for the 1990s ... "financial incentives ... such as across-the-board reduction of payroll taxes ... to increase labour demand or a reduction of marginal income tax to strengthen labour supply" ... "because of their pervasive nature and macro-economic ramifications .. are not included ... as labour market programmes"; neither do employment subsidies that belong to regional development policies (OECD, 1990:43).

seems to be the best suited to organize the labour market programmes in the countries analysed in this study. It takes into account to some extent both criteria, target and nature of the incentive, but some programmes may fall within more than one category (training related to subsidized employment, for instance, may be regarded as being addressed to both worker and employers).⁷⁴ Four main broad categories are differentiated: state placement and counselling offices, state direct temporary employment creation, subsidized private-sector employment (including training or not), and training programmes not linked to employment generation.⁷⁵

4.1.1 Employment service: Placement and counselling

In all three countries the state employment service was created well before the 1990s. In Argentina and Uruguay its precedents may be traced back to the first decades of this century, and in Chile to the forties.⁷⁶ But public employment services existed only in the books, as their actual operation was minimal if not outright nil. Systematically understaffed, they did not keep records of job vacancies in the private sector, even though "the effectiveness of any placement service depends on its ability to identify and fill labour market vacancies" (McFate, 1995:640).⁷⁷ In the 1990s some efforts were made to modernize these institutions, but, as with other areas of intervention of Labour Ministries, their role continues to be very limited.⁷⁸

In the 1990s, the Argentine Employment Service Network, that incorporated Public Employment Offices, Public Placement Agencies and other collaborating institutions, was established (Montoya, 1996). Functions of offices and agencies include: registration of workers in search of jobs and of vacancies; counselling and intermediation; local labour market studies; collaboration in the administration of unemployment insurance; personnel selection for employers; worker relocation; and assistance to the self employed and to micro-firm employers (Montoya, 1996).

Also in Chile the public placement system (the Municipal Placement Offices), created earlier, was reformed. About 25 per cent of the municipalities have a Municipal Placement Office, and there has been an increasing registration of both workers and vacancies, but it seems that this has not been reflected in the evolution of the placement record (Romaguera et al., 1995). Fulfilment of the traditional functions of Municipal Placement Offices (occupational counselling, placement, statistical records) has been impaired by scarce funding and by lack of infrastructure, equipment and skilled personnel. A new role for Municipal Placement Offices was incorporated when they were assigned some participation in the Ministry of Labour's youth training programme (González, 1996).⁷⁹

In Uruguay the National Employment Service established in 1974 never functioned (Melgar, n.d.). But in 1992 the *Dirección General de Empleo* (DINAE; National Employment Directorate) was created within the Labour Ministry, as well as a body to study, promote and

⁷⁴ In any case, it would be possible to re-arrange the forms of labour market intervention to conform to the standard classification.

⁷⁵ As is traditional, other programmes should be included such as those for the disabled. In the countries studied here, if such programmes exist, their scale is minimal and will not be examined below.

⁷⁶ More details can be found in Codina (1991).

⁷⁷ Still, in the 1990s, only in a few countries it is mandatory for private employers to report vacancies to the state (Sweden, Italy and France); in Sweden, about two-thirds of all job openings are registered with the public employment service (McFate, 1995). See also Lefar's (1994) critique in relation to absence of job vacancy records in the U.S.

⁷⁸ Here, and throughout this paper, I refer to institutions and programmes from the national (federal) administration, and not to those originating in provincial and municipal administrations. On the latter, information is sparse, particularly on their actual scope and impacts.

⁷⁹ Municipal Placement Offices must advertise the programme, register participants and distribute them according to vacancies, and collaborate in monitoring (González, 1996).

coordinate active employment and training policies, the *Junta Nacional de Empleo* (JUNAE; National Employment Board), and the *Fondo de Reconversión Laboral* (FRL; Labour Reconversion Fund). The DINAE is in charge of elaborating employment policy at the national level, advising in relation to and carrying out labour migration programmes, designing and conducting placement programmes for special groups of workers, supervising private labour agencies, preparing and conducting job counselling and labour information programmes, keeping a register of the beneficiaries of retraining programmes, assisting workers who wish to become small employers, etc. The JUNAE should, among other functions, advise the DINAE, administer the FRL, and design retraining and counselling programmes (Melgar, n.d.). By the mid 1990s the DINAE counted 50 employees in Montevideo and had signed several agreements with municipalities to develop regional activities (Melgar, n.d.); to place this figure in the wider context: the DINAE belongs administratively to the Ministry of Labour and Social Security, that in 1994 had a total of 1,430 job positions (INE Uruguay, 1995a). These employment and training boards are, of course, present in the Argentine and Chilean administration structures too.

4.1.2 Direct employment creation

The Argentine government, faced with the steady growth of the unemployment rate since 1992 (up to over 18 per cent of the urban labour force in 1995), devised some programmes of direct employment creation starting in 1993. Initially, the "work intensive" programmes (*Programa Intensivo de Trabajo*, PIT) were administered by local governments (municipalities), but later, still funded by the national state, they were handed over to non profit organizations (mainly, the catholic-church administered *Charitas*), to prevent misuse of funding by local governments. The PITs were addressed to unskilled and skilled long-term unemployed workers, registered with the Employment Service Network. Resources for paying the wages and social security contributions of the workers employed through the PITs in social and community projects came from the National Employment Fund, created in 1991 and financed out of a payroll tax. The PIT programme was discontinued in 1995, lasting only two years. Between 1993 and 1996 at least six other programmes, of comparable characteristics, were created, most of them also short lived.⁸⁰ By mid 1997, *Trabajar* (temporary jobs in community infrastructure projects, preferably for low-income household heads) and *Servicios Comunitarios* (community services), both created in 1996, were the only surviving programmes of direct state employment creation. The latter is a national programme to be implemented by provincial administrations (MTSS, 1997).⁸¹

The coverage of Argentina's state temporary employment creation programmes is much less extensive than that of Chile's earlier schemes, i.e. those implemented as from 1975 to confront the dramatic rise in unemployment immediately following the application of the neoliberal reforms.⁸² Although notoriously insufficient to alleviate massive unemployment in the 1970s and

⁸⁰ The labour-intensive *Programa de Empleo Coparticipado* (PROCOPA), job provision in socially-useful projects targeted to long-term unemployed workers and to be administered by provincial governments, lasted one year, 1994, when it enrolled 3,500 beneficiaries per month; the *Programa de Empleo de Interés Social* (PROEDIS), jobs in community and social works, carried out through non profit organizations and addressed to specific groups of unemployed workers (with outdated skills, older than 45 years, or long-term unemployed), lasted only two years, 1993-95; its participants were less than 700 per month in 1995. The *Programa de Asistencia Solidaria* (PROAS) and *Programa de Entrenamiento Ocupacional* (PRENO), that involved some training, had both a two-year duration (1995-96), and a monthly average of approximately 26,800 and 8,900 participants, respectively, in 1995; *Asistir*, addressed to young workers and with some 13,000 beneficiaries monthly in 1995, was also discontinued after two years.

⁸¹ In early 1997 new community work projects were announced, that would provide temporary jobs to some 400,000 unemployed (Latin American Monitor - Southern Cone, 14(5), May, 1997). More details are in MTSS (1997).

⁸² Newer programmes of state direct employment creation in Chile seem to be very limited (e.g. an experimental training programme for some 700 household-head women created in 1992, to be administered by the SENCE; SENCE, 1993).

early 1980s, the Chilean programmes had reached a considerable segment of the out of work. The size of this segment declined over time, together with the fall in unemployment. The Argentine schemes of the mid 1990s are far from performing the same role. From their inception in 1975 and to their end in 1988, the employment emergency programmes in Chile, at different points, absorbed between a minimum of 4 per cent and a maximum of 13 per cent of the labour force.⁸³ At their peak, expenditure in emergency employment programmes represented 1.4 per cent of GDP (Scott, 1996). In Argentina, the PIT, at its highest in 1994, provided employment to the equivalent of only just over 0.2 per cent of the urban economically active population (EAP) and 2.2 per cent of the urban unemployed,⁸⁴ and its substitutes, *Trabajar* and community services, to some 2.5 per cent of the urban unemployed in 1996,⁸⁵ while expenditure in the latter programmes is equivalent to only 0.03 per cent of GDP.

The Argentinean "work intensive" programmes of state direct employment creation were implemented at a time when overall state employment was - at least in theory - being downsized, both via cuts in the civil service and through the privatization of public enterprises.⁸⁶ Although the reduction of public employment did not respond primarily to labour policy directives but was intended to contribute to reduce the fiscal deficit, the measures taken to limit hirings, stimulate voluntary exit from the public sector, and relocate redundant state employees, among others, could be regarded as labour market programmes and merit a brief digression. Laws and Executive decrees formulated in Argentina as from 1989, with application to the federal administration exclusively, established limitations on recruitment, facilitated employee relocation and introduced incentives to retirement and resignation;⁸⁷ imposed a "freeze" on vacancies; made dismissal somewhat easier; enforced compulsory retirement if legal requirements such as retirement age had been met; prohibited to hold more than one job within the public administration and to pay overtime; terminated temporary contracts; and provided specific training to foster shifts to private activity (Orlansky, 1993 and 1996a). This notwithstanding, actual reductions in state employment seem to have been due exclusively to privatizations.⁸⁸ State employment was affected by substantial cutbacks also in Uruguay. In 1990, new rules on civil service employment were passed, *inter alia* encouraging the internal relocation of civil servants, severely restricting new recruitment, and establishing incentives to voluntary resignation (Correa Freitas, 1990); this resulted, as we have seen, in a -20 per cent drop in the number of state employment between 1989 and 1992 (even though state employment was to increase somewhat later).

4.1.3 Subsidized employment

Under this heading I consider those programmes according to which the state either directly subsidizes employment in the private sector (e.g. by paying the wages, partially or totally, of participants and some or all of their associated labour costs) or offers tax advantages to firms contingent on hirings and/or provision of work experience. Both types may or may not involve a training component.

Between 1994 and 1996, the Argentine government produced three programmes to

⁸³ On the basis of data in Romaguera et al. (1995).

⁸⁴ Own estimates on the basis of the monthly average number of beneficiaries (little over 29,000) and data on urban labour force and unemployment in 1994 from INDEC, EPH (MTSS, 1996b).

⁸⁵ On the basis of 39,000 participants on average per month in *Trabajar* and approximately 13,000 in community services (MTSS, 1997, provisional data), and INDEC, EPH data on unemployment in 1996.

⁸⁶ I say 'theoretically' because cuts in certain areas of the public administration were matched by hirings and re-hirings (Orlansky, 1996b).

⁸⁷ Early and voluntary retirement schemes were supported by external loans.

⁸⁸ More details are in Orlansky (1996b).

subsidize directly plain employment creation in the private sector (two still ongoing in 1996), each one of a more limited scope than the programmes of direct public employment creation, but some of them as short lived. The *Programa de Empleo Privado* (Private Employment Programme, PEP) was created in 1994 to replace the state funded PIT above described, on the grounds that PIT's funds had been distributed discretionally by municipal majors and council members.⁸⁹ The state paid part of the wages of participant workers, with and without previous training, who should be registered with the Employment Service Network, and be hired by private firms for at least 4 months. The initial monthly average of 1,108 participants in 1994 had more than doubled in 1995, but the figure still was exceedingly small; by the first half of 1996 the number of participants had gone down to a negligible 49 per month, as a newer programme (*Programa de Empleo Privado para PyME*), of similar characteristics but confined to small and medium enterprises (with up to 100 employees), created in 1995, was given priority instead. The latter's coverage also is smaller than the earlier PIT's.⁹⁰ Finally, *Forestar* subsidizes employment to be created specifically in forestry; the state offers the minimum wage for a maximum of six months, and covers the cost of the liability insurance policy that corresponds to work injuries.⁹¹ In 1996 the two ongoing programmes totalled some 20,000 beneficiaries on average per month (MTSS, 1997), equivalent to less than 0.2 per cent of the urban labour force and 1 per cent of the urban unemployed.⁹²

In addition to these programmes where the state funds the wages of participating workers, the so-called "promoted" temporary employment contracts exempted, partially or totally, from payment of social security contributions, and introduced in the National Employment Law of 1991, were also meant to stimulate employment creation in the private sector, this time by means of the tax rebates.⁹³ Among other restrictions, the law stipulated that they could be used only on the condition that collective lay-offs had not taken place in the last year, and that workers hired through these contracts should be in excess of the pre-existing employment volume. In 1995, special advantages were offered to small firms through a new law.⁹⁴ Of the four modalities, three are targeted to specific groups.⁹⁵ "Employment promotion" (*Fomento del Empleo*) is addressed to unemployed workers, including those expelled from the public sector due to administrative rationalization, and exempts employers from paying 50 per cent of payroll taxes;⁹⁶ *Práctica Laboral para Jóvenes* offers work practice to young workers (up to 24 years old) who have technical or professional skills; and *Trabajo-Formación* is targeted to unskilled young workers

⁸⁹ See *Página 12*, 25-1-94, in relation to the announcement of the new programme.

⁹⁰ Data in MTSS (1996b) and MTSS (1997).

⁹¹ Curiously enough if we compare its scope with those of the more general programmes, in 1995 *Forestar* benefitted some 10,400 workers on average per month, and 3,600 in the first half of 1996, while forestry employed less than 23,400 wage earners (0.5 per cent of all wage earners in the private sector), and its total employment share was less than 0.4 per cent (Population Census, 1991; data include, alongside with forestry, some other activities). According to the Ministry of Labour, the programme is to promote employment creation in forestry while at the same time stimulating the development of this natural resource (MTSS, 1996a).

⁹² In relation to the urban labour force and unemployment in 1996 (EPH, INDEC).

⁹³ These contracts were expected to foster job generation not only by way of the tax allowance but also by eliminating or reducing mandatory severance pay and the advance notice period attached to permanent contracts (this aspect is discussed below, as an indirect incentive).

⁹⁴ "Small" firms, with up to 40 workers and whose sales do not exceed an upper limit established by an advisory committee, are exempted from complying with the requirements (in the law of 1991) that these temporary contracts should be validated through collective agreements, be registered at the unified labour registry and in certain cases, pay compensation at termination.

⁹⁵ Limitations apply on the workforce proportion that can be hired under these contracts (100 per cent in firms with less than 5 workers, 50 per cent in firms with 6-25 employees, and 30 per cent in the rest).

⁹⁶ The rebate is on contributions to the retirement scheme, family allowances, the national employment fund, and the health care scheme for the retired.

looking for their first job; both are exempted from payroll taxes except those for the health care scheme and the national employment fund. The fourth, facilitating temporary contracts in the event of the launching of new activities, is not targeted, and the tax rebate is equivalent to 50 per cent of social security contributions.⁹⁷ Between 1992 and 1996, the number of "promoted" contracts increased almost fivefold, but still amounted to some 5,000, on average, per month.⁹⁸ Non-targeted temporary contracts, used in the event of initiating new activities, account regularly for the major proportion of all contracts under promoted modalities (50 per cent in 1996; 54 per cent of the accumulated total 1992-96), followed by "employment promotion" (43 per cent and 36 per cent, respectively; MTSS, 1997). The contracts that involve some training played a really minor role.⁹⁹

The new labour code in force as from 1995, introduced, together with the part-time contract and the trial period, the apprenticeship contract (minimum 3 months, maximum 2 years) for unemployed workers aged between 14 and 25, that implies substantial non wage labour cost reductions,¹⁰⁰ and a special temporary contract (minimum 6 month, maximum 2 years) applicable to workers older than 40, disabled workers, ex soldiers in the Malvinas/Falklands war, and, notably, women, with a 50 per cent rebate on payroll taxes except those for health care, and not entitled to severance pay at termination.¹⁰¹

Two other instruments created to subsidize private-sector employment involve some form of training. The main programme of subsidized training for young workers is the *Proyecto Joven* (Youth Project), created in 1993 and co-financed by the Interamerican Development Bank. It is targeted to low-income young workers (older than 16), that lack working experience, who did not complete secondary education, and who are unemployed, underemployed or out of the labour force. The programme is intended to provide skills (at semi-skilled level) that are actually demanded by the private sector; training is followed by a work practice period in a firm;¹⁰² state/IDB funds cover all training costs and the scholarships and subsidies granted to participants.¹⁰³ The other programme is *Aprender* ("Learn"), that works through the apprenticeship contracts given legal status in 1995; firms are expected to train unemployed workers between 14-25 years old; the government pays their health and work injury insurance if the contract is to exceed 6 months.¹⁰⁴ In April 1996 almost 24,000 persons registered at the *Proyecto Joven* sixth opening, while in the first semester of the same year the monthly registration with *Aprender* only averaged approximately 1,600.

In Chile, the programmes of subsidized private-sector employment are linked to training schemes. Two programmes, *Chile Joven* and an apprenticeship programme (*Aprendices*), were established in 1991 and 1988, respectively. *Chile Joven* is comparable to its Argentine counterpart (*Proyecto Joven*, above described). In fact, probably the Chilean programme helped shaping the

⁹⁷ The rebate applies to the same contributions as in *Fomento del Empleo*.

⁹⁸ Data in MTSS (1997).

⁹⁹ These totals do not count the contracts created in 1995 described next.

¹⁰⁰ According to Montoya (1996), this contract reduces non wage labour costs from the usual 61.5 per cent of gross wages to 5 per cent.

¹⁰¹ The proportion of workers that may be employed under this modality is limited, and depends on firm size: 100 per cent in firms with up to 5 employees, 50 per cent in those with 6-25, and 10 per cent in the rest; proportions may be increased by collective agreements.

¹⁰² Both periods sum six months (Montoya, 1996).

¹⁰³ The scholarship is US\$ 4.00 a day, \$ 8.00 during the work practice period. Insurance against work injuries is also funded by the state.

¹⁰⁴ An earlier programme of government subsidized training, *Programa Nacional de Pasantías* (PRONAPAS), initiated in 1994, was discontinued in 1996. It was targeted to unemployed workers, and implied work practice in firms during one to three months; in 1995 enrolment averaged 8,600 per month (data in MTSS, 1996b).

Argentinean one. Besides, to alleviate the problems brought about by the decline of coal mining, a re-training programme, with a component of subsidized employment, for these miners was started in 1992; it followed an agreement between the government and the miners' union permitting early retirement (after 25 years service) of underground miners.¹⁰⁵ *Chile Joven*, co-financed by the government and the Interamerican Development Bank, coordinated from a state unit, and run through private training institutes, is targeted to young unemployed workers, preferably between 15 and 24 years old, who are out of the schooling system (Romaguera et al., 1995). It has four sub-programmes: training and work experience in firms, work training to become self employed, training for young workers, and a kind of apprenticeship programme added in 1994.¹⁰⁶ As in Argentina, it is meant to provide the skills effectively demanded by the private sector. In five years, over 115,000 persons participated in this programme, the bulk of which, some 70 per cent, under the "training and work experience in firms" sub-programme (Paredes et al., 1996). The apprenticeship programme (*Aprendices*) is designed to train persons aged 20 or less on-the-job, and does not provide a subsidy but offers a tax rebate to firms that hire these young workers; it is not a "dual" programme as the work practice in a firm is its only component, that is, it does not include a stage of formal training; its scope is almost negligible, totalling some 560 participants in 1994 (Herrera and Ruiz-Tagle, 1996; Mizala and Romaguera, 1996).¹⁰⁷

The DINA in Uruguay, through the FRL, initially provided orientation and short training courses, as well as an additional benefit, only to unemployed workers that were receiving unemployment compensation, and attempted to find them a job; firms that hired these workers would obtain a 90 day payroll tax exemption on these contracts, but half of this rebate was to be given back to the FRL. In 1994, some 1,400 workers were enrolled in the retraining courses, a mere 2.5 per cent of the potential beneficiaries, but up to 1995 not one firm had applied to the tax incentive (Melgar, n.d.). Later, training supported by the FRL (now funded by worker and employer contributions) was extended to employed workers too.¹⁰⁸ *Opción Joven*, targeted to young people and co-financed by the state and the Interamerican Development Bank, was modelled along lines similar to the Argentine and Chilean programmes. It is targeted to unemployed workers, preferably women, between 15-24 years old, with no more than secondary education, and its objective is to generate skills appropriate to the actual private sector requirements; its continuation, *Projovent*, was initiated in 1996.¹⁰⁹ They include orientation, training, work practice in enterprises (the state subsidizing only the contributions to social security), scholarships for entrepreneurial training, and support to job obtention (Melgar, n.d.; Lasida and Pereira, 1997).

¹⁰⁵ See Foreign Labour Trends - Chile, 94-12, 1993. More details on the programme are in Herrera and Ruiz-Tagle (1996).

¹⁰⁶ The latter two also include work practice in firms.

¹⁰⁷ More details on this programme are in Mizala and Romaguera (1996). The authors alert about the risk that this programme could become just a mechanism to provide cheap labour for a short term without any commitment to training on the part of employers.

¹⁰⁸ See *El País*, April 4, 1997.

¹⁰⁹ This is targeted to young persons with no formal employment, who did not complete secondary education, who preferably are not studying, and come from low-income households; priority is given to women. Some 5,000 young people received training under either *Opción Joven* or *Projovent* (Lasida and Pereira, 1997).

4.1.4 Subsidized training not linked to employment

Some state programmes are intended to improve the "employability" of workers by providing or sponsoring training.¹¹⁰ The Argentinean *Talleres Ocupacionales* (training workshops), devised in 1995, are expected to help workers to become better adapted to the new skill requirements; they are targeted to both unemployed and employed workers, the latter if employed by small and medium firms. Trade unions, civil associations and non profit organizations would participate in these training workshops, and the required equipment is to be funded initially, up to an 80 per cent, by the Ministry of Labour.¹¹¹ In Chile, the scholarship programme, set in 1976 and still ongoing in 1994, had only little over 300 beneficiaries per month in this last year. It is financed by the state, administered directly by the SENCE, and targeted to low-income workers, including young first job seekers, informal and self employed workers, and dismissed workers (Mizala and Romaguera, 1996; Herrera and Ruiz-Tagle, 1996).¹¹²

But in Chile the state's main effort in the area of subsidized training (apart from the general educational system) is focused in training programmes for employed adults, via offering tax rebates to firms that provide training to their workers (the *Programa Empresas*, created in 1976).¹¹³ It absorbs almost 70 per cent of training expenditure. In 1995 over 430,000 workers completed training under this programme in Chile (Herrera and Ruiz-Tagle, 1996). Argentina also has a scheme (with a much more limited role in the occupational training system than the Chilean programme) based on tax allowances to firms that sponsor training, the *Crédito Fiscal*, meant to promote investment in training infrastructure; at its inception in 1980 it was applicable exclusively to manufacturing activities; it was extended to all economic activities and given renewed impetus in 1995.¹¹⁴ As we have seen, inclusion of these programmes in the category of labour market policies is dubious. In a way they belong to the broader state sponsored educational systems, that include also the direct provision of professional training in public-sector schools and state subsidies

¹¹⁰ Besides the programmes mentioned below, five other programmes, that are to provide free or partially subsidized training or orientation in Argentina in 1996, are listed in MTSS (1996a). Two are for persons that would start a new business (either as self employed or as small employers) and their employees: the *Micro* (the state funds 100 per cent of training costs for persons that have resources for setting micro enterprises but lack the necessary skills), with an estimated target of 1,500 small enterprise owners monthly, and *Emprender*, for workers and employers in new firms, with estimated 2,000 beneficiaries per month. The *Programa de Reconversión Empresarial*, also with an estimated number of 2,000 beneficiaries, is meant to improve competitiveness of already existing firms (state funds cover 50 per cent of training costs). The other two are *Capacitación para el Empleo*, whose potential 12,000 beneficiaries monthly include disabled persons and women with employment problems, and *Imagen*, to give orientation in job search to a potential number of 12,000 workers per month. Partial information on the implementation of some of these programmes is in MTSS (1997). On the other hand, the reforms to the labour code of 1995 included clauses on training, among which one that grants workers the right to use a number of hours per year to obtain training outside the workplace (see Montoya, 1996).

¹¹¹ Potential beneficiaries were estimated in over 51,000 annually (MTSS, 1996a), but this figure must still be revised (see MTSS, 1996b).

¹¹² A new law project modifying the training and employment statute, sent by the Executive to Congress in 1994, and still being debated in Parliament in 1996, proposes, among other aspects, to better focus state training subsidies on low-income workers, a change in training contents to increase productivity and enhance enterprise competitiveness, and the creation of a national training fund to help small and micro enterprises (details in Herrera and Ruiz-Tagle, 1996). Besides, there is a small training programme, in cooperation with the European Community, for small and medium entrepreneurs (SENCE, 1993).

¹¹³ The courses must be authorized by the SENCE and carried out by recognized training organizations or organized by the firm itself; the tax rebate amounts to up to 1 per cent of annual taxable wage bill (Romaguera et al., 1995). Full details on history, characteristics and scope of this programme, and its place in Chile's educational and training system are in Martínez E. (1992).

¹¹⁴ It offers to the private sector national-tax rebates of up to a maximum of 8 0/00 of the wage bill in exchange for sponsoring training in the firm or through other institutions. The allowance is to be spent in teachers, materials and training equipment. Firms that join the programme have to submit training projects and amounts committed to the National Institute of Technological Education.

to private schools that provide occupational training.

Also Uruguay has a system of state provided technical education of long standing, including the *Consejo de Capacitación de Personal* (Council of Personnel Training, COCAP) and the *Centro de Capacitación Profesional* (Center for Professional Training), the first one to train workers to be employed in the export industries (Melgar, n.d.). Besides, the *Instituto Nacional de la Juventud* (National Institute for the Youth, INJU) was created in 1991 to foster youth employment. The *Centro de Capacitación Profesional* is also targeted to the youth, and trains some 400 young persons per year (Melgar, n.d.). The orientation of these institutions is to improve employability: INJU's programmes include a scholarship programme (set in 1992) to help acquiring those work attitudes and behaviour expected to help young workers from low-income households to get jobs; some 340 persons obtained scholarships in 1993-94. The INJU has an information centre for the youth, provides vocational orientation, and advises in relation to small firm projects. In 1994, two two-year experimental programmes, one for training young workers and the other for developing entrepreneurial skills, co-financed by the state and the Interamerican Development Bank, were devised. The first is *Opción Joven*, discussed above. The second programme, to promote entrepreneurial activity among young persons, is to provide training, technical assistance, funds and monitoring during two years (Melgar, n.d.).

4.2. Unemployment compensation

The three countries have now, in the 1990s, unemployment compensation schemes; in Argentina it was created with the National Employment Law of 1991,¹¹⁵ but in Chile and Uruguay, as we have seen, they had been established earlier. In Argentina, funding for the unemployment insurance scheme comes mainly from the National Employment Fund, financed out of a payroll tax, whereas in Chile and Uruguay funds come from the General Treasury. Executive's proposals to reform the unemployment insurance system have been under discussion in Chile since the early 1990s. The reform projects imply a radical departure from the prevailing system, in that it would turn a public scheme, financed since 1987 exclusively by the national government, into a private system of individual accounts. This latter would be a "savings-credit" scheme (González, 1996), based on individual capitalization accounts, that accumulate worker and employer contributions; some state credit is envisaged in the case that the funds available at the time the worker becomes unemployed are insufficient.¹¹⁶ The project is consistent with the general move in Chile toward the privatization of "welfare" since 1981 when the retirement scheme was privatized, and rests on the assumptions that traditional unemployment insurance schemes have negative labour market effects,¹¹⁷ and that individual capitalization funds do not undermine the "work incentive" while at the same time protecting adequately workers in the event of unemployment. Projects in the same direction, originating in the government, circulated also Argentina, but have not been given legal status as yet.¹¹⁸

The three existing schemes to date (1997) were designed exclusively for wage earners, dismissed without a fair reason or as a result of collective lay-offs; in Argentina also workers

¹¹⁵ With the embryonic precedent created in the 1980s, mentioned above.

¹¹⁶ A small redistributive component for low-income workers is also envisaged (see Velásquez, 1996; and González, 1996). The new scheme is intended to modify also dismissal compensation.

¹¹⁷ For a critique of this assumption, see Marshall (1996b).

¹¹⁸ In various Latin American countries, so-called capitalization funds were built along similar lines, but in e.g. Brazil and Venezuela they coexist with traditional unemployment insurance schemes, and were meant to replace severance pay rather than unemployment insurance.

whose temporary contract has ended are eligible, and in Uruguay, those in temporary lay-off.¹¹⁹ Access is confined to workers registered with the social security scheme, and require a minimum length of worker contributions.¹²⁰ Workers employed in certain economic activities are not eligible for the unemployment insurance benefit: rural and household workers in Argentina and Uruguay; bank and state employees in Uruguay; construction - protected by an older, separate scheme - and public administration employees whose job ended due to rationalizations, in Argentina.¹²¹

Benefits are linked to the latest actual wage in Argentina and Uruguay (but with a top limit in terms of minimum wages), and only to the minimum wage in Chile. In Argentina and Chile, the duration and/or amount of the benefit vary according to the length of contributions to social security. The benefit ceases to be paid in Chile if a job offered by the SENCE, with a wage above 50 per cent of the last job's remuneration, is rejected, and in Uruguay if a "convenient" job offer is rejected without a legitimate cause.¹²² A cursory glance at table 8 suggests that the unemployed are better-off in terms of amount of benefit in Uruguay than in the other two countries, while the Chilean scheme provides the lowest compensation, although it is the most extensive in terms of potential coverage. Effective coverage is very low in the three countries, only marginally better in Uruguay.

4.3. Indirect incentives

Indirect incentives, as we have seen, are not usually classified into the category of active (nor of passive) labour market policies. Indirect incentives, such as the generalized elimination or reduction of payroll taxes and the "flexibilization" of employment protection regulations, are offered to employers in the expectation that lower labour costs and less

¹¹⁹ In Uruguay, wage earners whose working time has been reduced at least 25 per cent in relation to the normal time are also entitled to compensation.

¹²⁰ More details are in table 8.

¹²¹ In Uruguay, wage earners who fulfill all the requirements for having access to unemployment compensation but receive income from other sources, such as a secondary job as self employed, do not qualify, or, if this income is lower than the unemployment insurance compensation, they may receive the difference (more details in Melgar, n.d.). In Chile the unemployment insurance benefit is not compatible with subsidies for work injury and occupational disease (Velásquez, 1996).

¹²² "Legitimate" causes are: the unemployed is over-qualified for the job; the job could lead to loss of skills; it requires moving out of the area where the unemployed worker's family lives; and the wage is notoriously lower than what was customarily paid at the time of becoming unemployed (Melgar, n.d.).

Table 8. Unemployment compensation schemes

	benefit/wage	duration	effective coverage of unemployed*	financing	access requirements
Argentina 1991	50 per cent of latest 6 month wage ^a [min. 2/3 of MW, max. one and a half of MW]	4 months and proportional to contrib. period ^a	8 per cent	employers and other sources	unfair and collective dismissal/end temporary employment; registered with social security; ^b 12 months contribs. in latest 3 years
Chile 1982	first 6 months 1/4 of MW; next 3 months 1/3, and last 3 months 1/8, of initial benefit	12 months	8 per cent	national government [pre 1987, payroll tax, 2 per cent]	dismissal; registered with social security; 12 months contribs. in latest 24 months
Uruguay 1981-2	50 per cent of latest 6 month wage, up to 8 MW; ^c average benefit in 1991= 0.44 of average wage	6 months	16 per cent	national government	dismissal/temporary lay-offs; 6 months contribs. last year; 1 year out of UI compensation; private sct. only (banks/domestic serv. excluded)

* Approximate estimates

^a If at least 12 months contributions in latest 3 years; if at least 24 months contributions, four additional months but with 85 per cent of initial benefit; if at least 36 months contributions, additional four months, but with 70 per cent of initial benefit.

^b Specific conditions apply to workers from labour agencies; rural workers, domestic service and redundant public administration employees due to rationalizations are not eligible; construction workers have their own separate scheme.

^c An additional 20 per cent for workers with dependent family

Source: ILO, *Labour Law Documents*; Cassoni et al. (1994); González (1996); Velásquez (1996); Melgar (n.d.).

restrictions imposed on recruitment and dismissal will stimulate job creation. This type of labour market intervention has often been privileged within the Latin American region instead of the standard active labour market programmes.

Employment protection reform was one cornerstone of post 1990 Argentine labour policy; the labour costs reductions as well as the greater freedom to terminate employment that it would entail were regarded and publicized by the government as potential incentives to employment generation. Lay-off compensation had been increased in 1989, when the three-minimum-wages-per-year limitation on length of service compensation was eliminated; this change preceded the economic reforms and was against the "spirit" of the later labour law modifications. The Employment Law of 1991 reintroduced a ceiling but higher than the earlier one, as it now was three total collectively agreed earnings, exclusive of seniority benefits. In this context, the "promoted" temporary contracts, examined above, that reduced or eliminated the cost associated with dismissal, and the formalization in 1995 of the three-month trial period (no compensation is required if the employment relationship terminates at the end of this period) were supposed to help expand the number of available jobs.¹²³ Besides, from 1995, small firms have been allowed to alter dismissal regulations, in any direction, through collective agreements and were favoured by a shorter advance notice period. The generalized rebate of social security payroll taxes (the reduction varying throughout the country according to zone coefficients determined by poverty level and distance to the capital city),¹²⁴ launched in 1993, was meant also to stimulate the generation of employment, and as we will see the major government effort in terms of labour market expenditure, in this case, forgone revenues, centered in this area.¹²⁵

Before the reforms of the 1990s, labour protection in Chile was extremely weak, and the change towards enhancing protection was associated with democratization. As discussed above, the former erosion of labour rights had been one central component of the military's economic strategy, and it had implied the total transformation of individual and collective labour legislation (Paus, 1994). The civilian government undertook as from 1990 modest legislative reforms in some crucial areas, in the context of decreasing unemployment levels and a positive economic performance. In contrast to Argentina's labour law reforms flexibilizing the employment contract, in Chile the maximum period for fixed-term contracts was reduced from two years to one. Moreover, the possibility of dismissal without a cause ("*deshauicio*", incorporated in the labour code of 1979) was eliminated, and the earlier clauses that had been intended to prevent labour's collective action at the workplace were erased from the list of fair causes of dismissal. However, workers now may be dismissed due to "modernization" and "economic needs of the firm" as well as if they are considered not suitable to the job's requirements, and in these cases, after one year of employment in the firm, they are entitled to compensation. The cost of lay-off compensation

¹²³ The "trial" contract be extended up to six months via collective agreements. In fact, a trial period, exempted from paying compensation at termination, had existed in prior legislation, but had no status of its own; labour codes (both, the 1974 and 1976 laws) had simply stated that the threshold for being entitled to severance pay was three months of continuous employment in the firm. Also, the part-time and apprenticeship contracts were established in 1995. Pre 1995 part-time contracts had implied pro-rated payroll taxes and social benefits, but did not pre-exist explicitly as such in legal terms (Marshall, 1992).

¹²⁴ The reduction applies to employer contributions to the retirement scheme, the health care systems for active and retired workers, family allowances, and the employment fund; it differs according to zone coefficients, from 30 to 80 per cent. From 1996 payroll taxes decreased from 33 per cent of the wage bill to between 6.4 per cent and 22.4 per cent, depending on the zone coefficient (MTSS, 1996a).

¹²⁵ I return to this later. It should be mentioned also that indirect incentives included reforms to work injury protection (1992; 1995); among others, a private insurance policy is now mandatory. According to the government, the reform was to reduce costs from an average of 12 per cent of the wage bill to less than 3 per cent (MTSS, 1996a). However, from the employers' viewpoint, the new mandatory insurance policy is to increase costs excessively (on this discussion, see Feldman, 1995). The family allowance scheme was partially modified as well.

was increased, benefitting in fact only the workers with over five years employment in the firm, as the change approximately doubled the ceiling to compensation (one month wage per year of service) from five months wages to 330 days.¹²⁶ Still, after the labour law reforms in both countries, employment protection in Argentina continues to be stronger than in Chile, and labour costs higher. On the other hand, the retirement scheme in Chile continues to be financed only out of worker contributions.

In Uruguay employment protection had traditionally been permissive; protection against unfair dismissal only establishes a maximum of six month wages to length of service compensation (most issues are regulated via case law), and norms on temporary contracts are minimal (Marshall, 1993).¹²⁷ No substantive changes have been introduced in the 1990s in relation to contracts and dismissals in the private sector.

4.4 Wage setting institutions

In the 1990s, several Latin American governments, as it has happened in other regions, seem to be convinced that more decentralized collective negotiation would contribute to improve economic functioning. Among those that adopted this notion were the governments of Argentina and Uruguay, countries where industry-wide collective bargaining had been dominant in those periods when negotiation had not been prohibited (as we have seen, negotiation was recurrently banned in Argentina, the latest ban in 1976-84 but extended to 1988 in relation to wage bargaining; and it was forbidden during 1973-1985 in Uruguay). Whereas in Chile, where firm bargaining had legally become the exclusive form of negotiation since 1979, this norm was now relaxed to permit multi employer negotiation.

Since 1991 the Argentine government's wage policy has been directed to promoting decentralized bargaining and fostering the heterogeneity of wage increases, in line with productivity growth differentials. Formerly these aims had been assigned some role in the anti-inflationary package but, once inflation subdued, they were pursued in connection with other expectations, such as positive employment effects. Decentralization was pushed forward by successive legal measures (1991, 1993, 1995 and 1996).¹²⁸ In the government's view, decentralization permits a better matching between wage increases and the financial situation of individual firms. Particular emphasis has been placed on the benefits of decentralization for the smaller enterprises (specifically addressed to in some of the legislative measures), expecting that it will lead to greater differentiation in employment and working conditions between the small and the larger firms. On the other hand, the very role of collective bargaining was changed when it was legally permitted to negotiate collectively conditions less favourable to workers than those stipulated in the national labour code, of general application. Until 1995, legislation and case law established that the clauses "most favourable" to the workers were to prevail over all others. The regulations of 1995 on employment and labour relations in small firms made possible collectively-agreed modifications in any direction, the issues encompassing holidays, the 13th wage, employment termination and internal worker mobility. The new law also allowed separate bargaining for small firms; it established that representation of small firm employers in industry-

¹²⁶ Compensation for unfair dismissal is increased by 20 per cent (additional details in Coloma C., 1993; González, 1996).

¹²⁷ Fixed-term contracts are allowed if they are necessary "due to the nature of the work", and while there is no legally defined maximum length, courts have considered that an "extremely long" temporary contract cannot be permitted; there are no limitations on renewals either, restricted only on the basis of jurisprudence (Pérez del Castillo, 1990).

¹²⁸ The application of the Executive's decrees of late 1996 has been suspended, awaiting the Court's decision; it was taken to court in 1997 as it was rejected by unions and certain political parties. Some believe that, with the approaching 1997 Parliamentary elections, the government will be prepared to reach an accord with the unions, to the detriment of decentralization prospects (see Latin American Monitor-Southern Cone, 14[6], June 1997).

wide negotiation is mandatory, and that collective agreements should include specific regulations for small firms,¹²⁹ unless small firm agreements are negotiated separately. The Executive's decrees of 1996 (application suspended), among other aspects reinforced decentralization, declared agreements no longer valid once the term for which they had been signed expires and, in relation to the small enterprise, the prevalence of small firm over industry-wide agreements.

A similar stand in relation to collective bargaining was adopted in Uruguay; the government considered decentralization to be more suitable to enhance competitiveness in the context of the ongoing process of regional integration. Once again, however, the steps taken to expand decentralized negotiation have been less extreme than in Argentina. Following a few failed attempts in this direction as from 1990, the government finally withdrew from the tripartite wage councils¹³⁰ in 1992 (Rodríguez, 1996; Informe RELASUR, 1995); this withdrawal was intended to encourage bipartist bargaining in the hope of, in this way, fostering decentralization.¹³¹

In Chile, the labour law reform of 1991 permitted multi employer negotiation, but, still in 1993, enterprise agreements represented 99.6 per cent of all agreements (Chile, 1995), and a project that might have facilitated the extension of multi employer bargaining, sent to Parliament by the Executive, was rejected; employers also opposed the extension of coverage and of the issues to be negotiated collectively (González, 1996).¹³² It is worth noting here that, whereas in Argentina and Uruguay the terms agreed collectively are legally extensive to all workers in the firm or industry, irrespective of trade union membership (*erga omnes* clause), in Chile, in spite of the extension of coverage in 1990 to non union members at the expense of paying a fee to the union, still in 1995 collective bargaining covered only as little as 15 per cent of all the wage earners entitled to negotiate collectively in 1995.¹³³ In this period, as we have seen, also several comprehensive, centralized tripartite agreements were reached, that influenced the government's minimum wage policy, a fact that was to have repercussions on the wage structure.

Other collective worker rights were also modified. Limitations on the right to strike in essential services were imposed in Argentina at the beginning of the 1990s, but no other major change, apart from those affecting collective bargaining, was made (Feldman, 1995). Instead, in Chile, certain trade union rights were strengthened,¹³⁴ including the lifting of some of the severe restrictions on the right to strike (such as elimination of the 60-day limit to the duration of the strike) that had been introduced during the military regime. In any case, the right to strike in Chile still continued to be, even after the reforms, exceedingly limited: substitution of strikers is permitted explicitly (this is prohibited e.g. in Argentina). Further, labour's position showed few signs of improvement: union density in Chile did not increase between 1990 and 1995 (in relation to all wage earners, it was 19.8 per cent in 1990 and 19.3 per cent in 1995; González, 1996). Finally, in Uruguay, the right to strike, restored in 1985, has not been reformed, although the

¹²⁹ This latter became a requisite for obtaining state validation of collective agreements.

¹³⁰ In Uruguay one of the main mechanisms of wage bargaining was through the "wage councils" of tripartite composition, at industry-wide level.

¹³¹ The Investment Promotion Law project, originating in the Ministry of Labour, and under debate in 1997, proposed that certain issues, such as overtime working, rests, and holiday pay, should be regulated through collective agreements, within the limits established by the international agreements (see *El País*, April 6, 1997).

¹³² However, according to González (1996), although this project includes regulations that would facilitate inter-firm bargaining, it also introduces restrictions to inhibit constitution of labour monopolies.

¹³³ These estimates exclude wage earners not legally entitled to collective bargaining (coverage of agreements reached 13.4 per cent of wage earners in 1990 and 12.7 per cent in 1995 if workers not entitled to negotiation are not excluded; ETM-OIT, 1996). In any case, it was noted that collectively agreed benefits are often made extensive to non signing workers within the signing firm (OIT-ETM, 1996).

¹³⁴ Such as: small unions in firms with 25-50 workers were allowed; protection for union leaders' activity increased; union financing made easier; the negotiating authority of unions strengthened (see Foreign Labor Trends - Chile, 94-12, 1993).

government that started in 1990 had planned to legislate on the definition of legal and illegal strikes and on other procedural aspects in connection with the right to strike, as well as on lock-outs and protection against employer reprisals to striking workers. These reforms met with opposition and, until 1994, no new labour legislation had been passed (Foreign Labor Trends - Uruguay, 1993 and 1994). The unionization rate in Uruguay has been falling (29 per cent in 1987, 21.4 per cent in 1993), particularly in the private sector, but trade unions continue to play a significant social and political role.¹³⁵ By contrast, in Argentina, the evidence suggests that trade unions' socio-political influence weakened considerably, even though union density did not decline. The unionization rate in 1994, relative to all employed wage earners, was estimated to have been even higher than in 1991 (about 47 per cent and 44 per cent, respectively).¹³⁶

5. Labour policy effects

As it has often been pointed out, it is not easy to identify and evaluate the labour market effects of state labour policy and programmes,¹³⁷ and we have already seen that the numerous studies made in OECD countries did not produce clear-cut conclusions. One central assumption underlying evaluations is that government incentives shape employer and worker behavioural patterns. The methods to assess whether the prevailing labour legislation or legal reforms do influence labour market outcomes (employment, unemployment, wages) are various, including econometric simulation and the more qualitative emulation of "natural" experiments (pre and post reforms, cross-country comparisons). To evaluate the impact of specific labour market programmes it is usual also to examine whether these effectively concentrate in, or reach to, the targeted groups, and the extent to which, if those are the policy objectives, the programmes affect participants' employability prospects and subsequent earnings, and, via their effects on frictional and "structural" unemployment (the only components likely to be affected by policies to improve individual employability and the matching between labour requirements and workers' skills), the structures of employment and unemployment and, eventually, their rates and trends.¹³⁸ To organize the evidence on some of the central issues with reference to the three countries studied here, the following sections deal, successively, with scope and employability effects of active labour market programmes, coverage and access to unemployment compensation, consequences of "indirect incentives" (illustrated by employment protection policies)¹³⁹ in relation to overall employment and unemployment rates, and effects of changes in collective bargaining regulations on wage inequality.

¹³⁵ See Supervielle and Gari (1995).

¹³⁶ Figures cited by Feldman (1995).

¹³⁷ Evaluation of the impact of training programmes designed to upgrade labour force skills requires specific instruments, including those that make it possible to assess how appropriate are the contents of training in relation to occupational demands; this is not discussed in this paper.

¹³⁸ Still another evaluation comes from studies of programme cost effectiveness; this will not be considered in this paper. In relation to the evaluation of the results of active labour market programmes in OECD countries see, for instance, Disney et al. (1992) and Grubb (1994).

¹³⁹ I concentrate in employment protection regulations because studies of the employment consequences of across-the-board payroll tax rebates are very rare. In relation to Argentina's case, it was estimated that the rebates that started in 1993 transferred substantial revenues to firms, to the detriment of government finances and with no positive employment impact. One of the few studies available examined employment rates in 26 urban areas between May 1993 and May 1996, finding that in the areas benefitted by larger rebates employment had declined almost as much as in the other areas (the study was made by N. Dujovne and J. C. Hallak, and is cited by M. Montenegro in *Página 12*, Cash, 21-7-96). In any case, I examine in the coming section on labour market expenditure the available information on estimated forgone government revenues due to the generalized rebates to payroll taxes.

5.1 Active labour market programmes

The level of total expenditure on labour market programmes in each country, compared with spending levels in countries known to assign an important role to state labour market intervention, provides an estimate of governments' global commitment in this area, and of how large one might expect the impact of labour market programmes to be. On the other hand, the composition, in each country, of state expenditure in labour market programmes can give some indication on the government's major areas of concern and the main orientation of labour policy. Comparable levels of total labour market programme expenditure may hide substantial diversity in expenditure profiles. For instance, the structure of labour market expenditure varies strongly across OECD countries (see e.g. table 2).

In Argentina (not considering indirect incentives), Chile and Uruguay state "active" labour market expenditure is clearly low (table 9).¹⁴⁰ Although for Uruguay data on expenditure

Table 9. Comparative expenditure in labour market programmes GDP shares, circa 1996 (per cent)

	ALMP	ALMP less ES#	UI
Argentina	nd	0.14 ^a	0.13
Chile	nd	0.14 ^b	0.02 ^d
Uruguay	nd	n.d. ^c	0.30 ^e
OECD average*	0.93	0.79	1.60
OECD average 5 highest	1.94	1.77	3.09
OECD average 5 lowest	0.26	0.18	0.37

* 23 OECD countries, 1994-96

ALMP less employment services

^a projected expenditure for 1996 including fiscal credit to firms that sponsor training and income forgone due to promoted temporary contracts; 0.10 per cent, ALMP actual expenditure in 1996, not including income forgone;

^b 1994, includes training to employed adults; ^c budget assignation to DINAE only, 1995: 0.004 per cent of GDP, officially cited estimate of training and employment programmes (*El País*, 22-7-97), approximately 0.07 per cent of GDP; ^d 1991; ^e 1994.

Sources: OECD, *Employment Outlook*, Paris, 1996; MTSS (1996a) and (1997); Proyecto de Ley de Presupuesto, 1997; Mizala and Romaguera (1996); Velásquez (1996); Melgar (n.d.). GDP current prices, 1996, Argentina, in EIU (1997b); GDP current prices, 1994, Chile, in CEPAL, *Statistical Yearbook for Latin America and the Caribbean* 1995, Santiago; GDP current prices from Central Bank Uruguay, in EIU (1997a).

on all the cited labour market programmes are not available (labour market programmes have no separate assignation in the budget), the total assignation to the DINAE - as we have seen, one of the most important units in charge of labour market programmes - in the national budget represents only less than 0.01 per cent of GDP, and the officially cited estimate on expenditure in employment and training programmes in 1996 would be equivalent to not more than 0.07 per cent of GDP.¹⁴¹ In Chile, once the programmes of direct employment creation were discontinued, available data on active labour market expenditure refer to training programmes exclusively. Direct labour market spending in the three countries ranks low in comparison with OECD countries,

¹⁴⁰ Note that the 0.14 per cent of GDP estimate for Argentina in table 9, based on proposed funding for 1996, approximately coincides with the estimate based on money actually spent in 1996 (0.10 per cent of GDP), once income forgone due to use of "promoted" temporary contracts is subtracted from the former.

¹⁴¹ According to figures cited in *El País*, July 22, 1997.

closer to but still well below countries such as the U.S. and Japan, with the lowest levels of expenditure in these programmes.

Official documents in Argentina often include, within the category of labour market expenditure, estimates of forgone government revenues due to the elimination of or rebates to social security taxes.¹⁴² This latter appears to be, by large, the most substantial item of expenditure in labour market programmes: income forgone due to social security rebates (the official estimate, for 1996, of the revenues that would have originated in payroll taxes at their previous level) is equivalent to approximately 1.2 per cent of GDP and, if included in the total, would represent 90 per cent of expenditure in all the labour market programmes.¹⁴³ As we know, their impact in relation to the objectives posited is, at best, uncertain (and, in fact, between 1993, the year when the tax rebate started to be implemented, and 1997, at the time of writing, the effects appear to have been nil).¹⁴⁴ This notwithstanding, by mid 1997 yet another project, this time to fully eliminate payroll taxes, is circulating in Parliament.¹⁴⁵

Whilst in Argentina the composition of expenditure in labour market programmes shows, first, a marked preference for indirect incentives and then, if these are not counted, for training (45 per cent of total direct active labour market expenditure envisaged in the 1996 national budget) followed by incentives to private employment (36 per cent), in Chile, once the direct employment creation schemes ceased, the emphasis lies in training programmes, particularly in training for employed adults: 69 per cent of public expenditure in occupational training went to the *Programa Empresas*, 21 per cent to *Chile Joven*, 7 per cent to retraining of coal miners and the residual to the apprenticeship and scholarship programmes.¹⁴⁶ By contrast, out of 19 OECD countries, in nine the state does not spend anything on training for employed workers, and in other five expenditure on this group is below 10 per cent of training expenditure.¹⁴⁷ On the other hand, approximately similar proportions of expenditure in labour market programmes have been assigned in Argentina and Chile to schemes targeted exclusively to young persons (table 6).¹⁴⁸

Coverage of labour market programmes (against either the targeted population, the labour force, or the unemployed) gives some indication on the impact of state labour market expenditure. If the programme of firm training for employed adults in Chile were to be counted, the labour force proportions reached by active labour market programmes in Argentina and Chile would be comparable, but, if that programme is disregarded, Argentina is much better placed,¹⁴⁹ and clearly Argentina is better off also if we consider, instead, how substantial is the segment of the unemployed population benefitted by programmes directed specifically at the unemployed or at

¹⁴² The Labour Ministry's brochure on "*Modernización del mercado de trabajo*" (n.d.) estimates the GDP share of expenditure in employment policies in 1996 in 1.4 per cent, inclusive of income forgone due to across-the-board rebates. In this same brochure, however, direct and indirect labour market policies are differentiated. In MTSS (1996a: Annex), these rebates are classified as "incentives to private employment". Montoya (1996) considers indirect incentives as "active" labour market programmes (:44).

¹⁴³ This total does not include unemployment insurance. Data in the Annex included in MTSS (1996a).

¹⁴⁴ It is worth noting that the previous elimination of payroll taxes for the retirement scheme, during the military regime of 1976-83, did not stimulate employment creation either.

¹⁴⁵ The project, at draft stage still, is sponsored by the *Justicialista* party in government (see *La Nación*, International edition, June 17-23:5, 1997, "Estudian eliminar las cargas sociales").

¹⁴⁶ Data for Chile are from Mizala and Romaguera (1996). No such data are available for Uruguay.

¹⁴⁷ On the basis of data in OECD (1996), for the mid 1990s.

¹⁴⁸ It was not possible to include, in the case of Argentina, an estimate of forgone government revenues due to payroll tax rebates in "promoted" modalities targeted to the youth, but, as we have seen, they have seldom been used.

¹⁴⁹ Note that, in Argentina, coverage is estimated in relation to the urban labour force and the urban unemployed.

least susceptible of leading to some impact on unemployment (tables 10a and 10b).¹⁵⁰ However, coverage of labour market programmes addressed to the youth, relative to the unemployed young population, is similar in both countries.¹⁵¹ Whether the unemployment level or other criterion is chosen for evaluating the success of labour market intervention depends on the policy objectives set in each country, and in Chile purposes other than reducing unemployment appear to have been privileged once unemployment subsided to a more "reasonable", although still quite significant, rate.

As we have seen, the limited scope in Argentina of direct temporary job creation in the public sector contrasts with that of earlier programmes in Chile. Even though the labour force percent reached by these programmes in Argentina is close to the coverage of equivalent schemes in several OECD countries at the end of the 1980s (between 0.1 per cent and 0.5 per

Table 10a. Beneficiaries of training and employment programmes in relation to the labour force (per cent)
Beneficiaries: averages per month

	Argentina (1996)*	Chile (1994)	Uruguay
Direct state employment	0.3	--	--
Subsidized employment	0.4	0.03	nd
Without training	0.2	-	nd
Total	0.7 ^a	0.03 ^a	nd
Training not linked to employment	nd	0.6 ^b	nd
Of which: training to employed adults	nd	0.6 ^b	nd
Total for youth Relative to EAP < 25	1.0	0.5	nd

* In relation to the urban labour force, first half of 1996.

^a Does not include the tax incentive to firms for training, *Crédito Fiscal* and *Programa Empresas*; ^b Includes the *Programa Empresas*.

Sources: own estimates based on *Boletín de Estadísticas Laborales*, op. cit.; EPH (INDEC); Mizala and Romaguera (1996); INE in ETM-OIT (1996).

¹⁵⁰ We can ascertain only how large is the segment (temporarily) subtracted by the programmes from the unemployment count. Due to the few data available, methods developed to estimate the extent to which the programmes may affect outflows from unemployment, and thereby the aggregate unemployment level (see Disney et al., 1992), are not applicable here.

¹⁵¹ Data for Uruguay are not available.

Table 10b. Beneficiaries of training and employment programmes in relation to the unemployed (per cent)
Beneficiaries: averages per month

	Argentina (1996)*	Chile (1994)	Uruguay
Direct state employment	1.7	--	--
Subsidized employment	2.5	0.5	nd
Without training	1.1	-	nd
Training not linked to employment	nd	0.1 ^a	nd
Total	4.2 ^a	0.6 ^a	nd
Of which: total for youth Relative to unemployed < 25	3.3	3.3	nd

* In relation to the urban unemployed, first half of 1996.

^a Does not include the tax incentive to firms for training, *Crédito Fiscal* and *Programa Empresas*;

Sources: *ibid.* table 10a.

cent; OECD, 1990), these countries had lower unemployment levels than Argentina and, therefore, the percent of the unemployed covered by the programmes is much lower in Argentina.¹⁵² Chile ranks high, against various OECD countries, in terms of labour force percent in training programmes (table 11), but most of the beneficiaries are adult employed workers receiving training provided by enterprises that joined the *Programa Empresas*, whereas in most OECD countries the participants in training programmes mainly are unemployed and disadvantaged adults.¹⁵³ In general, the gap in labour market programme expenditure between the Latin American and the OECD countries seems to be much wider than the distance in labour force coverage, but in the case of Argentina, with higher unemployment levels than in the OECD, it would be more meaningful to compare coverage of the unemployed, which is not possible.¹⁵⁴

In sharp contrast to the advanced OECD countries, few studies on the potential impact of active labour market programmes on the individual workers' likelihood of improving their employment situations have been made in the Latin American countries, and most of them in Chile. In this country, several surveys monitored the occupational trajectory of workers who graduated from the *Chile Joven* training programme (that combines training and in-firm work

¹⁵² Programmes are not strictly comparable as in Argentina some training schemes are included. Of ten countries for which data on stock of participants in direct employment creation programmes were published, in seven they represent 0.3 per cent of the labour force or less (in OECD, 1990). Unemployment ranged between 3.2 per cent in Sweden and 9.9 per cent in France (average 1983-93; OECD, 1996). Comparison between Argentina and OECD countries is feasible for some schemes only since most data for OECD countries refer to inflows per year whereas in Argentina data tend to be on monthly averages (published figures are for benefits paid, and not for individual beneficiaries). Comparison of labour force per cent in programmes of subsidized employment also appears to place Argentina within the usual range in OECD countries; here, in any case, the comparison is impaired by the different ways in which training schemes that have a subsidized employment component, and *viceversa*, have been classified (of eight OECD countries with data on stocks, in six the labour force percent in subsidized employment programmes, generally exclusive of training, is 0.2 per cent or less; OECD, 1990). For their part, figures on trained persons per year in Chile seem to be comparable to inflows per year in OECD countries, and average monthly beneficiaries in Argentina and Chile also can be compared.

¹⁵³ The exemptions are Belgium, Denmark, Greece, Ireland and Portugal (see data in OECD, 1996).

¹⁵⁴ Published data are not comparable (see note 16).

Table 11. Comparative impact of labour market programmes: Selected OECD countries and Chile
Labour force percent of participants in labour market programmes*

OECD (1995-6)	
Greece	2.2
Spain	2.4
United Kingdom	2.5
Netherlands	2.5
United States	2.7
Canada	2.9
Italy	3.8
Germany	4.2
Portugal	4.9
Australia	7.6
New Zealand	9.9
Finland	11.4
France	11.9
Sweden	14.6
Denmark	18.8
Chile (1994) ^a	7.5
Chile (1994) ^b	0.4

* OECD: participants starting each year; Chile: persons trained during the year.

^a Including participants trained by firms that joined the tax rebate programme *Programa Empresas*; ^b State sponsored training programmes exclusive of *Programa Empresas*.

Sources: OECD (1996), and own estimates based on Mizala and Romaguera (1996) and OIT-ETM (1996).

practice), and their results consistently showed that participation in this programme increased employability.¹⁵⁵ It was found that the programme was really concentrated in the targeted population (more than 70 per cent of the participants were in the 18-24 age group, 63 per cent came from low-income households, 67 per cent did not have a job before registering at the training courses, and 52 per cent had primary and incomplete secondary education only).¹⁵⁶ In-firm work practices took place throughout all economic activities, although manufacturing firms were somewhat over-represented.¹⁵⁷ Over one half of the trainees that completed their work practice in 1991 (first call) had obtained a job within 90 days of completing training, and comparison with a control group of unemployed youth that had not registered with this programme suggests that the trained young workers had better chances of becoming employed and a shorter job search

¹⁵⁵ Of course, all the comparisons with the performance of control groups are subject to the same criticisms that were made to those undertaken in OECD countries (see, for instance, Disney et al., 1992).

¹⁵⁶ From Paredes et al. (1996), citing results from different surveys.

¹⁵⁷ See Paredes et al. (1996) for a detailed evaluation of the *Chile Joven* programme, characteristics of the work practice and the enterprises where they were undertaken, business and trainees views on the programme, etc.

period.¹⁵⁸ Among those who found employment, 55 per cent got a job that was related to the training received under the programme, and between one third and more than one half (depending on the survey) became employed by the firm where they had made their work practice (Paredes et al., 1996). The follow-up of trainees who had completed their work practice led to the conclusion that employment prospects are directly associated with age and with prior job experience: those who had some work experience before joining the programme fared better in terms of employment chances (Paredes et al., 1996).¹⁵⁹

In Argentina, perhaps because many programmes were short lived and the newer programmes have not lasted enough as yet, the analyses of the impact of labour market programmes are few, and, as in Chile, tend to be centered in the IDB sponsored project of youth training (*Proyecto Joven*). In this case, evaluations revealed that the programme was focused in the target group, as 83 per cent of the participants were less than 30 years old, most (91 per cent) had less than complete secondary education, and 49 per cent had been unemployed at the time of enrolling and another 39 per cent underemployed; moreover, most participants came from poor or low-income households (92 per cent).¹⁶⁰ In both *Proyecto Joven* and *Aprender*, in-firm work practices took place principally in the service sector (59 per cent and 88 per cent, respectively; over one half of the apprentices were employed in financial and business services, and 24 per cent in social and personal services).¹⁶¹ We know little about whether workers trained under these programmes improved their employment prospects *vis-à-vis* non participants of similar characteristics; one study monitored the situation of a sample of graduates from *Proyecto Joven*, finding that sometime later 51 per cent were in a job (comparing favourably with the control group in the case of men but not of women), less than one half of whom in a formal job (Moura Castro, 1997; Mitnik, 1997).¹⁶² Follow-up studies of how workers employed temporarily through the "promoted" or other modalities fared once the contract had ended are not available, but the fact that the hiring rates of workers with fixed term contracts (including those under "promoted" modalities) generally exceed their separation rates suggests that some might have remained in employment.¹⁶³ This relative lack of investigation is perplexing as, officially, strong emphasis has been placed on the programmes' "effectiveness", following World Bank guidelines.¹⁶⁴ For its part, in Uruguay it was reported that, out of 20,000 workers participating in employment and training programmes in 1995 and until mid 1996, 66 per cent later obtained a job.¹⁶⁵ Specifically in relation to *Opción Joven* and *Projovent*, the training programmes targeted to the young, evaluations concluded that they were focused in the target groups, and that about one half of those who completed training had obtained a job later, 15 per cent of whom only for 20 hours a week or less (Lasida and Pereira, 1997).¹⁶⁶

¹⁵⁸ A later survey confirmed that 58 per cent of the trainees under one of the *Chile Joven* sub-programmes had afterwards obtained a job (as against 38 per cent of the control group). It was found also that the earnings of those that had been employed prior to training increased after the training experience, but that while this compared favourably with the control group in the case of men, in the case of women the situation was the opposite (Paredes et al., 1996).

¹⁵⁹ On the evaluation of the effects of *Chile Joven* and the retraining programme designed for coal miners, mentioned earlier, see also Mizala and Romaguera (1996).

¹⁶⁰ Data refer to the sum of beneficiaries October 1993-March 1995, in MTSS (1996b).

¹⁶¹ Data are in MTSS (1996b).

¹⁶² Evaluations of this (with some methodological reservations) and other aspects of the programme implementation are discussed in Moura Castro (1997).

¹⁶³ Monthly data for December 1995-March 1997, in MTSS (1996b and 1997).

¹⁶⁴ For instance, anti poverty programmes, carried out under the Secretary of Social Development and sponsored by the World Bank, are being subject of close scrutiny to assess their effectiveness.

¹⁶⁵ According to a report made by Universidad de la República, cited in *El País*, July 22, 1997.

¹⁶⁶ Preliminary information. Comparisons with control groups are not documented.

5.2 Unemployment insurance

Expenditure in unemployment insurance schemes in Argentina, Chile and Uruguay is within the range of 0.02-0.3 per cent of GDP, comparing unfavourably to the 1.7 per cent average for 23 OECD countries, and to an average exceeding 3 per cent in the five OECD countries with the highest spending levels in unemployment insurance (table 9). In Argentina, expenditure on unemployment insurance did not rise *pari passu* with the unemployment,¹⁶⁷ but in Chile it did decrease mirroring its fall.¹⁶⁸ In Uruguay, the GDP share of the unemployment compensation programme increased threefold between 1985 and 1994, while unemployment tended to remain, with oscillations, approximately at the same level.¹⁶⁹

In the three countries the coverage of the unemployment compensation scheme is frankly small (table 8); it is small even in relation to the more circumscribed segment of the unemployed entitled to compensation. In the case of Argentina this scanty coverage may be attributed primarily to the legal requirements in combination with widespread lack of registration with social security, i.e. with extensive clandestine employment. In fact, in Buenos Aires, only some 17 per cent of the unemployed were entitled in 1995 to receive the unemployment benefit (a figure that results from subtracting from the unemployed, successively, first job seekers and the unemployed coming from non eligible economic activities, then those that do not qualify because the cause of unemployment was not dismissal or end of a temporary contract, and finally those who have no access because they did not contribute to social security; table 12).¹⁷⁰ And, further, only less than one half of this small segment of entitled unemployed workers were actually receiving the benefit (Marshall, 1996b). Young workers, women, persons with higher educational levels, employees from the real estate and financial sectors and from public administration, as well as from small firms, are over-represented among those not obtaining unemployment compensation but entitled to it; this suggests that access to compensation among the entitled population is determined by certain individual characteristics (such as higher education or a secondary position in relation to household income), that make workers less prone to request the unemployment insurance benefit, combined often with a less formalized employment relationship (Marshall, 1996b).

In Chile, only 22 per cent of the unemployed workers were eligible (because they had been dismissed) for unemployment insurance compensation in 1991.¹⁷¹ From these, just 37 per

¹⁶⁷ Between 1993 and 1996 the number of unemployed almost doubled, but unemployment insurance expenditure increased 22 per cent (on the basis of data in MTSS, 1997).

¹⁶⁸ Annual expenditure in constant 1991 million Chilean pesos went down from 4542,7 in 1988 to 1704,2 in 1995, as unemployment was reduced from 9.3 per cent to 5.5 per cent (data in Velásquez, 1996).

¹⁶⁹ Data in Melgar (n.d.).

¹⁷⁰ If, alternatively, we consider only those who did receive a formal dismissal telegramme, another requirement (with certain exceptions) to obtain unemployment compensation, eligible workers amount to 12 per cent of the unemployed (table 12).

¹⁷¹ This estimate comes from contrasting the eligible 80 thousand (cited by Velásquez, 1996) with the 353.2 thousand unemployed workers in 1991 (INE's new data series, in OIT-ETM, 1996).

Table 12. Argentina: Composition of the unemployed population and entitlement to unemployment compensation, 1995.
Buenos Aires (per cent)

	No.	Per cent
Unemployed with a previous job	781,902	89.2
- Who were wage earners	588,667	67.2
-- And were dismissed/or temporary job ended	472,022	53.8
--- Dismissed, exclusive of domestic service and construction workers (a)	242,818	27.7
--- Temporary job ended, excl. of domestic serv. and constr. wrks. (b)	76,258	8.7
---- (a) who also contributed to retirement	135,070	15.4
---- (b) who also contributed to retirement	14,147	1.6
---- (a) who also received dismissal telegramme	92,715	10.6
First job seekers	93,400	10.8
Total unemployed	876,410	100

Source: own estimates based on data from INDEC, EPH, in Marshall (1996b).

cent obtained the benefit (Velásquez, 1996), representing 8.5 per cent of all unemployed workers in that year. The small coverage in relation to the workers legally entitled to compensation has been attributed by some to the very low level of the benefit, that would discourage individuals from applying (González, 1996), but the determinants of low coverage do not seem to have been studied empirically.

The unemployed workers that in 1994 were receiving compensation in Uruguay represented between some 3 per cent (according to the household survey in urban areas) and 16 per cent (an estimate that results from contrasting the number of unemployment compensation recipients registered at the *Banco de Previsión Social* with the urban unemployed).¹⁷² Low coverage partly results from the fact that wage earners employed in agriculture, the public sector, domestic service and banking are not entitled to unemployment insurance compensation. In addition, as Melgar (n.d.) points out, the distinctive economic structure of unemployment insurance beneficiaries, as compared with that of all unemployed workers who had been in a previous job and were eligible for compensation, suggests that non registered employment plays an important role in explaining lack of access to the unemployment insurance scheme in Uruguay: more formalized sectors such as manufacturing and construction are over-represented among unemployment benefit applicants (table 13). In any case, since the 1980s the increase in the number of unemployment compensation recipients has been substantial; according to Melgar (n.d.) this expansion is not correlated with changes in the unemployment rate but with rising social security registration.

¹⁷² Data in Melgar (n.d.) and INE, Uruguay, 1995a. This divergence could be attributed to the fact that survey data come from a sample, where unemployment compensation recipients, a small population, may be under-represented. According to the household survey, beneficiaries reached 2.6 per cent of the unemployed (14.4 per cent among men), and 3.5 per cent of the unemployed with previous job experience (Melgar, n.d.).

Table 13. Uruguay: Economic distribution of unemployed workers and applicants to unemployment compensation, 1994 (per cent)
Activities eligible for unemployment compensation only

	Unemployed*	UI applicants
Manufacturing	26.2	64.7
Construction	9.6	21.9
Commerce	24.9	8.4
Services	34.5	2.7
Transportation	4.5	2.3

* Total includes a few unemployed from the public sector, self employed workers and domestic service; agriculture and banking are excluded.

Source: Melgar (n.d.).

5.3 Indirect incentives: Employment protection reforms

It has been argued that relaxation of employment protection regulations would stimulate employment creation in the private sector and, thereby, contribute to reduce unemployment. However, curtailment of protection in Argentina had no positive effects on employment growth nor on unemployment trends, and neither did enhanced protection in Chile induce unemployment increases (tables 3, 5 and 14), even though employer recruitment and dismissal strategies seem have been sensitive in the short term to both flexibilization (Argentina) and tightening (Chile) of protection (Marshall, 1996a).

In Argentina, initially the use of "promoted" temporary employment contracts was only modest;¹⁷³ it was estimated to have represented just some 1.5 per cent of all new recruitment in the first half of 1994 (Feldman, 1995). By the first half of 1997, however, concomitantly with the steady fall in open-ended employment, a very significant increase in "flexible" contracts was underway (December 1995 = 100; June 1996: total = 100.4; open-ended = 97.4; fixed term = 144; trial = 168.5; March 1997: total = 103.5; open-ended = 92.6; fixed term = 234.1; trial = 782.8).¹⁷⁴ Therefore, since the time of the labour law reforms, there has been an ongoing process of replacement of workers with permanent employment by temporary wage earners. Between early 1996 and 1997 permanent contracts went down from 94 per cent to 83 per cent of total employment; the obverse was that the share of workers employed under "trial period" contracts increased almost seven times, and that of workers with fixed term contracts doubled (MTSS, 1997). In manufacturing, this took place in the wider context of continued employment declines in spite of the expansion of output until the crisis of 1995 and after resumption of manufacturing growth in 1996-97 (table 14). Argentina's negative manufacturing employment performance, as we have seen, resulted primarily from the effects of trade liberalization combined with domestic currency appreciation. Economic transformations, and their impact on investment and productivity, naturally were more powerful determinants of employment trends than changes in labour market legal regulation. On the other hand, the effects of the promotion (via temporary

¹⁷³ In fact, employers considered the temporary modalities introduced by 1991 Employment Law to be still too constrained, as trade unions had been granted some power of approval.

¹⁷⁴ Data for the formal sector, based on a survey to 200 enterprises, in MTSS (1997).

contracts entitled to labour cost rebates) of female and youth employment (among other groups) are uncertain. Between 1992 and 1995 unemployment among young workers increased somewhat less than did the average rate (EPH, INDEC, in MTSS, 1996b), and between May 1995 and October 1996, once the apprenticeship contract had been introduced, the unemployment rate of workers aged between 15 and 19 fell more than the average,¹⁷⁵ but this could be attributed to other factors too. Women's unemployment declined more than male's after the creation of low cost contracts for women in 1995,¹⁷⁶ but the behaviour of labour force participation rates and, particularly, the distinctive employment structure of the female labour force could have played a role in explaining this development.

In Chile, during a period (1991-95) of rapid expansion, employment-output elasticities in manufacturing fell; this was due mainly to the fact that in 1994-95 the elasticities became negative; by the mid 1990s manufacturing employment was systematically lagging behind output growth (table 14). Such fall cannot be attributed necessarily (as neoliberals would) to a slowing down in recruitment following the rise in the cost of dismissal and to the somewhat less permissive regulations on temporary contracts.¹⁷⁷ The growth rate of productivity accelerated: in 1990-95 manufacturing productivity increased at an annual rate of 3.5 per cent, above the annual average of 0.8 per cent in the 1980s; the acceleration was more notorious in 1994-95, with a rate of 6.5 per cent per year. With expanding investment in manufacturing, the gradual process of technological change, led by the most export intensive industries, that started by 1989 (Agacino et al., 1995), may have finally provoked a switch to a more labour-saving growth path.

Table 14. Employment performance before and after the labour law reforms: Medium term employment output elasticities* and employment trends**

	1982-90 (pre reform)		1991-95 (post reform)	
	EOE	employm. % change	EOE	employm. % change
Argentina	3.14	-2.2	-1.54 ^a	-3.7 ^a
Chile	0.76	2.6	0.43	2.7

* Employment output elasticity (EOE) of annual average percentage changes in each period

** Annual average rate of change in each period.

^a 1992-95.

Source: own estimates on the basis of CEPAL, *Economic Survey of Latin America and the Caribbean* (several years).

¹⁷⁵ The latter data are for Buenos Aires (INDEC, EPH).

¹⁷⁶ Data for Buenos Aires (INDEC, EPH).

¹⁷⁷ According to a study of management reactions to changes in legislation in a sample of 21 firms, legislative reforms seem not to have had substantial effects on business practices; in particular, dismissal decisions were not affected by the somewhat higher lay-off costs (Romaguera et al., 1995).

5.4 Wage policy: Bargaining structures

In Argentina, the wage policy switch since 1991 in favour of decentralized negotiation was radical and, in actual fact, decentralization expanded substantially. Industry-wide agreements had ruled until the end of the 1980s; in 1990, they accounted for 96.5 per cent of the workers covered by collective agreements (Goldin and Feldman, 1995). In the 1990s, once decentralization became the object of official promotion, the share of firm-level negotiation tended to rise, although in terms of workers covered industry-wide agreements still continued to be the most usual form. The proportion of enterprise in total agreements rose from some 19 per cent in 1990 to 64 per cent in 1995 and 73 per cent in early 1996.¹⁷⁸ In Uruguay, the change in policy orientation in favour of decentralization took place later and by more indirect means, starting with the government distancing itself from collective negotiation agreements rather than explicitly regulating on the bargaining level, and decentralization seems to have been proceeding at a slow pace; by 1994 bilateral collective bargaining was increasing and some decentralization was taking place, although industry-wide agreements still dominated (Informe RELASUR, 1995). On the other hand, in Chile, although multi employer negotiation was permitted as from 1991, as mentioned earlier this opportunity of coalition bargaining was seldom used (only in 0.4 per cent of the agreements signed in 1993 more than one employer was involved). In any case, the impact of changes in bargaining structure is likely to be very limited in Chile, even taking demonstration effects into account, if we recall that coverage of collective agreements is confined to some 15 per cent of the workers entitled to negotiation. An additional caveat is that, in the three countries, data cover a period that is too short to appraise much more than the re-accommodations of the transitional period.

One possible approximation to the study of the impacts of changes in the regulation of collective bargaining is to look at trends in wage inequality. And, given the short time span since the regulatory reforms were made in the countries studied here, it seems premature to seek for the expected wider effects on employment and growth performances.¹⁷⁹ In any case, in 1990-1995, labour costs in manufacturing rose faster than productivity in Chile while the opposite was the case in Argentina.¹⁸⁰ Improvement in the labour market situation, and the fact that labour demand in manufacturing was rising until 1994, perhaps in combination with some strengthening of labour's rights, probably is behind the gain in wages in Chile. The reverse occurred in Argentina, that is, manufacturing employment fell and unemployment expanded. This suggests that, at least in this period, labour market conditions played a much more crucial role in the determination of the average wage than bargaining structures, and that one could hardly expect changes in negotiation levels to have any employment effects.

To study the effects of institutions on wage inequality in each country over time, it seems more appropriate to compare the dispersion of wage increments rather than that of wage levels; governments fix increments, and trade unions and employers bargain over rises. In fact, trends in levels and increments do not always coincide, especially in the short period. Growing dispersion of increments does not necessarily lead to a more unequal structure, and, even if wage increases were to be equal for all, this would automatically generate an increasing dispersion of wage levels.

What does the evidence on wage dispersion say on potential effects of the official

¹⁷⁸ Data in MTSS (1996b). However, of all the still valid agreements up to 1996, only 13 per cent applied exclusively to one firm or establishment.

¹⁷⁹ What follows draws partly from Marshall (1996c), where the impact of centralization of wage determination in Latin America is discussed.

¹⁸⁰ Data in *OIT Informa, Panorama Laboral '95*, 2, 1995. No such data are available for Uruguay.

encouragement to decentralized negotiation in Argentina and Uruguay?¹⁸¹ Consistently with the expansion of decentralized bargaining in Argentina following the wage policy change as from 1991, between 1991 and 1993 the dispersion of wage increases in manufacturing jumped (Marshall, 1995),¹⁸² showing the effects of reduced coordination. In 1991-95, the dispersion of wage increments was visibly larger than in 1987-91, a period where wage negotiation had been allowed (coefficients of dispersion: 1987-91 = 0.11, and 1991-95 = 0.23).¹⁸³ And in Uruguay too, state's withdrawal from negotiation since 1992 and the incipient decentralization of bargaining appear to have affected the dispersion of manufacturing wage increments in the short period (the coefficients of dispersion, rather low, of wage increments are 0.08 and 0.11, for 1989-92 and 1992-95, respectively).¹⁸⁴ These results suggest that state promotion of decentralized bargaining led to the (expected) less coordination in wage determination and more diversity in wage change (although, judging by the more thorough study of the Argentine case [Marshall, 1995], with little indication of the wished-for association with differential productivity growth).

6. Final remarks

The three countries studied here appear to endorse the basic tenets of the standard labour market intervention model that emerged and consolidated in the advanced countries. They differ, however, in how fully the model has been adopted and the extent to which it has been executed, the relative emphasis in its diverse components, and the timing and speed of application. In fact, Chile was a pioneer, since labour policy was oriented by some of the model's principles since the seventies.

Looking specifically at labour market programmes, it is clear that in Argentina, Chile and Uruguay their implementation is fundamentally distinct from the actual workings of model variants in OECD countries, particularly in the most advanced. First, as we have shown, governments' commitment in terms of expenditure and coverage is clearly much weaker than in the OECD. Second, the analysis revealed that there is a preference for indirect incentives (Argentina) and for measures addressed to employed adults (Chile), both of which received less state support in the OECD. Third, even though unemployment insurance could hardly be labelled as generous in these countries, it has been questioned in the light of presumed negative effects on the work incentive that not only could not reasonably be expected in countries where the requisites for access in fact exclude more than 90 per cent of the unemployed but neither were demonstrated to dominate in OECD countries with much more liberal schemes. On the other hand, if we consider the model guidelines in relation to the removal of obstacles that hinder employers' freedom of recruitment, deployment and relocation of workers, and to the decentralization of wage negotiation, these seem to have been followed much more closely (again, particularly and earlier, in Chile).

Apart from the contrasts between Argentina, Chile and Uruguay on the one hand, and advanced OECD countries on the other, there is substantial divergence in the application of the

¹⁸¹ The analysis focuses in manufacturing wages since data on wages in other sectors are sparse. It is to be noted that, given the negligible use of multi-firm negotiation in Chile, just mentioned, it does not seem reasonable to expect that the policy change affected wage dispersion, and therefore trends in wage differentials in this country are not examined here (besides, data on earnings are available only until 1993).

¹⁸² Coefficient of variation of annual average wage increases: 1987-90, 0.07; 1991-93, 0.37 (Marshall, 1995). This, however, as there was some upward realignment of the lowest wages, had no correlate in that short period in the dispersion of wage levels that, on the contrary, decreased.

¹⁸³ Own estimates based on data on earnings per hour in ILO, *Yearbook of Labour Statistics*, 1996 (dispersion of annual average wage change in each period).

¹⁸⁴ Own estimates on the basis of ILO, *Yearbook of Labour Statistics*, 1996; data on earnings per month, index numbers (dispersion of annual average wage change in each period). The coefficient of dispersion for the preceding period with wage bargaining (1985-88) resembles that for 1989-92.

model among Argentina, Chile and Uruguay. Differences are, to some extent, the result of disparities in social and political pressure. The model's core (relaxation of labour protection and decentralization of wage bargaining) was instituted in Chile under the unconstrained force of a military regime, whilst it is being implemented in Argentina under the disciplining impact of large-scale surplus labour, but within the restrictions imposed by the political requirements of democratic functioning. Even though in Uruguay the situation resembles that of Argentina, the impact of unemployment seems to have been less harsh (changes over time were less dramatic) and political constraints stronger, so that labour reforms are more gradual and less sharp. In Chile, once the military were replaced by the civilian government, unemployment declined and the unions were somewhat strengthened, labour market intervention reversed partially in some respects. In any case, within Latin America, Chile continues to be the paradigmatic case of the neoliberal model of state labour market intervention and, although in a more favourable position than formerly, trade unions are still weak.

One significant point is that while governments in all three countries, and particularly in Argentina and Uruguay, are pressed by the need to attain more adequate employment growth rates and reduce unemployment, in all three state labour market intervention is constrained by the policy decision to maintain fiscal discipline. In Argentina, for instance, social and political restrictions have obstructed the substantive reform of the taxation system that would make it possible to increase genuine government revenues, by way of imposing higher and progressive taxation on personal income as is usual in the advanced countries, and this has placed the burden of fiscal control on state expenditure.¹⁸⁵ Notably, the policy preference in Argentina for across-the-board indirect incentives to stimulate investment and employment at the cost of reduced government revenues, as is the case with the rebates on payroll taxes, clearly conflicts with the aim of controlling the fiscal deficit, while the state self-restrains its responsibility for a more active intervention in employment regulation. But active labour market intervention seems to have resulted from the compromise between, on the one hand, (*ceteris paribus*) constraints on expenditure and, on the other, the need to manage social conflict and avoid the potential unrest that could be exacerbated by pervasive unemployment -- an aspect that becomes ever more demanding as election times draw nearer. This compromise took the form of limited but widely publicized activity, involving little direct spending, through the proliferation of programmes against unemployment, each one short-lived and with small actual incidence, instead of that of extending the entitlement to unemployment compensation to the labour force segments excluded from access. In contrast to unemployment insurance schemes that guarantee income support to all those who are entitled (for whom it is a lawful right), programme participation is a particularistic benefit granted by the federal or local governments, that could be withdrawn equally easily, and the criteria for determining the expected number of beneficiaries are often obscure. Employment *qua* anti-poverty programmes, apart from being oriented by a kind of workfare ideology, give governments the possibility of more a discretionary manipulation of benefits.¹⁸⁶ This less universal scheme of income support through *ad hoc* programmes for particular groups, defined in terms of very specific characteristics, fits better with the preoccupation about the fiscal deficit: expenditure is more confined, and can be more easily adjusted to conjunctural circumstances; programmes can be created and as well eliminated, enlarged or contracted, at the Executives' whim, as generally they do not require Parliamentary approval; and funds administered by local governments might be diverted more easily away from their original destination to other purposes.

¹⁸⁵ The discussion on the role of public expenditure based on genuine taxation revenues in stimulating GDP, and thereby employment, growth, examined by Boltho and Glyn (1995) in relation to OECD countries, is relevant to these countries.

¹⁸⁶ For instance, it was noted in relation to Italy's South that selection of participants in "socially useful projects" is prone to clientelistic manoeuvring (see Pugliese, 1996).

In Chile, civilian governments since 1990 have opted for continuing with the (still timid) emphasis of labour market intervention on training, in particular for employed workers, and this is consistent with the fact that enhancing external competitiveness is crucial for the prevailing growth strategy. It has been possible to do so for as long as labour demand has been on the rise, but developments by the mid 1990s (the slowing down of employment growth) open up an interrogation as to the forms of state labour market intervention in the near future, as does the uncertainty as to how solid is the growth base.¹⁸⁷ Promotion of the new "privatized" unemployment insurance scheme and the attempts to minimize employer severance pay insinuate that the switch to indirect incentive policies expected to favour employment growth may be given renewed impetus. Training policies helping to rise the competitiveness of manufacturing should be crucial to Argentina's growth strategy since 1991, and no doubt they were incorporated into the government's agenda of policy objectives, but this aim seems to have been overshadowed by the more pressings need of fostering employment creation and reducing unemployment, given that the very continuity of the ongoing economic strategy might be jeopardized by the devastating social consequences of long lasting unemployment.

In Uruguay, with high structural unemployment that affects very particularly the youth and shows no sign of receding despite economic expansion, the main traditional mechanism of absorption of excess labour, state employment, has been inhibited; and, as in Argentina, labour substitution seems to be one crucial impediment to employment increases in the private sector. The void left by the retrenchment of state employment was not filled as yet by new forms of state intervention; these are being set up, but the process seems to be slow and so far with small potential impacts.

On the other hand, whereas decentralization of wage negotiation was consolidated in Chile well before the 1990s, in Argentina, and to some extent also in Uruguay, substantial state effort has been geared to strengthen the role of bipartist and decentralized collective bargaining in the determination of a wider array of labour standards than what was customary in these countries, standards that until the 1990s had been regulated by the labour legislation of general application. In Argentina, although this has given motivation for repeated conflict in state-trade unions relations, decentralization did advance substantially and general labour protection was curtailed, both processes being facilitated by the impact of large-scale unemployment in weakening labour; nevertheless, the advance has taken place along successive "stalemate" situations, particularly at times of approaching elections. Once again, progress in the same direction has been more gradual in Uruguay, where political and trade union opposition was able to play a more important role. Whether bargaining decentralization will lead to consequences beyond greater inequality and weaker unions, such as general positive economic effects, is, at best, uncertain.

Active labour market programmes, particularly direct or subsidized job creation, offer to a segment of the unemployed some, albeit temporary, relief. But, as we have seen, they alone cannot solve the unemployment problem. In the same way as programmes for training the poor cannot reduce poverty unless enough jobs for the workers that were trained are created at the same time, circumscribed employment programmes generally end by sending back the participants to unemployment. The policy combination to combat unemployment requires a sound diagnosis of the latter's main causes, on which further research is indispensable, and the state's firm and more

¹⁸⁷ According to Richards (1997:156), "Chilean growth over the past twenty years has been largely ... the consequence of greater use of the country's resource base, including natural resources. No discernible advance can be detected in ... "total factor productivity", a function of technological progress and the formation of human capital (via education, training, and acquisition of skills); and ... "future prospects ... are constrained by the failure to provide adequate increases in the ratio of capital to labour and by inadequate allocation of resources to education."

direct involvement in employment generation.

Appendix

Table A. Manufacturing output and employment, and share of metal-machinery industries in manufacturing (per cent)

	Manufacturing/GDP				Mfg output (average change per year)		Mfg empl. (avg. ch. yr.)	Metal-mach./ mfg.	
	1970	1980	1990	1994	1985-90	1990-94	1991-95	1980	1992
Argentina	32.8	29.3	27.8	27	-1	5.6	-2.4	28.9	17.8 ^a
Chile	24.5	21.4	21	20.6	4.9	4.6	2.7	18.9	11.6
Uruguay	27.5	28.2	24.5	19.3	3.1	-1.9	-11.2	10.5	11.5

^a 1990

Sources: CEPAL, *Statistical Yearbook for Latin America and the Caribbean*, 1995; CEPAL, *Economic Survey of Latin America and the Caribbean*, 1994-95 and 1995-96 (1995 figures are preliminary; Argentina and Chile, total manufacturing employment; Uruguay, formal manufacturing employment).

Table B. Comparative labour market trends, 1990 and 1995-6 (per cent)

	Argentina		Chile		Uruguay	
	1990	1995-6	1990	1995-6	1990	1995-6
LFP rate	63.9 ^a	67.4 ^a	53.0 ^c	54.1 ^c	59.6	60.9
	39.0 ^b	41.9 ^b				
Employment rate	36.5 ^b	34.6 ^b	49	51.3	52.4 ^d	53.1 ^d
Unemployment rate	7.3 ^b	18.0 ^b	7.4	6.6	9.3	12.8
Unempl. rate of 15-24	15.2 ^b	29.9 ^b	13.1	16.1	26.6 ^f	29.4 ^f
Self employment/NAE	24.7	27.2	23.6	23.9	19.3	21
Small enterprise/NAE	14.9	18.5	18.3	20.8	11	10.8
Sate employment/NAE	19.3	13.8	7	7.7	20.1	17.7
Wage earners/employed	69.2 ^b	70.1 ^b	62.4	64	74.3 ^g	nd
Non regist./wage empl.	27.0 ^h		16.0 ⁱ	13.2 ^k	nd	nd
	29.6 ⁱ	33.6 ⁱ				

NAE: non agricultural employment

^a Standardized rates, for Greater Buenos Aires; ^b Urban (LFPR, non standardized); ^c In relation to population 15 and over; ^d Urban employment relative to total population 14 and over; ^e 1991; ^f 14-24; ^g In relation to EAP, 1985; ^h Wage earners not registered in the social security system, 1991; ⁱ *ibid.* but Greater Buenos Aires, 1995; ^j Santiago, 1991; ^k Permanent wage earners without written contract and/or not registered in the social security system.

Sources: *OIT Informa, Panorama Laboral '96*, 3, 1996; EPH, INDEC; 1991 Population Census of Argentina; ILO, *Yearbook of Labour Statistics*, Geneva: ILO, several years; OIT-ETM (1996); CEPAL, *Statistical Yearbook for Latin America and the Caribbean*, 1995, Santiago: CEPAL; Teitelboim (1992).

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