CHAPTER 18

THE LEFT TURN IN LATIN AMERICA

Consequences for Employment Relations

JOSE ALEMAN

Introduction

Since 1999, left governments have taken power in ten Latin American countries: Venezuela, Chile, Brazil, Argentina, Uruguay, Bolivia, Nicaragua, Ecuador, Paraguay, and El Salvador. By 2009, they governed more than two-thirds of the continent's inhabitants, a state of affairs never before witnessed in the continent's history (Levitsky and Roberts 2011a: 2). This 'left turn' (Castañeda 2006) has sparked considerable interest among scholars, particularly in regards to the effect of these governments on democratic governance and policy-making (Barrett et al. 2008; Cameron and Hershberg 2010; Levitsky and Roberts 2011c; Weyland et al. 2010).

This chapter investigates what effects, if any, progressive governments have had on employment relations in Latin America. Employment relations are sets of rules, policies, and practices that structure interactions among employers (whether private or public) and employees. Of interest to many is how progressive governments have addressed the poverty, unemployment, and abuse that labourers routinely experience in Latin America. When it comes to protecting workers against poverty and unemployment, the canonical literature on employment relations is quite clear in its recommendations. Scholars favour systems of protection that pool risks throughout the economy. This is typically accomplished by universal, taxpayer-funded systems of unemployment, pensions, and sickness benefits. Another way to provide some protection to workers is through employment regulation—also referred to as employment protection legislation (EPL). EPL consists of rules concerning hiring and firing. Taking into account changes in the partisan composition of governments in the region, the chapter examines how left governments have affected the provision of security and protection for the most vulnerable in these countries.

Due to its position in the world economy, its factor endowments, and its history, Latin America developed a model of employment relations known as the hierarchical market economy (HME) (Schneider 2009; Schneider and Soskice 2009). This model is characterized, among other factors, by labour markets with large numbers of informal, low-skilled workers, job tenures with some of the shortest durations in the world, economies with a few but highly diversified business groups, and atomistic labour relations. As Schneider (2009: 557) writes, under HMEs

> employees lack formal grievance procedures and representation and informally lack voice, because most of them are quite temporary. Unions have little influence on hierarchies within the firm, in part because so few workers are unionized, and in part because where unions do exist they are often distant from the shop floor. Finally, industrial relations are further structured by top-down regulations issued by national governments.

Of particular interest then is to what extent Latin America's progressive governments operate within the confines of this model. It is also important to ask to what extent the policies of incumbent leftists differ from those of previous left-leaning governments. Although employment policies have not attracted as much attention as reforms in other areas, rules and policies governing employment can achieve important macroeconomic goals such as income redistribution and employment stability. Therefore, employment relations systems provide an ideal setting to examine changes in economic policy-making resulting from the turn to the left in the region.

This chapter demonstrates that employment relations have significantly changed in Latin America since the progressive turn. Nevertheless, it is important not to exaggerate the extent of these changes. Progressive reforms are to be expected given the ideological leanings of these governments and the perceived need to address some of the continent's long-standing problems, but they do not primarily result from diffusion of a model of employment relations unique to these governments. Indeed, in countries such as Chile where a centre-left coalition governed before the election of President Lagos, the turn to a socialist government has only brought continuity with previous policies. What has changed to some extent is the environment in which progressive governments have come to power and attempted to pursue their respective agendas.

To argue that the nature of these governments is more important than their coming to power simultaneously is not to deny the role they have played in enacting reforms. After all, different governments would probably have maintained existing policies or made employment relations more flexible (Murillo et al. 2011b). Nevertheless, policies enacted in several countries in the last decade can be seen as an extension of changes introduced in the previous decade. This chapter discusses reforms in the region since the inauguration of Hugo Chávez as Venezuela's president on 2 February 1999, and situates these reforms in the context of previous ones and more enduring aspects of the political economy of employment relations in the region. The discussion highlights simultaneously what is unique about these countries in the last decade or so, and what can more properly be seen as a continuation with the past and the policies of other countries. The chapter proceeds as follows.

The first section reviews Latin America's left turn, that is, cataloguing which governments have come to power in which countries, and what makes this historical period unique in light of policy and other trends affecting the region. I am particularly interested in features of Latin American economies and labour markets that have conditioned the nature and scope of these reforms. The following section looks in more detail at different aspects of these reforms. Of particular interest is within-country variation in reforms before and after the left turn, and differences between progressive and non-progressive governments in their approach to employment relations. The chapter concludes with a brief discussion of continuity and change in Latin America in light of changes to employment relations around the world.

The Left Turn in Latin America

The election and inauguration of Hugo Chávez Frías as president in Venezuela is typically seen as marking the beginning of the left turn in Latin America.

> Chávez was followed in quick succession by Socialist candidate Ricardo Lagos in Chile (2000); ex-metalworker and Worker's Party (PT) leader Luiz Inácio Lula da Silva in Brazil (2002); left-of-centre Peronist Néstor Kirchner in Argentina (2003); Tabaré Vázquez of the leftist Broad Front (FA) in Uruguay (2004); and coca grower's union leader Evo Morales of the Movement toward Socialism in Bolivia (2005)... In 2006, ex-revolutionary leader Daniel Ortega and the Sandinista National Liberation Front (FSLN) returned to power in Nicaragua, while independent left-wing economist Rafael Correa won the Ecuadorian presidency. By decade's end, leftist candidates had also scored improbable victories in Paraguay (ex-Catholic bishop Fernando Lugo) and El Salvador... Incumbent leftist presidents or parties were subsequently re-elected in Venezuela (2000, 2006), Chile (2006), Brazil (2006, 2010), Argentina (2007), Ecuador (2009), Bolivia (2009), and Uruguay (2009). (Levitsky and Roberts 2011a: 2)

To the list one also has to add Cristina Fernández de Kirchner's re-election to a second term in 2011 in Argentina. In inaugurating Sebastián Piñera as president on 11 March 2010, however, Chile became the first protagonist of the wave to return a conservative politician and party to power. What sorts of policies and labour market conditions did these politicians inherit upon taking up the reins of power?

The conventional wisdom is that Latin America is, comparatively speaking, generous in its provision of both employment and social insurance considering the presence in this region of many less developed countries (LDCs). There appears to be some truth to these claims, as Botero et al.'s (2004) comprehensive study reveals. The project, the first global study of labour market regulation, includes two indexes that can be used to compare Latin America to the rest of the world for 1997, the year in which the study is based. Specifically, I compare the mean score for thirteen Latin American countries[1] with a global mean for eighty-five countries on two indexes—the employment laws index and the social security laws index.[2] For the employment laws index, the question is to what extent the regulation of the individual employment contract—including advance notice requirements and severance payments due when terminating a redundant worker—makes firms more likely to hire and keep workers. For the social security laws index, the question is to what extent the government requires employers to make contributions to unemployment, sickness, disability, and pension benefits, redistributing money from currently employed workers and employers to those without a job.

Whereas the mean employment laws index is lower for Latin America than the world (0.451 versus 0.488), this is not the case with the social security laws index (0.578 versus 0.569). One caveat is that these measures, which are based on formal legislation, do not take into account the poor or non-existent enforcement of labour regulations in Latin America.[3] The contrast between the government's avowed goals as reflected in labour legislation and actual protection as manifested in legal enforcement, is in part why widespread informality characterizes employment relations in the region (Schneider and Karcher 2010: 624; Schneider and Soskice 2009: 42). Due to the high cost of protective regulations, firms ignore their obligations, leaving many workers without a permanent contract and benefits.[4]

It is also noteworthy that at least on paper, governments in the region have made commitments to worker representation that rank as favourably as those made by governments of other nations. The collective relations laws index, for example, was slightly higher for Latin America than the world in 1997 (0.466 versus 0.445).[5] In her comparison of labour standards in four developing regions in 2006, however, Stallings (2010: 136) found that the difference between *de jure* and *de facto* labour standards is highest in Latin America and the Middle East. *De jure* labour standards are commitments governments have made to workers in the areas of freedom of association, the right to bargain collectively, and the right to strike. *De facto* standards take into account violations of these rules.

I do not disaggregate the data any further (i.e. geographically) because it is difficult to find additional patterns using aggregated indices of regulation. When regulation more accurately reflects the cost employers must bear for adjusting employment levels, however, the employment relationship in Latin America emerges as being considerably more regulated, particularly in regards to industrial countries (Heckman and Pagés-Serra 2000).[6] A comparison, moreover, of Latin America in recent decades to developed countries (DCs) when these countries were at a similar stage in their development—the mid-twentieth century—reveals profound differences. DCs in the early post-war period were characterized by higher levels of union density and lower levels of informality than Latin America in the last decade (Schneider and Karcher 2010: 626–7). Current indices of regulation are also higher for Latin America than other developing regions (Stallings 2010: 136).

If this generosity seems puzzling, it is because it is the legacy of the strongly protectionist development policies centred on import substitution industrialization (ISI) that countries in the region pursued. As Wibbels and Ahlquist (2011) explain, social insurance benefits were a crucial ingredient in the creation of privileged, urban workforces that could consume the goods produced by domestically oriented industries. It is important to emphasize, however, that in LDCs these policies have typically benefited only a small number of workers in the formal sector and data from Botero et al. (2004), as previously mentioned, cannot provide a sense of how many are covered by formal legislation or how strictly rules are enforced. This problem is germane to any attempt to evaluate employment relations using *de jure* rules and regulations unless a *de facto* measure is also computed (e.g. Stallings 2010).[7]

The study by Botero et al. (2004) provides a snapshot of employment relations two years before the onset of the left turn. Beginning with Ecuador's democratic transition in 1979, several countries transited to democracy in the region at the same time globalization gave politicians the cover to carry out profound economic reforms. [8] Both trends led to a number of changes in employment relations. Governments generally made collective labour laws—which regulate organizing activity, collective bargaining, and strikes—friendlier to the interests of workers, whereas they tended to deregulate individual employment contracts and their associated costs (Murillo 2005: 443).[9] According to Murillo, new democratic regimes, in particular those led by left-wing parties, responded to economic pressures that called for reductions in labour costs, while taking care to provide rewards to their electoral constituency. Murillo (2005) only considered reforms to labour codes that required parliamentary approval, neglecting changes that brought about more flexibility in employment relations enacted by presidential decree (Cook 2007: 55). Most democratic governments in the region, however, did not reform their employment practices to any significant degree (Cook 1998). Overall then, democratization resulted in some changes to employment relations, but not to the extent experienced in other areas of policy-making (Schneider and Karcher 2010: 629). Edwards and Lustig (1997: 2) went so far as to claim that '[i]t is no exaggeration to say that the labor market has been forgotten in Latin America's economic reform'.

Politicians' reluctance to deregulate employment relations to any significant degree is easy to explain in light of the structural constraints they inherited. The countries' HMEs have evolved over many decades and their limitations cannot be easily overcome. This gives democratic politicians no reason to tinker extensively with rules and regulations that provide certain benefits, at least to firms and a core group of workers. Nevertheless, market reforms are widely perceived as having failed to generate economic growth, reduce market inequalities, and create employment opportunities in the region (IBRD 2004: xi).

Progressive governments in recent years have then faced pressures to increase growth, reduce insecurity, and expand opportunities, albeit within the constraints set by the informality, lack of education, high turnover, and atomization that define employment relations in the region (Schneider and Karcher 2010). These conditions, moreover, are more constitutive of employment relations in Latin America than traits that define other models of employment relations such as those present in liberal market economies (LMEs) and coordinated market economies (CMEs) (Schneider 2009: 557; Schneider and Karcher 2010: 627).[10] The pervasiveness of HMEs, however, does not preclude differences between countries that turned left recently and those that did not. It is important then to determine to what extent employment relations differ between participants in the left wave and non-participants. To do so, I take advantage of the World Bank's *Doing Business Project*, a compendium of indicators of employment regulation and their associated costs for 183 countries that builds on Botero et al.'s (2004) study.[11]

The indicators made available measure flexibility (or rigidity) in the regulation of employment, specifically in hiring and firing of workers and working hours. They also provide information on money that firms have to set aside to cover social insurance charges and contributions (non-wage labour costs), and the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker (firing costs), expressed in weekly wages. Their advantage is that they provide the only measures of regulations and their associated costs that are comparable across time and space. Since the methodology used to calculate these measures has changed over time and data for non-wage labour costs are only available for three years (2006–8), I will only compare the overall measure of employment rigidity, the 'rigidity of employment index', in countries governed by left governments and those that are not. The rigidity of employment index is the average of three sub-indices: the difficulty of hiring index, the rigidity of hours index, and the difficulty of firing index.[12]

By construction, all the employment security variables are given on a 0–100 scale, with higher values indicating more rigid regulation. One drawback of the analysis is that data are only available from 2004 to 2010, missing several years of rule by left governments in some countries.[13] Nevertheless, there are enough observations to attempt to outline some significant patterns. [14] A one-way ANOVA indicates that the mean employment regulation score is similar in country-years under a left government as in country-years under other kinds of government (45.85 versus 40.07), but the difference is statistically significant. It would be interesting if this comparison could be extended back in time as well, especially in light of Latin America's higher than expected levels of employment regulation (IBRD 2004: 86).

I next conduct an exploratory factor analysis of five different indicators of employment regulation and their associated costs: the three sub-indices of employment regulation introduced above—the difficulty of hiring index, the rigidity of hours index, and the difficulty of firing index—and the indicators of non-wage and firing costs. Factor analysis is a statistical technique that looks for dimensionality in data, that is, it reduces multiple indicators of what is thought to be a latent variable to a smaller number of dimensions or factors that can be more easily interpreted conceptually. One can, for example, examine the loading of variables on factors, their sign, the variance that is not shared with other variables (a variable's uniqueness), and to what extent a correlation exists among the factors. In so doing, the analysis provides some idea of how much a particular factor matters, how important individual variables are to a factor, and how these dimensions relate to one another.[15]

Table 18.1 Employment regulation and non-wage labour costs in countries ruled by left governments

Variable	Factor 1	Factor 2	Uniqueness
Rigidity of hiring	0.511	0.492	0.407
Rigidity of hours index	0.476	–0.032	0.594
Rigidity of firing	–0.184	0.698	0.544
Non-wage labour costs	0.803	–0.072	0.335
Firing costs	0.057	0.480	0.660

Note: Columns represent rotated factors. Oblique method used, which allows factors to correlate with one another. High loadings, indicative of belonging to a factor, are highlighted. Positive signs indicate more rigidity/higher costs, negative signs the opposite. Uniqueness is the variability of a variable minus its communality, that is, it is an indicator of how relevant the variable is to the factor model (the more unique, the less relevant).

Table 18.1 presents the rotated factor matrix for twenty-one observations corresponding to left governments. Three factors were extracted from these observations, but since the first two account for most of the cumulative variance in the data, the third factor was dropped from the rotated factor matrix. Because the rigidity of hiring index loads highly on *Factor 1*, the first factor can be construed as identifying a latent dimension of hiring rigidity. The difficulty of hiring index, it should be pointed out, measures the existence and cost of alternatives to the standard employment contract. Its three sub-indices indicate (i) whether fixed-term contracts can be used only for temporary tasks; (ii) the maximum cumulative duration of fixed-term contracts; and (iii) the ratio of the minimum wage for a trainee or first-time employee to the average value added per worker. This factor alone explains nearly 82% of the variance in the data. Since the variables 'rigidity of firing' and 'firing costs' load highly on *Factor 2*, the second factor can be construed as a latent dimension related to firing rigidity.

The most revealing piece of information in this analysis comes from the high loading of 'non-wage labour costs' on the first factor. This indicates that in countries governed by left governments, employers cannot easily cut costs by avoiding the standard employment contract, while being required to contribute to social security benefits for their workers. *Factor 2* indicates that left governments also make it difficult and costly for employers to fire workers. The results reveal then that left governments strive to reduce precarious employment, while decommodifying to some extent the employment relationship for workers.

The contrast between left and non-left governments becomes more evident when we examine the rotated factor matrix for country-years under non-left governments in Table 18.2. Since no particular pattern emerges from this analysis, it is evident that there is something distinctive to the left turn in terms of employment relations. Perhaps not surprisingly, left governments in Latin America have tried to reduce precarious

Table 18.2 Employment regulation and non-wage labour costs in countries ruled by non-left governments

Variable	Factor 1	Factor 2	Uniqueness
Rigidity of hiring	0.381	0.159	0.809
Rigidity of hours index	0.665	0.017	0.554
Rigidity of firing	0.464	–0.022	0.788
Non-wage labour costs	0.324	0.308	0.767
Firing costs	0.282	–0.268	0.874

Note: Columns represent rotated factors. Oblique method used, which allows factors to correlate with one another. High loadings, indicative of belonging to a factor, are highlighted. Positive signs indicate more rigidity/higher costs, negative signs the opposite. Uniqueness is the variability of a variable minus its communality, that is, it is an indicator of how relevant the variable is to the factor model (the more unique, the less relevant).

employment, while providing workers some insurance should they become unable to work.

DCs rely more on unemployment insurance (UI) than on EPL, both because UI requires more economic resources to enact and political capital to implement, and because it is more redistributive while distorting the economy less. By pooling risks within the firm as opposed to society, EPL increases labour costs and undercuts redistribution (Murillo et al. 2011b: 809). Due to their low levels of development, however, LDCs may have to fall back more on employment regulation. The expectation is then that as countries develop, they relax employment regulation in favour of more generous social security benefits. If leftist governments in Latin America were moving in this direction, we would expect our analysis to delineate a dimension for non-wage labour costs separate from that of hiring rigidity, albeit possibly correlated to it. But Latin America may be an outlier in this sense since the region is home to countries like Argentina and Brazil with rigid employment regulations that also require businesses to pay high social security taxes (IBRD 2006: 24).

Having situated the left turn both historically and structurally, we can now examine in some detail which countries have made changes to their employment relations and what reforms left governments have enacted.

Employment Relations after the Left Turn

Students of employment relations in Latin America have observed that the economic reforms of the 1980s and 1990s had deleterious effects on workers and their labour market status: the number of workers in the informal sector increased, labour organizations weakened, and the public sector shrank as a result of extensive privatizations (Cook 2007: 15–33). Incumbent governments could not claim that their reforms 'were having a positive impact on formal-sector employment creation' (Cook 2007: 36). How then did progressive governments address these challenges?

Murillo et al. (2011b: 795) claim that from 2000 to 2010, there were fourteen reforms to EPL in Latin America, of which eight reduced employment flexibility and the rest increased it.[16] They define progressive reforms as the extent to which the regulation of the individual employment contract—and severance payments in particular—makes it more difficult for employers to hire and fire workers (Murillo et al. 2011b: 792). This contrasts with the 1985–99 period, when ten countries reduced employment flexibility, while twelve increased it.

Murillo et al. (2011b) also measure reforms in what they term 'personal compensation', which refers to costs employers have to bear both in terms of increased severance payments and/or expanded unemployment insurance when firing workers. These non-wage labour costs, as we have seen, are determined by employment regulations but are sometimes measured separately in studies of employment relations. The logic of considering these costs separately is that both programmes 'provide employed workers compensation for the risk of job loss, and in so doing affect their propensity to invest in skills that may affect the productivity of their firms' (Murillo et al. 2011b: 792). Comparing the left wave with the period immediately preceding it in terms of these costs, eleven countries experienced reductions and twelve increases from 1985 to 1999, while six experienced reductions and eight increases in 2000–9. At least in the areas of EPL and personal compensation then, the balance of reforms appears to be in favour of progressive governments.

Government partisanship is a very strong predictor of the type of reforms carried out, that is, left governments favoured progressive reforms in this period (particularly after 1999), whereas their conservative counterparts favoured labour maker deregulation (Murillo et al. 2011b: 802). When it comes to EPL, for example, government partisanship 'all but perfectly predicts the direction of reform in the post-1999 period'—more specifically, the progressive reforms of Néstor Kirchner in Argentina, Morales in Bolivia,[17] Lagos in Chile, and Correa in Ecuador. According to these scholars, partisanship also provides a perfect prediction of shifts in personal security in the post-1999 period. Both results corroborate my previous finding that left governments tend to couple rigidity in hiring and firing with more generosity in social insurance.

Turning now to reforms in unemployment insurance, it is true that no countries experienced reductions since 1985. But four countries enacted progressive reforms in 1985–99, whereas only two—Chile and Colombia—did in 2000–9, and Colombia did not take part in the left wave. It is hard to argue then that the left turn has resulted in societies that more consistently pool the risks of income loss and unemployment. As a number of students of UI programmes have argued, only seven countries offer unemployment compensation, and those that do provide meagre benefits for a short duration to a small percentage of the unemployed population (Murillo et al. 2011b: 796). The lack of more comprehensive systems of UI is at once a reflection and a cause of the segmentation and informality that exists in the region (Schneider and Soskice 2009; Schneider and Karcher 2010). It serves as a reminder of how difficult it remains, even for left governments, to break out of the confines of the HME.

It is in the area of UI then where left governments have not lived up to expectations. Students of social policy have argued that societies cannot ignore the pressures to reduce labour costs and increase economic competitiveness that globalization creates. As they do so, however, they also need to provide their workforces with the tools to survive and thrive in an increasingly interdependent world. A particularly successful formula in this regard is the provision of external flexibility and personal security that Denmark pioneered. This model is referred to as 'flexicurity', a combination of flexibility and security (Wilthagen and Tros 2004: 170). Where flexicurity operates, unions exchange strict EPL for more commitment on the part of employers and the government to fund social security benefits. Murillo et al. (2011b: 798) observe that these compromises are absent in Latin America even after 1999, as not a single country has increased the generosity of UI in exchange for reductions in severance payments.

Overall then, progressive governments have significantly affected employment relations in Latin America, but their impact remains limited and, as we have seen, it cannot be said that they clearly delineate a before- and an after-1999 era in employment relations. As Murillo et al. (2011: 793) note, 'cross-country variation in labor market reform is greater within than between time periods', an observation that sheds more light on the environment in which these governments came to power than the distinctiveness of the policy paradigm left governments have instituted. A post-2002 commodities boom (Schneider 2010: 209; Levitsky and Roberts 2011b: 423), improvement in the region's terms of trade, and the corresponding growth of policy autonomy can go to some way in accounting for the successes of progressive governments (Murillo et al. 2011a). It is also important to note that the reforms just reviewed were enacted with parliamentary approval. When less visible changes are considered, it is obvious that left governments may not consistently affect employment relations in a progressive direction. In 2005, for example, the Argentine government reduced the severance payment for a worker with twenty years of seniority from thirty months to twenty. After its unemployment rate fell below 10%, a 2007 decree abolished the 50% increase in severance payments that had been part of the 2002 emergency laws (IBRD 2008: 21).

The Left Turn and Employment Relations: Plus ça Change?[18]

The previous section has documented in some detail the reforms Latin American governments have undertaken in the area of employment relations. The discussion raises the question of whether these reforms are transforming the HME model in the region or are helping to perpetuate it. In this section, I examine more closely complementarities and continuities in this model and propose that a healthy scepticism should be adopted in assessing the ability of left governments to transform it. The argument made is that it is easier to reproduce the HME model of employment relations because there are important synergies at work involving their individual components (Schneider and Karcher 2010). Scholars have extensively discussed the permanence and viability of different models of capitalist accumulation and exchange despite common pressures to harmonize policies and institutions (e.g. Hall and Soskice 2001; Hall and Gingerich 2009). The synergies involved are usually in the form of one institution generating positive returns for another, as when vocational training in CMEs increases the return to employers of providing generous employment protection to their workers. In the Latin American context, the interaction of different aspects of the HME model usually produces sub-optimal outcomes by preventing those aspects of the model that function properly in other settings from having their intended effect.

Analysts generally agree on a few common characteristics of Latin American political economies: high levels of labour market regulation; unions (in the larger countries) that are too strong to be mere price takers in the labour market but too weak to force governments and particularly employers to partake in a comprehensive social contract;[19] a sizeable informal sector; and workforces with minimal education and skills. The interaction of these characteristics generates pervasive incentives that can blunt or negate the best intentions of social reformers. Let us take as an example the strict regulation of the labour market which, as already explained, dates back to the ISI period when governments sought to create economically secure and politically dependent urban working classes. From the standpoint of both employers and workers, the inclusion of some kind of protection in the employment contract is desirable. Typically, employers and workers cannot anticipate when the next downturn in the business cycle will occur. In this setting, the primary purpose of employment regulations is to give firms the incentive to internalize the risks associated with adverse market shocks while enhancing economic efficiency (see OECD 2004: 91). This reduces the volatility both workers and employers experience as a result of the business cycle.

Employment protection, however, is costly for firms since it can result in a larger workforce than managers would consider optimal, particularly in difficult economic times. This can leave employers saddled with wage and social contributions that they may be unable or unwilling to meet. When this occurs, managers are tempted to dismiss workers. In the presence of strong unions and strict EPL, however, they have to consider practices that redistribute available work opportunities. Japanese firms, for example, have traditionally responded to economic slowdowns by shortening work hours and retraining workers, as German companies also demonstrated in response to the 2008 financial crisis. These policies typically increase firm productivity, albeit in the medium- to long-term. To force employers to accept work-sharing, however, unions have to be strong both nationally and in work councils within the firm, far from the reality in Latin America, where labour groups exert some influence over political parties but lack leverage on the company floor.

Employers in Latin America are better organized, but hardly as organized as their European and Japanese counterparts. Ben Ross Schneider (2010: 313) writes in this regard that 'most of the thousands of business associations in Latin America are voluntary (save Brazil), sectoral, biased towards larger firms, and rarely geared toward bargaining collectively with labor'. Employers' lack of organization explains their inability to recognize EPL for what it is, an opportunity to raise the productivity of the firm. Doing so would result in a relationship between EPL and job tenure that is more in line with the global norm: workers tend to last longer in their jobs the more protected the employment contract is. In Latin America, on the contrary, EPL shortens job tenure (Schneider and Karcher 2010: 638).

The presence of strict EPL, or rather, the gap between *de jure* and *de facto* employment regulation, ensures that labour regulations are neither relaxed nor appropriately enforced. Employers for one have no incentive to reform a system that provides a buffer for managers who are reluctant to hire workers on permanent terms or to keep workers that have become redundant. For unions on the other hand, informality is not a pressing problem since they mostly represent the interests of formal sector workers. In addition, UI minimally protects the unemployed, ensuring workers have nowhere but the informal sector to turn to when they are laid off. A recent study on the effects of employment laws in developing countries finds in this regard that LDCs with rigid employment laws tend to have larger informal sectors and higher unemployment, especially among young workers (Djankov and Ramalho 2009: 3). The authors go on to note that the recent regulatory reforms enacted in several Latin American countries are larger in magnitude than similar reforms carried out in their developed counterparts.

Another perverse set of incentives involves unions and their ability to work with employers and governments to reduce informality and increase investments in education and vocational training. Proponents of the varieties of capitalism (VOC) approach note that the political economies of DCs can be divided into two groups depending on whether employees are in possession of mostly general as opposed to specific skills (Hall and Soskice 2001). Firms that employ workers with general skills, such as those in LMEs, do not favour vocational training programmes since skills are quite portable and workers are thus expected to change jobs frequently. Employers in CMEs, on the other hand, are said to be favourably disposed towards policies of skill upgrading since their workers are quite bound to their firms by virtue of the specific nature of their skills (Iversen 2005).

The distribution of skills in Latin American labour markets is, as we have seen, neither general nor specific. Labour forces are simply not very skilled. That said, labour unions, which have taken the lead in demanding job benefits and investments in skills in CMEs, are not in a position to do the same in Latin America. As students of DCs remind us, investments in skills specific to an industry, firm, or occupation are unlikely if both workers and employers face a risk of losing their investment (Estevez-Abe et al. 2001). Workers and employers, in other words, will not commit to costly investments in skills if skilled positions are not widely available and employers do not expect to keep their employees around for very long.

Were unions to be committed to upgrading the skills of their base, moreover, they would find that they lack the numbers and coordination needed to act as a counterpart to employers. The vast numbers of labourers in the informal sector, who are notoriously difficult to organize, keep a ceiling on how large unions can grow. Even assuming a higher number of unionized workers, it is difficult to imagine a situation in which unions would join employers in pursuit of long-term collective interests as opposed to narrow sectoral ones. In DCs, strong unions that are able to work in the public interest have emerged as coalitions of skilled and unskilled workers, primarily because the former have taken the lead in organizing their less-skilled counterparts (Carbonaro 2006: 1821). In Latin America, not only are the numbers of skilled workers low, but they are concentrated in large firms with limited local presence such as multinational corporations (MNCs).

Societies that continuously adapt to competitive market pressures, optimizing economic performance in the process, feature encompassing interest organizations (Wright 2000). This is particularly the case with workers, since the structural dependence of politicians on business managers sometimes translates into policies that allow substantial capital accumulation without a corresponding reinvestment of profits (Przeworski 1985).[20] Nevertheless, I do not wish to imply that if the will is there to break decisively with the HME, countries cannot undertake the reforms necessary to stop some of its perverse incentives, or at least to begin addressing them. In recent decades, globalization—by creating transnational networks of production and finance—may have had the unintended consequence of empowering workers in the countries where they most lack support (Anner 2011). Workers in these countries have taken advantage of transnational labour networks and campaigns to push for higher wages and better working conditions.

Criticisms of the VOC approach also serve as a reminder that analytical categories should not reify similarities among countries or preclude the possibility of change. In this respect, the HME model blinds us to the intra-regional variation in state structures and institutions affecting labour market actors across Latin America.[21] Many countries in the region, for example, feature corporatist systems of labour representation in which the state subordinates organized labour to its authority in exchange for various subsidies and benefits, but these structures vary from country to country, affecting in turn the ability of labourers to make demands and of governments to address them. Brazil and Argentina, for example, have experienced long histories of state corporatism. Yet in Argentina workers enjoy considerable state support for strong national unions and collective agreements, while Brazil has yet to allow national union centrals and national collective bargaining (Anner 2011: 9–11).

Conclusion

On balance, it is fair to conclude that in employment relations, as in other social and economic policies, 'no comprehensive alternative model' (Levitsky and Roberts

2011b: 413) or 'state guided development strategy' (Madrid et al. 2010: 158) has emerged from countries governed by the left in Latin America. It may be too soon for this, but there are reasons to be hopeful that reforms to employment relations may be setting the stage for solutions to some of the region's most intractable problems. A favourable political and policy climate, however, does not appear sufficient to generate these changes. Ironically, when unions have mobilized effectively, a number of progressive governments have stepped up enforcement and reformed labour laws (Anner 2011: 179). In Chile, for example, a wave of protest that began with the country's first general strike since the return to democracy in 2003 has led to reforms that significantly mitigate the level of informality. With the passage of the Outsourcing and Supply of Labour Act on 16 October 2006, the Chilean government took a decisive step to regularize the status of outsourced workers in one of the region's most flexible and unequal economies (Atzeni et al. 2011: 144–5). Resistance by employers to this Act has not gone unchallenged by workers, who have staged a series of strikes in the industries that most rely on these workers.

In Argentina, labour market deregulation, economic austerity, and neo-liberal restructuring in the 1990s caused a reduction in labour conflict (Atzeni et al. 2011: 143). The economic collapse of 1999–2002, conversely, coincided with an explosion in political protest and factory occupations by unemployed workers and radical grassroots movements just before the turn to the left in that country in 2003. The Kirchner government at first welcomed this activism before turning more repressive. Finally, of all the countries in the region, Uruguay best reflects the employment relations characteristic of social democracy (Lanzaro 2011). Yet even there, unions have used strikes and protests as a means to pressure the Frente Amplio government. By egging sympathetic governments on, grassroots mobilization contributes to the enactment and implementation of much needed reforms.

Notes

1. The thirteen Latin American countries for which data are available are Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Peru, Uruguay, and Venezuela.
2. All indexes range from a low of zero to a high of one. The global mean also includes the thirteen Latin American countries.
3. By relying on these indicators, I do not mean to suggest that flexibility is preferable since it lowers the cost of doing business for employers. Thinking of employment relations as a matter of degrees of regulation merely reflects the approach taken in the empirical and theoretical literature, which regards regulations and social charges as a cost employers must bear for adjusting employment levels (Heckman and Pagés-Serra 2000). Another criticism that is often made of Botero et al. (2004) is their leximetric approach, i.e. their attempt to quantify the economic effects of legal rules on businesses. This is somewhat inevitable, however, if the goal is to explain why certain governments create laws and regulations that make workers less dependent on the commodification of their labour. For a summary of criticisms of these measures, see Cooney et al. (2011).

4. Although studies indicate that the percentage of the workforce that is engaged in non-agricultural informal work has averaged 40% for the past several decades in the region, it is also important to note that this does not result in a stark dualism between insiders and outsiders, mostly because workers possess little formal or vocational training and job turnover is very high (Schneider and Karcher 2010: 631).
5. The index '[m]easures the statutory protection and power of unions' (Botero et al. 2004: 1349).
6. Botero et al. (2004) attempt to compute the full cost of employment regulation on labour demand, but this approach may not be ideal for engaging in cross-national, cross-regional comparisons. As studies of labour markets in Latin America make clear, what holds firms back from employing and training more workers is the high cost of regulations that preponderantly affect insiders. In contrast to the measure of firing costs provided by Botero et al. (2004) and included in their employment laws index, Heckman and Pagés-Serra (2000: 114) measure firing costs as 'the marginal costs of dismissing full-time indefinite workers'.
7. Even when both measures are provided, it is difficult to eschew leximetric comparisons because many aspects of the employment relationship refer to expectations about the cost of certain benefits embodied in a nation's legal and administrative codes. The only other available measure of labour market flexibility, for example, similarly uses the World Bank's rule of law (ROL) index to estimate the impact of enforcement on labour market flexibility (Stalling 2010: 148). Its drawback is that it is only available for one year, 2006.
8. The Third Wave in Latin America refers mostly to countries that were once democratic, succumbed to military coups, and then experienced a return to democracy. Some countries in the region—namely Colombia, Costa Rica, and Venezuela—never experienced a democratic collapse.
9. See also Murillo and Schrank (2005). More precisely, from 1984 to 2003, Murillo records twelve instances of regulatory and five of deregulatory reforms in collective laws, whereas in the same period she records six instances of regulatory versus ten of deregulatory reforms in individual labour laws.
10. LMEs refer to Australia, Canada, Ireland, New Zealand, the United Kingdom, and the United States. CMEs include Austria, Belgium, Denmark, Finland, Germany, Japan, Netherlands, Norway, Sweden, and Switzerland. In Hall and Soskice (2001: 21), France and Italy are 'in more ambiguous positions' and are hence categorized as mixed economies (or MIX).
11. <http://www.doingbusiness.org/methodology/employing-workers>, accessed 6 October 2011.
12. For more details of how these indexes are defined, see <http://www.doingbusiness.org/data/exploretopics/~/media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB12-Chapters/Employing-Workers.pdf>.
13. Those countries are Venezuela (1999–2003), Chile (2000–3), Brazil (2003), and Argentina (2003).
14. As previously noted, ten countries form part of the left turn. Countries governed by non-left parties for which data are available are Colombia, Costa Rica, Dominican Republic, Guatemala, Haiti, Honduras, Jamaica, Mexico, Panama, Peru, Puerto Rico, and Trinidad and Tobago. Countries with a population of less than half a million inhabitants for which data are not consistently available were excluded from these comparisons.

15. Since 2007, the methodology used to calculate these measures has changed so as to align the measures better with the letter and spirit of ILO conventions. This, however, should not affect the results since the purpose of the analysis is to establish how particular variables relate to one another, not to estimate latent scores for the factors. As long as the methodology was applied consistently across observations, it should not affect the pattern matrix of the variables. See <http://www.doingbusiness.org/data/exploretopics/~/media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB12-Chapters/Employing-Workers.pdf>, page 4. The goal of determining rough correlations among the variables also implies that the lack of validity of some of the indicators (Cooney et al. 2011: 85) should not unduly influence our conclusions.
16. To be more precise, they refer to EPL as 'external flexibility'. Two of the progressive reforms took place before the turn to the left in Argentina (2002) and Ecuador (2000).
17. According to the IBRD (2006: 18), Bolivia, which is among the countries with the most rigid labour regulations, made hiring and firing even more difficult in 2006 with a new decree that requires employers to get workers' permission before firing them.
18. This section is largely based on the work of Ben R. Schneider and his collaborators.
19. Union density rates among unionizable workers in Argentina, for example, have averaged 40% in recent years (Atzeni et al. 2011: 142). Even there, however, the decentralization of collective bargaining remains high. In addition, although autonomous national unions, employers, and the government negotiate a minimum wage and wage restraint in exchange for productivity-induced wage gains, the agreements apply only to the formal sector of the working class (Etchemendy and Collier 2007).
20. When profits are effectively reinvested, the result is more jobs and higher wages. Latin America, the region with the second highest level of income inequality in the world, is testament to how little liberal democracy has done in this respect (IBRD 2005: 38).
21. Other models of employment relations such as those analysed in Hall and Soskice (2001) also exhibit considerable intra-group variation that may be greater than the variance between CMEs and LMEs (Hudson 2012: 190).

References

Anner, M. S. (2011). *Solidarity Transformed: Labour Responses to Globalization and Crisis in Latin America*. Ithaca: Cornell University Press.

Atzeni, F., Durán-Palma, F., and Ghigliani, P. (2011). 'Employment Relations in Chile and Argentina', in M. Barry and A. Wilkinson (eds.), *Research Handbook of Comparative Employment Relations*. Cheltenham: Edward Elgar, 129–52.

Barrett, P. S., Chavez, D., and Rodriguez-Garavito, C. (2008). *The New Latin American Left: Utopia Reborn*. London: Pluto Press.

Botero, J., Djankov, S., La Porta, R., Lopez-de-Silanes, F., and Shleifer, A. (2004). 'The Regulation of Labor', *Quarterly Journal of Economics*, 119(4): 1339–82.

Cameron, M. A. and Hershberg, E. (2010). *Latin America's Left Turns: Politics, Policies, and Trajectories of Change*. Boulder, CO: Lynne Rienner Publishers.

Carbonaro, W. (2006). 'Cross-National Differences in the Skills–Earnings Relationship: The Role of Labor Market Institutions', *Social Forces*, 84(3): 1819–42.

Castañeda, J. G. (2006). 'Latin America's Left Turn', *Foreign Affairs*, 85(3): 28–43.

Cook, M. L. (2007). *The Politics of Labor Reform in Latin America: Between Flexibility and Rights*. University Park, PA: Pennsylvania State University Press.

—— (1998). 'Toward Flexible Industrial Relations? Neo-Liberalism, Democracy, and Labor Reform in Latin America', *Industrial Relations*, 37(3): 311–37.

Cooney, S., Gahan, P., and Mitchell, R. (2011). 'Legal Origins, Labour Law and the Regulation of Employment Relations', in M. Barry and A. Wilkinson (eds.), *Research Handbook of Comparative Employment Relations*. Cheltenham: Edward Elgar Publishing, 75–97.

Djankov, S. and Ramalho, R. (2009). 'Employment Laws in Developing Countries', *Journal of Comparative Economics*, 37(1): 3–13.

Edwards, S. and Lustig, N. (1997). *Labor Markets in Latin America*. Washington, DC: Brookings Institution.

Estevez-Abe, M., Iversen, T., and Soskice, D. (2001). 'Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State', in P. A. Hall and Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford and New York: Oxford University Press, 145–83.

Etchemendy, S. and Collier, R. B. (2007). 'Down but Not Out: Union Resurgence and Segmented Neocorporatism in Argentina (2003–2007)', *Politics & Society*, 35(3): 363–401.

Hall, P. A. and Gingerich, D. W. (2009). 'Varieties of Capitalism and Institutional Complementarities in the Political Economy: An Empirical Analysis', *British Journal of Political Science*, 39(3): 449–82.

Hall, P. A. and Soskice, D. (eds.) (2001). *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford and New York: Oxford University Press.

Heckman, J. and Pagés-Serra, C. (2000). 'The Cost of Job Security Regulation: Evidence from Latin American Labor Markets', *Economia*, 1(1): 109–54.

Hudson, R. (2012). 'Regions, Varieties of Capitalism and the Legacies of Neoliberalism', in C. Lane and G. T. Wood (eds.), *Capitalist Diversity and Diversity within Capitalism*. New York: Routledge, 199–208.

International Bank for Reconstruction and Development (IBRD) (2004). *Doing Business in 2004: Understanding Regulation*. Washington, DC: World Bank/Oxford University Press.

—— (2005). *World Development Report 2006: Equity and Development*. Washington, DC: World Bank/Oxford University Press.

—— (2006). *Doing Business in 2006: Creating Jobs*. Washington, DC: World Bank and the International Finance Corporation.

—— (2008). *Doing Business 2009*. Washington, DC: World Bank and the International Finance Corporation.

Iversen, T. (2005). *Capitalism, Democracy and Welfare*. Cambridge: Cambridge University Press.

Lanzaro, J. (2011). 'Uruguay: A Social Democratic Government in Latin America', in S. Levitsky and K. M. Roberts (eds.), *The Resurgence of the Latin American Left*. Baltimore: Johns Hopkins University Press, 348–74.

Levitsky, S. and Roberts, K. M. (2011a). 'Latin America's "Left Turn": A Framework for Analysis', in Levitsky and Roberts (eds.), *The Resurgence of the Latin American Left*. Baltimore: Johns Hopkins University Press, 1–28.

—— (2011b). 'Democracy, Development, and the Left', in Levitsky and Roberts (eds.), *The Resurgence of the Latin American Left*. Baltimore: Johns Hopkins University Press, 399–427.

—— (eds.) (2011c). *The Resurgence of the Latin American Left*. Baltimore: Johns Hopkins University Press.

Madrid, R. L., Hunter, W., and Weyland, K. (2010). 'The Policies and Performance of the Contestatory and Moderate Left', in Weyland, Madrid, and Hunter (eds.), *Leftist Governments in Latin America: Successes and Shortcomings*. New York: Cambridge University Press, 140–80.

Murillo, M. V. (2005). 'Partisanship amidst Convergence: The Politics of Labor Reform in Latin America', *Comparative Politics*, 37(4): 441–58.

Murillo, M. V., Oliveros, V., and Vaishnav, M. (2011a). 'Economic Constraints and Presidential Agency', in S. Levitsky and K. M. Roberts (eds.), *The Resurgence of the Latin American Left*. Baltimore: Johns Hopkins University Press, 52–70.

Murillo, M. V., Ronconi, L., and Schrank, A. (2011b). 'Latin American Labor Reforms: Evaluating Risk and Security', in J. A. Ocampo and J. Ros (eds.), *The Oxford Handbook of Latin American Economies*. Oxford and New York: Oxford University Press, 790–812.

Murillo, M. V. and Schrank, A. (2005). 'With a Little Help from my Friends: External and Domestic Allies and Labor Rights in Latin America', *Comparative Political Studies*, 38(8): 971–99.

Organisation for Economic Co-operation and Development (OECD) (2004). *OECD Employment Outlook 2004: Reassessing the OECD Jobs Strategy*. Paris: OECD.

Przeworski, A. (1985). *Capitalism and Social Democracy*. Cambridge: Cambridge University Press.

Schneider, B. R. (2009). 'Hierarchical Market Economies and Varieties of Capitalism in Latin America', *Journal of Latin American Studies*, 41(3): 553–75.

—— (2010). 'Business Politics in Latin America: Patterns of Fragmentation and Centralization', in G. Wilson, W. Grant, and D. Coen (eds.), *The Oxford Handbook of Business and Government*. Oxford: Oxford University Press, 307–29.

Schneider, B. R. and Karcher, S. (2010). 'Complementarities and Continuities in the Political Economy of Labour Markets in Latin America', *Socio-Economic Review*, 8(4): 623–51.

Schneider, B. R. and Soskice, D. (2009). 'Inequality in Developed Countries and Latin America: Coordinated, Liberal, and Hierarchical Systems', *Economy and Society*, 38(1): 17–52.

Stallings, B. (2010). 'Globalization and Labor in Four Developing Regions: An Institutional Approach', *Studies in Comparative International Development*, 45(2): 127–50.

Weyland, K., Madrid, R. L., and Hunter, W. (eds.) (2010). *Leftist Governments in Latin America: Successes and Shortcomings*. Cambridge: Cambridge University Press.

Wibbels, E. and Ahlquist, J. (2011). 'Development, Trade, and Social Insurance', *International Studies Quarterly*, 55(1): 125–49.

Wilthagen, T. and Tros, F. (2004). 'The Concept of "Flexicurity": A New Approach to Regulating Employment and Labour Markets', *Transfer: European Review of Labour and Research*, 10(2): 166–86.

Wright, E. O. (2000). 'Working-Class Power, Capitalist-Class Interests, and Class Compromise', *American Journal of Sociology*, 105(4): 957–1002.