

The informal economy, insecurity and social cohesion in Latin America

Victor E. TOKMAN*

Abstract: *Most Latin American countries adopted the welfare state as a model, though developing it in very different ways and, often, imperfectly because of structural differences between them and the industrialized countries. Social protection coverage is still patchy, with many informal-sector workers not covered and widespread public feelings of insecurity. The author examines the complicated structural and labour situation and the latest ideas in Latin America and the European Union to strengthen social cohesion. He analyses approaches to incorporating the informal sector into the modern sector, addressing social exclusion, combining flexibility for employers with security for workers, and achieving near-universal social protection.*

Social cohesion is an attribute of countries which have successfully achieved economic progress and redistributed the fruits of that growth to the whole of society. Thus, social cohesion helps ensure fairer development and involve all the population in efforts to achieve that growth, each according to his/her skills. The welfare state laid down the bases of post-war economic expansion in a social system that included all social classes and provided levels of security and stability enabling a systemic approach to the problems of vulnerable groups. Integration and security were achieved through full employment, the protection of the labour force and solidarity throughout the whole social system.

The welfare state model served as a guide for the policies adopted by most countries in Latin America, though it was implemented to varying degrees, and often imperfectly, given the structural differences distinguishing these countries from developed countries. Social protection is still limited and the needs of non-wage earning groups are inadequately provided for (Tokman, 2006, pp. 10–17).

* Consultant, United Nations Economic Commission for Latin America and the Caribbean (ECLAC), and former Regional Director of the ILO Office for Latin America and the Caribbean. This article is based on research (Tokman, 2007) undertaken in connection with a joint ECLAC-EUROSOCIAL project which is a technical cooperation initiative of the European Commission. Comments from A. Uthoff and help from R. Heresi and O. Ramos are gratefully acknowledged.

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A recent study by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) defined social cohesion as the dialectical relationship between mechanisms of social inclusion/exclusion and people's reactions, perceptions and attitudes to the ways in which these mechanisms operate in producing a sense of belonging to society (ECLAC, 2007a). Social cohesion provides the causal link between mechanisms of integration and well-being and individuals' feeling of belonging to society. With this approach as its starting point, this article will focus on the analysis of labour market participation, social protection and public perceptions of the effectiveness of existing instruments. In developing countries, notably those of Latin America, the degree of labour market integration varies very considerably, and is linked to marked disparities in productivity and the presence of a large informal economy, where the majority of the active labour force works.

The first part of this article briefly considers the main consequences of economic liberalization for labour. Then, the problems presented by the informal economy and by precarious employment generally are examined. The third part focuses on social cohesion strategies to address precarious forms of labour market participation. The last part deals with the "flexicurity" approach, that is, attempts to combine enterprise flexibility and worker security.

Open markets and their impact on labour

Changes in the macroeconomic regime within which countries operate as a result of the opening-up of markets and the liberalization of trade have meant that employment is more closely linked to external demand and that the scope for expanding internal demand or increasing wages above productivity levels is limited. The international economy is more integrated, the financial aspects have become more important, and information technologies are changing fast. As a result, the benefits of these developments have an immediate effect – but so do their disadvantages.

Long-term instability in Latin America, expressed in terms of the volatility of gross domestic product, is twice that of an industrialized country and higher than that of the countries of South-East Asia. In terms of consumption, the figure is triple that of an industrialized country's, coming second only to the countries of sub-Saharan Africa (de Ferranti et al., 2000, figure 2.2). Instability is high and particularly affects smaller countries with more open economies, making them more vulnerable, to which is added the lack of adequate instruments to counter it. This generates economic insecurity since it is transmitted via the labour market and affects employment, incomes and wages.

Unemployment rose in Latin America owing to fluctuations in the economic cycle and to the greater ease of dismissal as a result of the greater flexibility introduced by labour reforms. There were brief periods of economic recovery in the 1990s but unemployment, though fluctuating, showed a tendency to rise: at the beginning of the 1990s, it was under 7 per cent but this grew in stages to reach about 11 per cent by the start of the new century (Tokman,

2006, p. 21). Employment instability also increased as a result of privatization, the growth of the informal economy and greater precariousness in employment. Between 1990 and 2001, the public-sector share of non-agricultural employment contracted from 15.5 to 13.4 per cent, and between 1990 and 2003, three out of every five new jobs created were in the informal sector (Tokman, 2006, p. 23). Even when poverty retreated, higher-income groups shifted some of the adjustment costs to the middle-income groups. Thus, inequality did not diminish and wide income disparities grew.

Employment tenure and employment instability

The changes outlined above also gave rise to a decline in employment tenure and higher labour turnover. At the end of the 1990s, average tenure reached 7.6 years in Latin America, compared with 10.5 years in OECD countries and the shares of workers with under two years in the same job were 38.1 per cent and 24 per cent, respectively (de Ferranti et al., 2000, table 2.5). An ILO study found that average employment tenure varied between 6.7 years in Argentina and 3.9 years in Honduras around the year 2000, whereas in Greece, Japan and Italy it exceeded 12 years in 2000. The differences are more marked in the case of workers with more than ten years' tenure, where the share fluctuates between 31.5 and 52 per cent in the European countries and between 10 and 21 per cent in the Latin American countries (ILO, 2005, table 4.1 reproduced in table 1 here). The ranges reverse for workers with under one year of tenure, fluctuating between 10 and 15 per cent in the European countries and between 27 and 51 per cent in the Latin American countries. The younger the population of a country, the lower is the average tenure because a higher percentage of the population has been in the workforce for only a short time and, also, because young people change jobs more frequently than older people do.

On the other hand, though the probability of losing a job was greater in Latin America than in OECD countries, the time spent unemployed was significantly shorter. In the 1990s, the proportion of the short-term unemployed (up to one month) was 36 per cent, compared with 11.4 per cent in Europe. The proportion of the long-term unemployed (one year or more) reached 11.4 per cent in Latin America, compared with 42 per cent in Europe (IDB, 2003, p. 21, table 1.2).

People's perceptions add to the sense of instability, emerging as a fear of job loss disproportionate to the real risk of this happening. According to a recent survey, 75 per cent of workers in Latin America are worried about being unemployed over the coming year, whereas in fact in only 59 per cent of households did one adult experience unemployment during the preceding year (Latino-barómetro, 2005, pp. 64–65). Only 18 per cent of Latin Americans feel protected by labour legislation. Cross-country information shows a high correlation between fear of losing a job and the experience of unemployment in a household, and an inverse relation between fear of job loss and the perception that labour law provides adequate protection (ibid., p. 66).

Table 1. Average tenure in employment, selected OECD and Latin American countries

| | Average tenure (in years) | Workers with less than 1 year tenure (%) | Workers with more than 10 years tenure (%) |
|--|------------------------------|---|---|
| Greece | 13.6 | 9.8 | 52.1 |
| Japan | 12.2 | 8.3 | 43.2 |
| Italy | 12.2 | 10.8 | 49.3 |
| France | 11.2 | 15.3 | 44.2 |
| Ten European Union member countries | 10.6 | 14.8 | 41.5 |
| Germany | 10.6 | 14.3 | 41.7 |
| Denmark | 8.3 | 20.9 | 31.5 |
| United Kingdom | 8.2 | 19.1 | 32.1 |
| Argentina | 6.7 | 27.5 | 21.2 |
| United States | 6.6 | 24.5 | 26.2 |
| Peru | 6.3 | 29.0 | 20.1 |
| Chile | 5.5 | 34.5 | 18.8 |
| Brazil | 5.3 | 37.2 | 16.4 |
| Honduras | 3.9 | 51.4 | 10.1 |

Source: ILO (2005), p. 191, table 4.1. Data for Europe from 2002 based on Eurostat; United States data from 1998 based on national sources; Latin American data based on household surveys of the late 1990s and 2000.

The informal economy, precarious work and exclusion

Insecurity affects all the population, whatever their economic activity, especially in countries where the coverage of social protection is not universal and where workers are not protected from emerging new risks. Nevertheless, to a very large extent it affects those already socially excluded. Most of the active population works in the informal economy: the only option for most workers is to use their own scarce resources to produce or sell something to get enough income just to survive. The ILO introduced the concept of the informal sector in the 1970s, highlighting the fact that the problem of employment in developing countries was not unemployment but largely the lack of jobs paying enough to ensure survival (ILO, 1972). “Informal-sector” workers were “poor workers”, with very few productive resources. Over time, other researchers developed many new perspectives on the concept (see Souza and Tokman, 1976; de Soto, 1989; Portes, Castells and Benton, 1989; and Tokman, 2001).

From informal sector to informal economy

In addition to concern about the informal sector, conditions in the labour market for workers in regular formal-sector enterprises were becoming increasingly precarious, a process which accelerated in the mid-1980s. Declining recourse to per-

manent contracts and gaps in labour law (which had not categorized or provided for certain emerging forms of employment relationship) became problems now high on the agenda. Labour reforms that had been incorporated into the larger body of economic reforms resulted in reduced protection for workers with employment contracts and caused a loss of protection for more workers without any contract at all. The rapid growth in subcontracting was evidence of a lack of clarity in the law regarding the determination of which employer was liable for obligations towards the workers employed.

Studies of the labour reforms in Latin America show how far precariousness has advanced through use of the new, atypical employment contracts. Peru, for example, undertook a labour reform at the beginning of the 1990s, which introduced new forms of fixed-term contract and new ways of “externalizing” the employment relationship using temporary or “complementary” employment agencies and workers’ cooperatives. As a result, the percentage of employees without a contract or with a temporary contract grew from 49 to over 70 per cent between 1990 and 1996.

Thus, precarious working conditions, undeclared work and informal-sector conditions were on the increase; indeed these terms were starting to be used synonymously. Unprotected, precarious employment was mostly concentrated in the informal sector, but was also found in formal-sector enterprises and in production chains, the aim being to reduce costs and increase flexibility. This led the ILO to broaden the concept of the informal sector which it had coined at the beginning of the 1970s, and to replace it with the concept of the informal economy, which includes the informal sector but also takes in all the workers employed on a precarious basis by formal-sector enterprises, whether directly or indirectly.¹ The main innovation here was that all workers were regarded as informal workers (regardless of where they worked), if their employment relations were not subject to controls, conditions set by labour legislation regarding taxation, social security contributions and social protection (holidays, work-related illnesses, redundancy payments, etc.).

Certainly, not all workers in the informal sector are entirely unprotected, nor are those employed in formal enterprises fully protected and on permanent contracts. It is also clear that certain activities within the informal sector, such as home work, amount to disguised employment if what is produced goes to formal-sector enterprises or to intermediaries. This situation should be expressly provided for in labour legislation, by specifying levels of responsibility for compliance with these obligations.

¹ The definition of the informal sector for statistical purposes is very broad, since it includes informal own-account enterprises (not including professional or technical activities), unpaid family work, domestic work and everyone (employer or employee) working in micro-enterprises (establishments with up to five employees). See the “Resolution concerning statistics of employment in the informal sector”, adopted in 1993 by the Fifteenth International Conference of Labour Statisticians, downloadable at: <http://www.ilo.org/public/english/bureau/stat/res/index.htm>.

Table 2. Informal-sector employment in Latin America, 1990–2005, as percentage of non-agricultural employment

| | Informal sector | | | | | |
|------|-----------------|-------------------|-----------|--------------|------------------|---------------------|
| | | Micro-enterprises | | | Domestic service | Own-account workers |
| | | Total | Employers | Wage earners | | |
| 1990 | 47.5 | 15.2 | 3.2 | 12.0 | 5.7 | 26.6 |
| 2000 | 49.7 | 15.7 | 3.4 | 12.3 | 5.6 | 27.9 |
| 2002 | 50.2 | 16.3 | 3.7 | 12.6 | 5.6 | 28.3 |
| 2005 | 50.3 | 16.7 | 3.6 | 13.1 | 5.8 | 27.8 |

Note: Percentages are calculated from total of non-agricultural employment. They are the arithmetic averages of the 15 countries considered.

Source: Special ECLAC tables based on the national household surveys of the 15 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Uruguay and Venezuela.

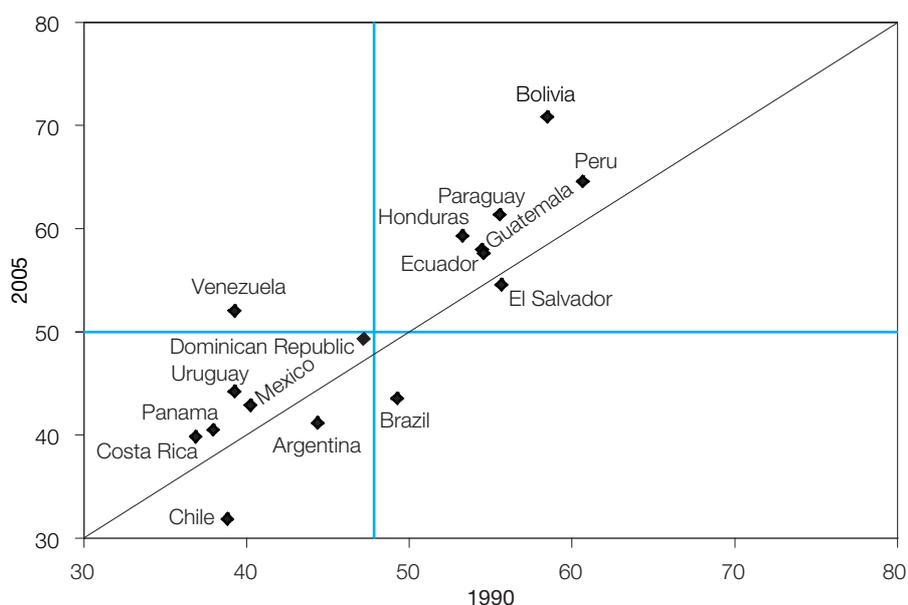
In 2005, 50.3 per cent of non-agricultural workers in Latin America were employed in the informal sector (table 2).² Of these, 55 per cent were own-account workers, 33 per cent worked in micro-enterprises employing fewer than five workers and the remainder, 12 per cent, were domestic workers. The informal sector grew steadily from 47.5 per cent in 1990 to 50.3 per cent in 2005. The share of workers in self-employment or in micro-enterprises is increasing, while that of domestic workers has remained stable.

These averages for Latin America do not reflect the cross-country diversity that exists in terms of size and evolution of the informal sector. Figure 1 illustrates this more clearly: the share of the informal sector is above average in the Andean countries and in most of the countries of central America, ranging between 71 per cent in Bolivia and 55 per cent in El Salvador, which averages out at 61 per cent. In the lower left quarter are the countries with averages lower than the regional average: Chile with 32 per cent and Costa Rica, Brazil, Mexico, Panama and Uruguay with between 40 and 44 per cent, a group average of 41 per cent. This illustrates the great variety of national situations making up the overall picture in Latin America. However, only Chile, Argentina, Brazil and El Salvador have shown a decrease in informal-sector activities over the past 15 years; everywhere else they have increased. The higher the per capita income, the smaller the informal sector,³ and the higher the level of development, the more production is homogeneous and the greater

² The figure is the simple average calculated by ECLAC on the basis of household surveys of 15 Latin American countries. With the median as indicator for the whole set of countries, the informal sector accounts for about 55 per cent in the same year (2005).

³ This relationship is found all over the world (World Bank, 2004).

Figure 1. Informal sector in Latin America in 1990 and 2005
(as a percentage of non-agricultural employment)



Note: The horizontal line (parallel to the x-axis) indicates the regional average for 2005, and the vertical line (parallel to the y-axis) the same average for 1990.

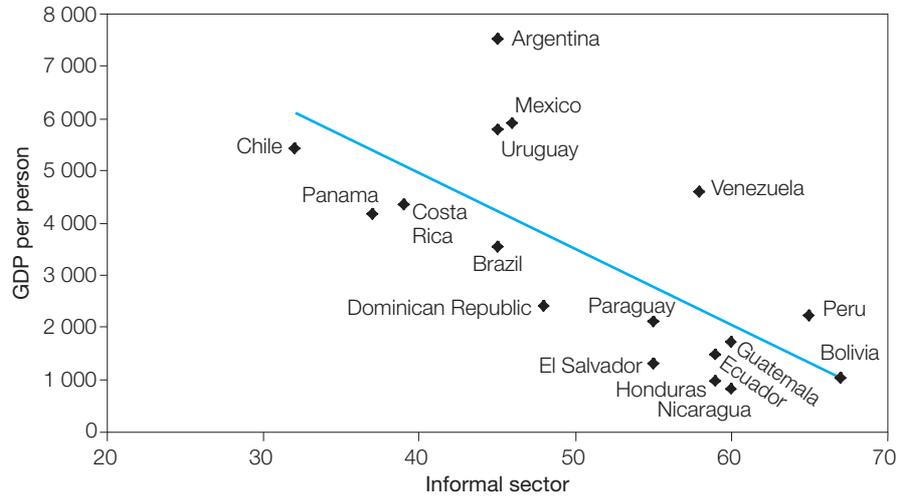
Source: Special ECLAC tables based on national household survey of the 16 countries.

the labour market participation (figure 2). The larger the informal sector, the greater the public perception of insecurity (figure 3). The informal sector is also larger in countries with large income disparities.

As has already been pointed out, the informal sector provides the greatest source of income-generating activities for the poor of Latin America. Sixty-five per cent of those in the poorest 40 per cent of the population and 74 per cent of those in the poorest 10 per cent work in the informal sector. Table 3 shows that there are very broad income disparities, which increased between 1990 and 2005. The income gap between formal-sector workers and informal-sector workers went from 59 to 81 per cent and the gap between employees within each sector also increased. The earnings of small and medium-sized enterprises have fallen as a result of growing competition from imported goods, limited access to credit and the unfair competition that occurs in concentrated markets.

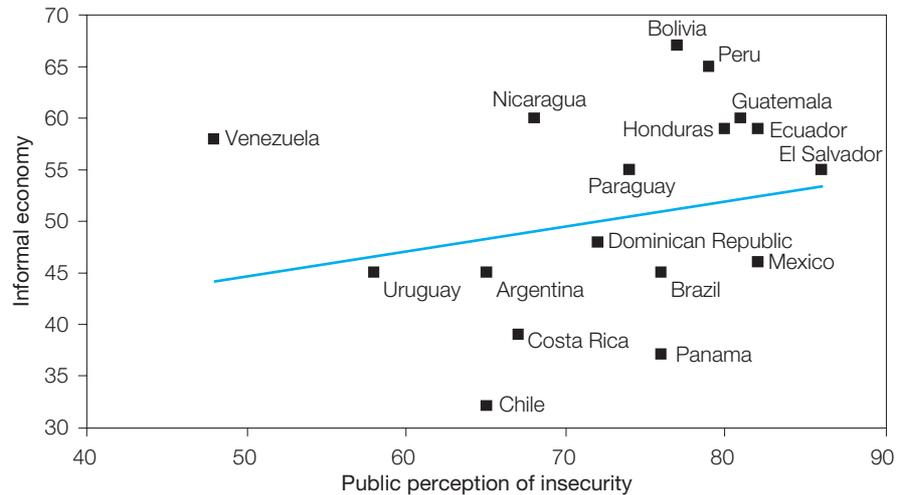
In 2005, the incomes of own-account workers were 20 per cent lower than those of private-sector employees and, although these were still higher than the salaries of micro-enterprise employees, between 1990 and 2005 that difference was halved, which would appear to suggest that employment in a micro-enterprise is the only option for them to handle unemployment.

Figure 2. The informal sector and level of development, in terms of GDP per person



Note: The informal sector is expressed as the percentage of national non-agricultural employment. The level of development is expressed as per capita GDP in US\$ of the year 2000.
 Sources: Author's calculations based on data from ECLAC (2006b) on the informal economy and on World Bank development indicators (see web site <<http://www.worldbank.org>>) on per capita production.

Figure 3. The informal sector and public perception of insecurity



Note: The informal sector is expressed as the percentage of national non-agricultural employment. Public perception of insecurity is expressed as the percentage of the population surveyed in each country who fears becoming unemployed over the coming year.
 Sources: Author's calculations from ECLAC (2006b) on the informal sector and information on public perception of insecurity from Latinobarómetro (2005).

Table 3. Income differences by sector and occupational category in Latin America, 1990–2005

| | 1990 | 2000 | 2005 |
|---|------|------|------|
| Formal-sector workers/informal-sector workers | 1.59 | 1.72 | 1.81 |
| Wage employees of enterprises > 5/wage employees of enterprises ≤ 5 | 1.46 | 1.54 | 1.81 |
| Own-account workers/private-sector employees | 1.04 | 0.79 | 0.79 |
| Own-account workers/wage employees of enterprise ≤ 5 | 1.51 | 1.25 | 1.24 |
| Employers of enterprises > 5/employees of enterprises > 5 | 6.31 | 5.19 | 4.66 |
| Employers of enterprises ≤ 5/employees of enterprises ≤ 5 | 4.52 | 4.11 | 3.82 |

Note: The figures show the relationship (quotient) between the income of the different types of worker, based on data for 1990, 2000 and 2005 or years thereabouts.

Source: Special ECLAC tables based on national household surveys (15 countries).

The employment relationship and social protection

Eligibility for social and labour protection is a determining factor for achieving a measure of social cohesion. In turn, integration in the labour market and a legally recognized employment relationship are essential to be eligible for social security. In countries where there is no unemployment benefit, the unemployed are doubly excluded: because of the lack of jobs and because of the absence of social protection. The manner of labour market participation is also important, as it can cause significant differences in the social protection received.⁴ Only 18 per cent of informal-sector workers contribute to social security pensions, compared with 68 per cent of formal-sector workers, according to data from 16 Latin American countries around 2002 (ECLAC, 2006a; Tokman, 2006).

The type of labour market participation is important, even within the informal sector: only 13.5 per cent of own-account workers and micro-entrepreneurs are protected, compared with 21.7 per cent of micro-enterprise employees (ECLAC, 2006a, pp. 45–46). The type of employer and enterprise size are also determining factors in this respect: though 83 per cent of public employees are covered, social protection covers only half of private-sector employees and 21.7 per cent of micro-enterprise employees, compared with 67 per cent of other employees.

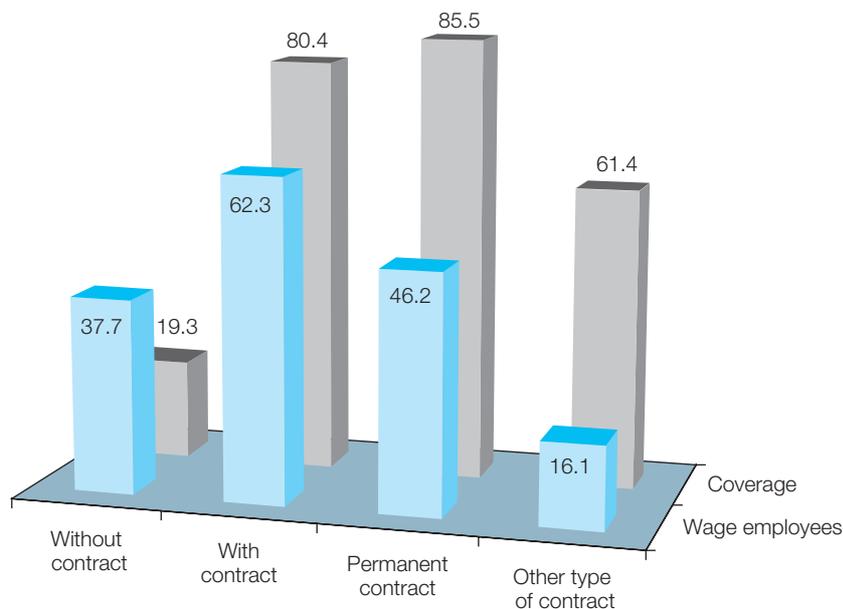
Wage employment accounts for an average of around 63.5 per cent of the urban labour force. Two-thirds of these workers are employed in private enterprises in the formal sector or in the public sector, the remaining third in informal micro-enterprises and in domestic work.⁵ Sixty per cent have a contract of employment, 38 per cent do not.⁶ Of those with contracts, 74 per cent have permanent ones and the rest have other types of contract. If the workers with

⁴ Contributions to social security pensions are taken as the indicator of social protection, given the scant information available.

⁵ Arithmetic mean of 16 Latin American countries in 2002 (ECLAC data).

⁶ Arithmetic mean of seven countries with full data for 2002 (ECLAC data).

Figure 4. Social protection coverage by workers' contractual situation, 2002



Note: The first row of columns (blue) represents the number of workers as a percentage of the total number of wage employees in each category. The second row of columns (grey) represents the social protection coverage of each category, expressed as a percentage of the total category. The indicator of social protection used is pensions contributions.

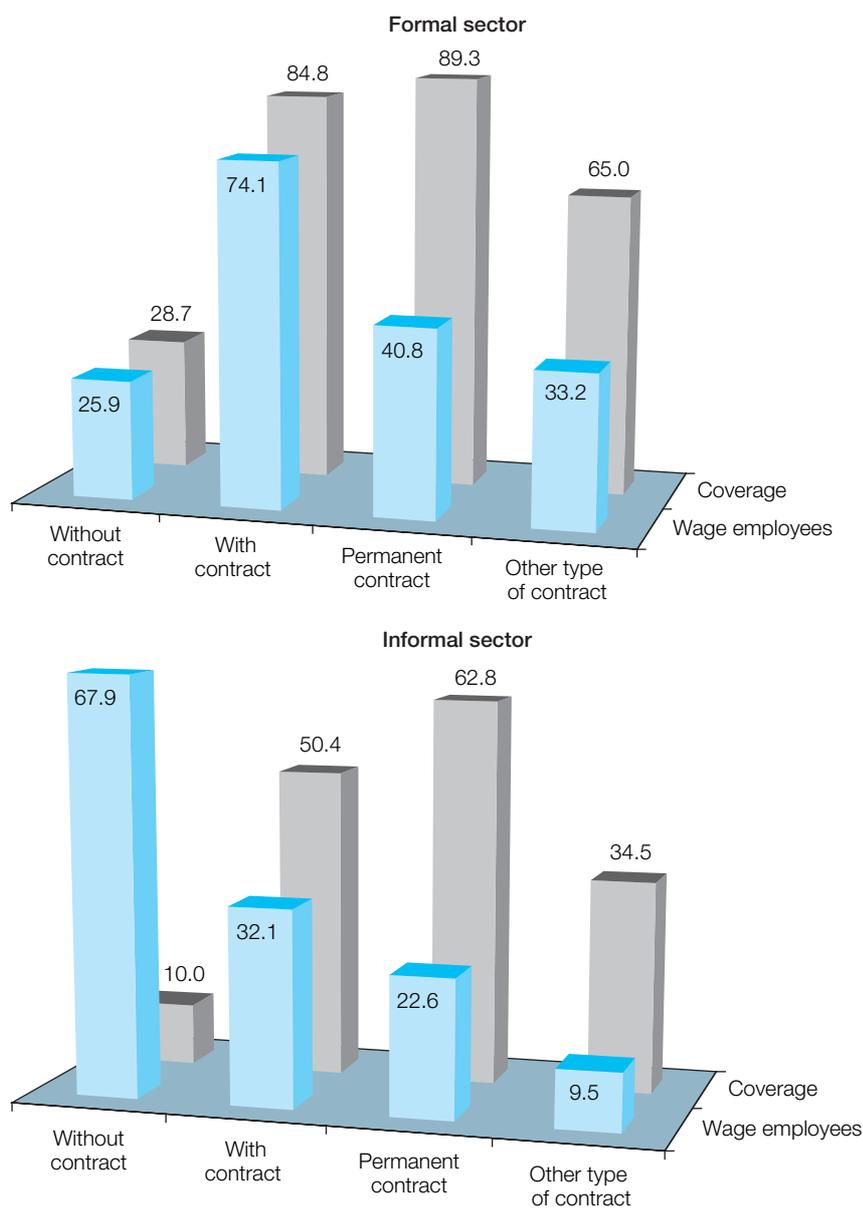
Source: Special ECLAC tables based on national household surveys of Argentina, Bolivia, Chile, Ecuador, Guatemala, Mexico and Panama.

non-permanent contracts are added to those without a written contract, over half the employees in Latin America are working in some sort of “informal” situation. This proportion varies, going from 21 per cent in Argentina to 74 per cent in Bolivia. A contract being the legal recognition of the employment relationship, 80 per cent of workers with a contract are covered by social protection (see figure 4).

Social protection covers 85 per cent of salaried employees with contracts in the formal sector, including 29 per cent of those who do not have a recognized employment relationship. Coverage of employees in the informal sector falls to 50 per cent for those with contracts and 10 per cent for those without (see figure 5).

Chile and Panama achieve near-universal social security coverage for workers with permanent contracts (96–97 per cent), and coverage of workers on other contracts is also high (92 and 82 per cent, respectively). By contrast, in spite of the high rate of legally recognized employment relationships in Argentina, only 82 per cent of workers on permanent contracts are covered, and only 18 per cent of those on atypical contracts. Working without a contract

Figure 5. Social protection coverage by type of contract and by sector (formal/informal), 2002



Note: The first row of columns (blue) represents the number of workers as a percentage of the total number of wage employees in each category. The second row of columns (grey) represents the social protection coverage of each category, expressed as a percentage of the total category. The indicator of social protection used is pensions contributions.

Source: Special ECLAC tables based on national household surveys of Argentina, Bolivia, Chile, Ecuador, Guatemala, Mexico and Panama.

in Argentina amounts to working without any sort of social protection, since only 8 per cent of employees doing so are covered. A similar wide range of situations is also found in the informal sectors of the other countries of the region.

Strategies favouring social cohesion

Three forms of labour market participation that undermine social cohesion have been identified. First, the presence of a significant and well-established informal sector, where most jobs are found and where most of the poor and the lower classes earn their livings. They are both entrepreneurs and workers, many of them carrying out both functions at the same time; they are socially excluded by their low incomes, lack of social protection and employment instability. The second form affects workers in formal-sector enterprises or in production chains, where particular forms of subcontracting are to be found (including home work), which do not provide security of employment or full social protection. They are integrated in the labour market but on a precarious basis, since they are affected by non-compliance with labour legislation, by disguised employment relations, by their vulnerable situation and insecure employment. The third form affects workers who face new risks arising from changes in the way the economy operates. There is demand for flexibility but the regulatory framework does not adequately provide for the social protection of those to whom it applies, even if they do have a formal employment relationship. Their problems are economic insecurity, loss of protection and a lack of income during periods of unemployment.

Social cohesion is affected when there is an increase in insecurity and vulnerability and, especially, when this involves large numbers of excluded workers. In this third section, non-exclusive strategic options to meet the specific needs of these groups are presented. An in-depth analysis of the labour aspects is set out, using as a starting-point a strategic proposal for incorporating the informal sector into the modern sector (Tokman, 2004), and a number of options for improving the rate and effectiveness of compliance with the labour legislation are examined.

The informal sector and social inclusion: A strategic option

A sense of belonging is central to social cohesion and is acquired through entitlement to social rights; this means all citizens should be included in the dynamics of development and the well-being it implies. The countries of Latin America have made considerable progress on civil and political rights issues. Democracy became established after a long period of authoritarian government and restricted civil liberties in the region. Currently, social citizenship is a priority since it is a prerequisite for addressing existing forms of inequality and for ensuring that everyone is treated as a full member of society (ECLAC, 2007a). Poverty,

the informal sector and social exclusion reflect poor access to resources, low incomes and various forms of vulnerability; they also represent a failure of citizenship, in that the people affected are denied entitlement to their social and labour rights. The situation also runs counter to a sense of belonging and identity, which is normally acquired through social inclusion and participation in society (ECLAC, 2006a and 2007a). A new strategic direction in line with this perspective would therefore involve incorporating the informal sector into the modern sector (Tokman, 2001, 2004 and 2006).

This change of direction is based on three principles. First, on the inversion of the prevailing order of trying to achieve social inclusion through compliance with obligations – since, from the point of view of those affected, they are excluded precisely because of lack of respect for their economic and social rights. Only once these are respected, will they be able to meet their obligations. Second, extending the formal sector to include the informal sector is justified from the point of view of the sectors involved but (principally) because of the benefits that access to the formal sector brings to persons working in the informal sector and to the work they do. Finally, a change of direction such as the one suggested should bring about major cultural change in those working in the informal sector. The desired effects do not come about automatically, but require changed attitudes and behaviour from those involved so as to create a more favourable atmosphere in which their activities can prosper. Entry into the formal sector opens the door to social and economic citizenship which, in turn, is a prerequisite for belonging and being fully integrated in an inclusive society.

Development of production and the regulation of informal-sector activities

The aim is to adapt existing legal requirements to the informal sector's capacity for compliance, without setting up a dual system. This implies that the existing regulatory system must be adjusted to enable full compliance, bearing in mind that the regulations were designed with larger enterprises and more organized sectors in mind. Rather than first insisting on compliance with the obligations imposed by the formal sector, this approach starts with inclusive mechanisms, such as recognition of property rights, distinguishing between the enterprise and the informal-sector entrepreneur for the purposes of inheritance, determining responsibilities for taxation purposes, recognizing existing employment relationships and developing street trading in more stable and secure conditions.

Adjustment measures like these would improve conditions allowing informal-sector activities to develop. For example, for access to credit to be opened up there must be legal recognition of the capital involved; and if more appropriate legal regulations enable businesses to be set up and developed, then there is greater readiness to take commercial risks without involving the family property. Similarly, new accounting techniques can help improve business management; and the recognition of an existing employment relationship is a prerequisite for

improved productivity, for investing in skills training and for progress towards compliance with the obligations arising from social and labour protection.

The informal sector includes both enterprises and families engaging in productive activities, and the likelihood of progressing towards formal-sector status is determined mainly by a productive unit's capacity for growth. Similarly, the extent to which employment relations in the informal sector could be recognized and regulated depends on enterprises' ability to comply with obligations, which are directly linked to their economic success. For this reason, the development of informal-sector production and progress in the labour sphere must be addressed at the same time.

Successful experiments in support of informal-sector productive activities include improving access to productive resources (capital and credit, skills and training, technology) and to markets (organization and location thereof). Nevertheless, the greatest potential for a major impact throughout the system lies with the regulatory framework. This is the level at which decisions are made regarding, for example, the legal recognition of capital or procedures for setting up businesses. As argued by de Soto (1989 and 2000), using simplified means to obtain legal recognition of the capital of informal-sector entrepreneurs can ease access to credit by providing the collateral normally required by banks and moneylenders. On the other hand, bureaucratic difficulties hold up requests to open or close informal-sector business activities because of the numerous laws and regulations involved, and state bureaucratic inefficiency. Again, as pointed out in a recent ILO study (2006), although these regulations apply generally to all enterprises, the smaller ones are disproportionately affected as they do not have the means to overcome the obstacles to doing business.

In Latin America, there are 2.6 times as many such regulations as in the OECD countries, and more than there are in the Asian countries; only in Africa and in the Middle East are such regulations more numerous. The situation in Latin America compares unfavourably with that in the OECD according to all indicators used, so there is room for improvement in all the areas of regulation indicated above (Loayza, Oviedo and Servén, 2006). There has been marked progress in commercial openness and financial sector modernization, and the largest backlogs have occurred in the regulations governing trading licences and in establishing the credibility of employment contracts. These are areas of particular importance to the development of informal-sector activities.

Labour rights in enterprises with limited ability to pay

As already pointed out, labour law does not fully apply to a significant proportion of workers in the informal sector; and few productive units are able to meet the obligations arising from the establishment of an employment relationship.

The share of workers without a contract or on atypical contracts is over 90 per cent in Bolivia and Guatemala, and reaches about 85 per cent in Mexico and Ecuador. Pensions coverage extends to only 18 per cent of informal-sector workers, compared with 68 per cent in the formal sector (Tokman, 2006). This

difference is imputable to the poor pensions coverage of own-account workers. The difference between salaried employees is smaller: 24 per cent of those in micro-enterprises are covered, compared with 66 per cent of those in the other enterprises. Most workers in the informal sector are not entitled to employment protection because their employment relationship is not legally recognized.

Moreover, micro-enterprises are less able to absorb the costs of employing their workers on a formal basis. In Colombia, a survey of micro-enterprises showed that only 15 per cent of them paid any contributions; 65 per cent could not afford to pay social security contributions, and 76 per cent could not pay total labour costs. It has been estimated that sales would have to double for micro-enterprises to be able to absorb these costs (Gómez, 1998, p. 41). In Peru, apparently only 15 per cent of micro-enterprises were in a position to absorb all labour costs; to do so, 28.6 per cent of them would have had to forgo at least half of their profits; 39.3 per cent of them would have had to forgo between 50 and 75 per cent of their profits, and 32 per cent of them between 76 and 100 per cent of their profits. Over half of the micro-enterprises employing two to four workers paid no non-wage labour costs at all and 49.5 per cent complied only partly with some obligations (Yáñez, 1998, pp. 59 and 117).

There would be some movement towards regulated and protected employment relations if the employment relationship were recognized, notably with proof of the existence of unwritten contracts, hours worked, and payment of regular wages registered in the accounts or by witnesses. This would provide workers with the necessary credentials to be entitled to social and labour protection and would encourage micro-entrepreneurs to acquire the necessary skills to do business on a proper basis. Recognizing the existence of a formal employment relationship generates the pressure needed to manage the production unit according to proper business criteria and not as a family enterprise.

However, taking this first step already involves difficulties with compliance, both because of enterprises' inability to absorb the costs and because social protection is designed for larger enterprises. Some adjustment to the existing legislation may be necessary to make it more applicable, but this should not be confused with deregulation, as being more responsive to the needs of micro-enterprises does not mean that existing labour conditions should be allowed to deteriorate. It may be possible to make improvements in response to justified demands to increase operational efficiency in the organized labour market.

Alternatively, systems especially designed for the informal sector could be introduced. This would imply dual or preferential systems, as practised in various countries, such as Argentina, Brazil and Peru. But such differentiation may prove difficult to implement for reasons of regulatory efficiency and as a matter of principle: it creates an opportunity for fiscal and labour law evasion and creates barriers to micro-enterprise growth by setting maximum limits on the capital investment. In the area of labour law, such differentiation introduces issues of principle because it accepts differential treatment of workers

before the law, depending on the size of the enterprise employing them. For this reason, a single regulatory system is preferable as regards the labour aspects (ILO, 1991). Of course, there is no cause to exclude differential treatment, such as the introduction of simplified taxation systems or preferential rates for credit. On labour issues, too, there is a tendency favouring measures that fit more easily with the needs of small units of production in relation to collective bargaining.

Another approach involving policy differences would be to recognize that a dual situation exists *de facto*, without seeking to convert it into one *de jure*. This implies not applying sanctions: non-compliance is acknowledged, but tolerated. The reality on the ground should be recognized, but this does not mean refraining from intervening. One possible approach might be to introduce a compulsory minimum threshold on labour issues which enterprises should meet. An initial component might consist of fundamental labour rights such as those set out in the ILO Declaration of 1998 (freedom of association and collective bargaining, elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation).⁷ In fact, these amount to human rights transferred into the labour sphere. Related aspects of working conditions could also be included, for example: the minimum wage, hours of work, and work-related accidents and illnesses.⁸

The compulsory nature of the minimum threshold is not at odds with the notion of operating with a tolerance margin, which allows for the constraints encountered by informal-sector production units. This tolerance is acceptable in relation to working conditions but should not be applied to fundamental rights. Fundamental rights are inalienable even if the necessary compliance involves some job losses. The application of fundamental rights should be monitored, promoted and controlled using procedures that take full account of the specific nature of each issue being regulated.

One possible model would be to establish an advance commitment to compliance, with fixed objectives similar to those used by the ILO to supervise international labour standards. Another approach would be to recognize that some of the non-compliance is due to ignorance of the legal obligations involved. The inspection process should include a learning component or, as Chile has done

⁷ ILO Declaration on Fundamental Principles and Rights at Work, adopted by the 80th Session of the International Labour Conference, in June 1998.

⁸ This broader minimum threshold has been incorporated into free trade agreements signed by the United States and various countries, including Mexico, Chile, the countries of Central America and the Dominican Republic (the Dominican Republic-Central America Free Trade Agreement – DR-CAFTA), Panama, Colombia, Peru and Ecuador (the last three without any definite sanction to date). Two further obligations linked to the employment contract that could also be included in the minimum threshold are maternity and pension rights, on which compliance by small enterprises is lowest, according to the available evidence. These benefits should be non-contributory, particularly in enterprises with a low ability to pay, although contributions could gradually be increased as ability to pay increases or over a predetermined period.

since 2001, should substitute the fine with training for informal-sector entrepreneurs under the supervision of the relevant labour institution.⁹ The ILO recently proposed an innovatory approach to monitoring compliance with labour legislation by micro- and small enterprises (2006). This is based on the assumption that the effect of regulation is enhanced if there are several possible ways of enforcing compliance, allowing the problems to be monitored and solved in a gradual way.

Introducing a minimum threshold does not mean accepting that workers in the informal sector have access to only some of the rights enshrined in existing labour laws. On the contrary, the proposal is to recognize the need to make progress in the labour sphere by improving informal-sector enterprises' ability to comply and committing them to taking this path. At the same time, it is recognized that such a transition needs time and that there must be complementary social policy measures to guarantee access to universal health and pensions insurance, particularly for persons who have not been able to make provision for these necessities during their working lives. The right to social protection must be guaranteed for all and the approach outlined above must be followed as much as possible, though recognizing that this approach alone cannot ensure universal social protection.

Insecurity, vulnerability and atypical employment contracts

Insecurity and vulnerability are linked to the absence of legally and explicitly recognized employment relations, but also to situations governed by contracts other than the permanent employment contract. Recently, the permanent contract has increasingly had to compete with new forms of contract resulting from labour reforms establishing greater flexibility in order to reduce the adjustment costs facing enterprises in more open economies.

One must distinguish between workers on atypical contracts and workers whose employment relationships are ill-defined or not properly recognized by the labour legislation. The latter include employment relationships that emerged as a result of the decentralization of production and globalization, as well as older forms of home work (especially in the garment industry).

Employment relationships subject to non-permanent contract are considered a natural part of the informal economy, whatever the unit of production concerned. Employment relationships not governed by any form of contract or governed by atypical contracts are found in most micro-enterprises; and atypical contracts are also used in formal-sector enterprises and in the public sector. These are the labour policy responses to the need to create greater flexibility and to cut dismissal costs: generally speaking, they do not affect social

⁹ This approach allows employers of up to nine employees who have been sanctioned to have the fines replaced by attendance at a training course on labour legislation (for up to two weeks) run by the Department of Labour. This benefit is granted once a year only and requires the employer to have remedied the situation giving rise to the fine in the first place.

protection as long as workers remain employed; nor are they illegal, as they were introduced by labour reforms which encouraged their use.

In Argentina and Peru (both countries which have implemented comprehensive labour reforms), there are no significant differences in labour costs from one form of contract to another. This indicates that labour regulations are complied with and that levels of social protection are broadly similar. The main exception is unregistered workers without any form of contract (see table 4). The reduction in labour costs in both countries also derives from the different contracts promoted by the labour reforms. The average non-wage labour costs of Argentine industrial enterprises are equivalent to 40 per cent of direct wage costs (2003 data), whereas for permanent-contract workers the proportion was 49 per cent. In Peru, the average was 22 per cent (2001 data), rising to 55 per cent for permanent-contract workers. This marked difference is due to the high proportion of workers without a contract in that country and to new forms of subcontracting (Chacaltana, 2005, p. 34).

Although the new forms of contract may have entailed some loss of protection, their chief effect has been insecurity about the continuity of the current contract. This insecurity affects the worker and his/her family as well as productivity, because of the loss of incentives to innovate or to take up apprenticeships. For this reason, limits on the use of such contracts should be introduced, and efforts should focus on ways of making long-term contracts more flexible.

That is what occurred in Spain, which pioneered the introduction of flexibility into the “marginal” labour market by using atypical contracts introduced by the labour reform of 1981. As a result, between 1980 and 1992 the share of temporary contracts rose from 10 to 31 per cent of total wage employment. Another reform in 1997 lowered the costs of dismissal for workers aged under 30 or over 45 years, for disabled workers and for the long-term unemployed. In 2006, there was tripartite agreement on raising the share of fixed-term contracts to the levels achieved in countries of the European Union, and this agreement was subsequently incorporated into law.¹⁰ The conversion into permanent contracts of fixed-term contracts of over 24 months in the same enterprise and in the same job was encouraged, and companies were granted assistance for up to four years if they offered permanent contracts to vulnerable workers (e.g. women, young persons and the long-term unemployed). In its labour reforms of 1991 and 1995, Argentina adopted an approach similar to Spain’s, and again in the counter-reforms of 1998 and 2000, which set limits on the use of atypical contracts and reduced the obligations imposed by permanent contracts. In its 1998 reform, Brazil introduced atypical forms of contract but made them conditional upon the creation of new jobs, in order to reduce potential contract substitution, and left it up to collective bargaining to set upper limits on the number of contracts that could be concluded.

¹⁰ Act 43/2006, described by Juan Gorelli Hernández in his contribution on “Spain’s 2006 labour reform”, in this issue of the *International Labour Review*.

Table 4. Indicator of non-wage labour costs, by type of contract in Argentina and Peru, various years (percentage)

| | 1991 | 1996 | 2000 | 2003 |
|--|------|------|------|------|
| Argentina | | | | |
| <i>Average non-wage costs</i> | 53 | 38 | 36 | 40 |
| Permanent contracts | 66 | 48 | 43 | 49 |
| Agency contracts | 61 | 45 | 41 | 46 |
| Temporary contracts | 59 | 41 | 37 | 42 |
| "Promotional" temporary contracts ^a | | 33 | | |
| Probationary contracts | | 26 | | 49 |
| Unregistered | 0.7 | 0.7 | 0.7 | 0.7 |
| | 1989 | 1997 | 2001 | |
| Peru | | | | |
| <i>Average non-wage costs</i> | 34 | 25 | 22 | |
| Permanent contracts | 59 | 55 | 55 | |
| Temporary contracts | 59 | 55 | 55 | |
| Training contracts | 0.2 | 0.1 | 0.1 | |
| Secondments from one enterprise to another | 57 | 54 | 54 | |
| No contract | 0 | 0 | 0 | |

^a *Contratos temporales "promovidos"* (subsidized temporary contracts) were introduced in Argentina by the 1995 labour reform. These contracts involved lower employer contributions and a low or zero contract termination cost; however, once a fixed term had been reached, they were converted into permanent contracts. They were abolished by the 1998 labour reform.

Source: Chacaltana (2005, p. 33, table 2). The figures are the additional percentages of non-wage labour costs added to direct wage costs. The data refer to the manufacturing sector of both countries.

Ill-defined employment relationships and their regulation

Another issue is ill-defined employment relationships that are difficult to establish clearly or are disguised or unprotected owing to gaps in the labour regulations or compliance control. The rights and obligations of both parties are often not clear, which may result in a loss of the protection due to workers. Such cases are growing in number in the context of globalization and the decentralization of production, which make it necessary to establish workers' rights and to determine who is the responsible employer.

In line with these aims, the ILO began to study the question in 1998, and the Employment Relationship Recommendation, 2006 (No. 198) was adopted by the International Labour Conference in June 2006. Countries are recommended to "formulate and apply a national policy for reviewing at appropriate intervals and, if necessary, clarifying and adapting the scope of relevant laws and regulations, in order to guarantee effective protection for workers who perform work in the context of an employment relationship" (para. 1). The nature and extent of protection should be defined "by national law or practice, or both" and should include "scope, coverage and responsibility for implementation" (para. 2).

It is also recommended that national policy should provide guidance on the effective determination of the existence of an employment relationship and on the distinction between employed (subordinate) and self-employed (own-account) workers. In doing so, it is important to use very clear methods of determining the existence of such relationships (so that they cannot remain disguised), and to do so without prejudice to how the relationship is characterized in any arrangement or contract that may have been agreed between the parties. To help determine this, important indicators – other than the payment of regular wages to the worker – include the following: that the work is carried out according to the instructions and under the control of another party; whether it involves the integration of the worker in the enterprise; whether it is performed solely for the benefit of another person; whether it must be carried out personally by the worker, within specific working hours; and whether it required the worker's availability and involves the provision of tools and machinery by the party requesting the work. The Recommendation suggests that national policy should include measures to combat disguised (or hidden) employment relationships. It should also uphold standards applicable to all forms of contractual arrangements, including those involving multiple parties, and ensure that such standards establish who is responsible for the protection contained therein. There are still lacunae in the Recommendation and in the study that preceded it, which was undertaken over nearly ten years; however, they do represent progress towards establishing a framework for detecting disguised employment relationships and determining the responsible employer, including in cases of subcontracting.

The ILO has also addressed the issue of home work, and in 1996 adopted both a Convention and a Recommendation on home work, which contributed to the formulation of a legal framework for this form of work.¹¹ Home work is a long-established form of production which, in appearance, is work performed on own account or within a family structure. However, it often amounts to paid subordinate work performed outside the main enterprise but for the benefit of a subcontracting enterprise or for an intermediary. Such work is performed largely by women, with help from family members (including children), and is not taken into account by labour legislation. The absence of a recognized employment relationship leaves the workers vulnerable and without negotiating power. Alongside the progress on ILO standards in this field, other initiatives have been taken at different levels to study, take action and organize efforts to increase awareness of this situation and to press for the adoption of policies promoting active support, protection and organization.¹²

¹¹ The Home Work Convention, 1996 (No. 177); the Home Work Recommendation, 1996 (No. 184), both adopted by the International Labour Conference in 1996.

¹² Two of the most remarkable concerned the experience of the Self-Employed Women's Association (SEWA), in India, and Women in Informal Employment: Globalizing and Organizing (WIEGO), a worldwide network which includes national and international organizations, academics and members involved in development work.

Convention No. 177 makes it a national policy objective to promote equality of treatment between homeworkers and other wage earners, taking into account the special characteristics of home work. This relates inter alia to the right of homeworkers to establish or join organizations of their own choosing and to take part in the activities thereof (freedom of association), to protection against discrimination, the minimum age for admission to work or employment, remuneration, protection in the field of occupational safety and health, social security and maternity protection. The accompanying Recommendation (No. 184) states there are several ways of extending social and maternity protection to homeworkers: social security schemes can be extended, other schemes can be adapted to cover them, or special schemes or funds can be developed for them.

In this connection, mention may be made of the recent adoption of a Law on Subcontracting in Chile, where 50 per cent of enterprises were estimated to contract out part of their production and 20.7 per cent to subcontract their main economic activity in 2004. Moreover, 35 per cent of the labour force was estimated not to have a direct contractual link with their employing enterprise, but to be providing services via subcontractors or through agencies supplying temporary staff.

The law, which was passed in 2006, sets limits only on the supply of staff for short-term jobs and exceptional tasks (replacement of existing staff, occasional or urgent work, etc.); in order to comply with labour law obligations, it requires enterprises to register and establish a guarantee fund to meet wage costs and the supply of workers in case of non-compliance. Regarding the subcontracted workers, the responsibility lies with the subcontractor, but the law also places labour responsibilities on the main contractor. The law changes the existing subsidiary responsibility of the main contractor into a joint responsibility shared with the subcontractor, which means that both are jointly responsible for compliance with these obligations. However, the main enterprise may exercise its right to require certification of compliance with these obligations by the subcontractor and may withhold from pending payments any amounts due in case of non-compliance. In this way, it can change its responsibility back into a subsidiary one.

The purpose of the law is to ensure compliance with labour law obligations and to prevent unfair competition between enterprises which affect working conditions. While recognizing that this subcontracting model has the advantage of being more flexible, the law requires a proof of compliance from the enforcement authority involved and makes the main enterprise into an indirect agent of control to ensure that the subcontractor complies with his/her obligations under labour law.

Flexicurity in Latin America

The need to improve competitiveness in wider, more open markets requires flexible employment relations. However, this flexibility implies growing instability

and reduced protection and creates social tension, as well as weakening the support of workers and their organizations for the globalization and integration process. Hence the need to combine flexibility with social protection. The experience of successful developed countries can be useful, but any attempt to transfer the “flexicurity” approach into the Latin American context must be done sensitively and with awareness of its limitations in a different structural context.¹³ On the one hand, there is a significant informal economy in Latin America in which the majority of the socially excluded live and work and, on the other, there are insufficient fiscal resources to fund a system of social and labour protection sufficiently broad and generous to provide security for the whole population. For this reason, any such initiative must be accompanied by proposals for social inclusion and integration into the productive sphere (ECLAC, 2004; Tokman, 2007).

Social protection and employment security are legitimate worker demands which, moreover, generate positive externalities in various areas, including sustaining demand, incentives to invest in skills training, the development of greater acceptance of technological change, productivity incentives and workers’ adaptability to change (ILO, 2004). This provides an economic base for achieving the aims outlined, beyond their social aspects (Boyer, 2006).

The experience of industrialized countries suggests that stability of employment and social protection exist in a variety of combinations, and with varying results in terms of their economic effect and of public perception of security (ILO, 2005). The countries of northern Europe (Belgium, Denmark, Finland, Ireland and the Netherlands) are those usually associated with the successful strategy of “flexicurity”, which combines legislation providing a low level of employment security with public expenditure on labour market policies to ensure high levels of social protection. The result is high perceptions of security. This is not the only model to be found among industrialized countries. Mediterranean countries (such as Greece, Italy, Portugal and Spain) have greater employment security (through stringent labour legislation) together with lower spending on labour market policies, but public perception of security is low in those countries. Between these two extremes lie various intermediate situations which achieve different degrees of success.

Some economies are more vulnerable, but to varying degrees

Such a change of direction is justified in the countries of Latin America, too. Most of them are rather small and have fairly open markets. In fact, they are more vulnerable than the European countries, and have fewer means of softening the impact of economic cycles in advance; and conditions need to improve

¹³ In this connection, see the summary by Joaquín García Murcia of the Green Paper on modernizing labour law to meet the challenges of the 21st century published by the Commission of the European Communities, in this issue of the *International Labour Review*.

for them to compete more successfully on international markets. Industrialized countries' experience is useful to guide policy design and to address the problem of employment instability, it can do little more, given the structural limitations mentioned above.

A study of the structural constraints and of social and employment protection policies in Latin America reveals a wide range of situations, which are set out in table 5. The structural constraints selected for the study are the degree of urbanization, of wage employment and of informal economy. Labour legislation and social protection apply mostly in formal labour markets where there are paid employment relationships; these generally exist in urban areas. For this reason, the impact of the structural constraints is in inverse proportion to the indicators selected: the larger the formal labour market, the share of wage employment and the degree of urbanization, the lower the impact of the constraints. Four groups of countries emerge following the application of three criteria: the degree of structural constraint, the combination of measures to seek security, and public perception of security in each country. These measures are the stringency of labour laws regarding dismissals and the amount of public funds earmarked for employment protection (unemployment insurance, training and employment services).

In the lower left square are the countries with lower structural constraints, which have less stringent labour laws compared with the other countries studied, which devote a significant proportion of public expenditure to protection, and where public perception of security is highest. This is the situation in Argentina, Chile, Costa Rica and Uruguay. In the upper right square are Mexico, Panama and the Andean countries, which display major structural constraints (though not the highest in the region), and which have stringent labour laws but spend fewer public resources on protection, and where public perception of security is lowest.

The remaining two squares illustrate the situations in between. On the one hand, in the top left square, Brazil and Venezuela display structural constraints second from the lowest, very stringent labour legislation and significant public expenditure on protection. The public perception of security is just below that indicated in the lower left-hand square (i.e. the highest). Finally, in the lower right square are various smaller countries with more open economies, lower incomes and the largest structural constraints. These countries somewhat resemble the Anglo-American model in combining less stringent labour legislation with lower expenditure on protection. Citizens of those countries indicate low perceptions of security, though not the lowest in the region.

These rankings show the wide range of situations obtaining in Latin America and illustrate the combination of employment policies and social protection policies used, as well as the results in terms of perception. A comparison of the averages of Uruguay, Chile, Argentina and Costa Rica with those of various industrialized countries (Denmark, Belgium, Finland, Ireland and the Netherlands) indicates the wide difference between them, even though these are the Latin American countries with higher perceptions of security and are broadly

Table 5. Structural constraints, employment security and social protection

| | | Social protection | |
|-----------------------|------|--|--|
| | | High | Low |
| Employment protection | High | Structural constraints: 2nd lowest Stringency of labour law: 2nd highest Social costs: 2nd highest Public perception of security: 2nd highest Brazil and Venezuela | Structural constraints: 2nd highest Stringency of labour law: highest Social costs: 2nd lowest Public perception of security: lowest Mexico, Panama, Paraguay, Colombia, Ecuador and Peru |
| | Low | Structural constraints: lowest Stringency of labour law: lowest Social costs: highest Public perception of security: highest Uruguay, Chile, Argentina and Costa Rica | Structural constraints: highest Stringency of labour law: 2nd lowest Social costs: lowest Public perception of security: 2nd lowest Nicaragua, El Salvador, Honduras, Bolivia, Guatemala and Dominican Republic |

Notes: The structural constraints selected are the urbanization rate, wage employment and share of the formal sector. The structural constraints are greater, the lower the degree of urbanization, of wage employment, and of formal-sector share, because social and labour policy and employment policy are designed for organized markets.

Sources: Author's calculations (Tokman, 2007), based on degree of flexibility of contracting and dismissals (World Bank, 2004); social protection costs as a percentage of GDP (ECLAC, 2006b); public perceptions of insecurity (Latinobarómetro, 2005); rate of urbanization (database of the Latin American and Caribbean Demographic Centre (CELADE)); see <http://www.eclac.cl/ceclade/default.asp>; and rate of wage employment and formal-sector share (ECLAC, 2006b).

comparable. Whilst the OECD countries considered spend between 3.5 and 5 per cent of GDP on active labour market policies and unemployment insurance, in the comparable Latin American countries this share is around 1.5 per cent. The same applies in relation to structural constraints: despite the fact that the Latin American countries in this group have the highest rate of urbanization (82 per cent) and of wage employment (73 per cent), the comparable rates of their OECD peers are 96 and 92 per cent, respectively (OECD, 2002).

In conclusion, this study illustrates, in the light of international and regional experience, the importance of employment protection (unemployment insurance, skills training and retraining and employment services) to help workers re-enter the labour market and participate in expanding economic activities. This enables the development of employability and the reduction of transition costs. Employment protection measures are particularly important in helping generate positive public perceptions of security, even in more flexible labour law regimes. However, if employment security rooted in stringent labour legislation is not accompanied by social protection, then there follows a higher perception of insecurity among the public. Even when the probability of job loss is lower, the fear that it may happen is greater, given the absence of any significant alternative income. The existing variety of employment relationships sets limits on all forms of social protection that are conditional on labour market integration, and this highlights the need to guarantee a universal form of coverage not linked to integration (see ECLAC, 2007b). Thus positive public perceptions

of employment security and also of income security will grow, although how far these policies will have an effect depends on the progress made by each country in the modernization process.

Conclusions

This article has offered an analysis of the social and economic changes undergone by the countries of Latin America over recent decades, and their effects on social cohesion and public perceptions. The change of macroeconomic regime brought about by the liberalization of trade, together with opening markets and globalization, resulted in increased volatility of wages and a greater risk of unemployment, which was made more likely by the recently introduced labour reforms. Employment instability and labour turnover increased and, given the lack of good jobs, the only alternative was to work in the informal sector, with its low productivity and poor wages. Data indicate that the size of the informal sector depends on the level of development attained and is linked to the degree of insecurity perceived by the public. Significantly, in Latin America, this sector has expanded continuously since 1990 and right up to the present, except in Chile, Argentina, Brazil and El Salvador.

At the same time, employment opportunities grew in the informal economy, i.e. the formal enterprises or production chains where the workers are on subcontracts, precarious conditions (including home work) and have no employment stability or social protection. In no way can these jobs be deemed to offer decent work. However, there are many different breaches of social protection provision, depending on the degree of labour market integration and on the contractual situation of the workers concerned: only 18 per cent of those working in the informal sector are covered by social protection, compared with 68 per cent in the formal sector. Only 19 per cent of wage earners working without a contract are covered, compared with 85.5 per cent of workers on permanent contracts. Two causes of considerable strain on social cohesion are the presence of a very large, persistent informal sector, and an ever-growing fringe of workers in formal-sector enterprises or production chains who have no employment security or social protection. A third cause is the workers who bear the brunt of the risks associated with changes in the market resulting from the greater flexibility of enterprises. Three strategies to address these three types of social tension are proposed below, all intended to strengthen social cohesion.

The first is the incorporation of the informal sector into the modern sector. The starting-point is the acknowledgement of informal-sector workers' economic and social rights, so that they may be in a position to meet the obligations imposed by entry into the formal sector. Efforts should also be made gradually to introduce a minimum threshold of labour rights for informal-sector workers, as well as fiscal measures to promote them.

The second strategy is aimed at disguised employment relations or employment relations not foreseen in the legislation and that involve one or more enterprises. This would need to be developed in accordance with the provisions

of three ILO instruments: Convention No. 177 and Recommendation No. 184 concerning home work, and Recommendation No. 198 on the employment relationship. Continuing deficiencies in national legislation regarding the attribution of responsibilities among the enterprises involved in subcontracting workers and products should be settled.

The final strategy is based on the policies adopted by more advanced countries seeking to combine flexibility for enterprises with employment security for workers. It is advisable to bear in mind the lessons learned during the application of these policies, and to adapt them to the structural peculiarities of Latin American countries. It is vital to enhance employment security and social protection, for the public to have more favourable perceptions thereof. Each country can – and must – combine the two objectives according to their own particular needs, just as the developed countries do. The progress achieved in these areas, though modest in certain countries in the region, would certainly contribute to achieving the dual aim of a “flexicurity” strategy.

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