

TRENDS AND CHALLENGES IN NORMALIZATION POLICIES FOR INFORMAL WORKERS IN LATIN AMERICA

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SUMMARY

- In the process of economic development, major countries in Latin America have allowed the presence of informal workers, which are cheap labor. These countries have been unmotivated to engage in labor reform to promote normalization. However, as economic growth has slowed, many within the region have begun representing a view that the significant percentage of informal workers among the working population will lead to more poverty and deterioration of public order.
- In the major countries of Latin America, normalization has tended to progress under leftist administrations backed by the working class. Those countries that have promoted normalization have seen decreased poverty rates, increased worker income, improved sustainability of specific industries, and other positive developments.
- On the other hand, the method of normalization can give rise to such problems as pressure on national finances, negative impact on corporate activities, and opposition from those subject to normalization. As such, the necessity of maintaining balance with national finances and sufficiently addressing the conflicting interests of the parties involved is an issue.

INTRODUCTION

Informal workers refer to those workers who are not registered legally or under social security systems. In Latin America, informal workers account for a significant 53% of the working population. In the process of economic development, major countries in Latin America have allowed the presence of informal workers, which are cheap labor. These countries have been unmotivated to engage in labor reform to promote normalization. For that reason, the percentage remains high. However, as economic growth has slowed since the 2010s, informal workers have been susceptible to economic ups and downs, and because they are not covered by safety nets such as social security, many have begun to express the opinion that the high percentage of informal workers will lead to more poverty and deterioration of public order. Moreover, some administrations have been promoting normalization because it also provides economic benefits such as expansion of the tax base and alleviation of income disparity.

In this paper, the author will identify the trends and challenges in normalization by touching on the background behind the large percentage of informal workers in Latin America. Next, the author will look at examples of normalization in Latin America, namely Argentina as an example of a substantial reduction of the percentage of informal workers under a leftist administration, Mexico as an example of the current leftist administration promoting normalization, and Peru as an example of a center-left administration promoting normalization with a focus on specific industries.

1. THE BACKGROUND BEHIND THE HIGH PERCENTAGE OF INFORMAL WORKERS IN LATIN AMERICA

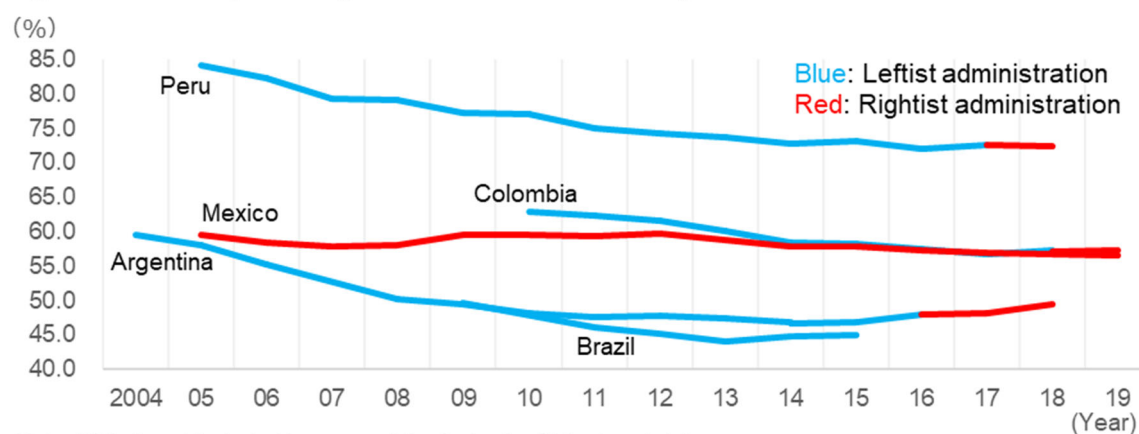
Specifically, informal workers are those workers that work at unregistered workplaces (small sole proprietorships, housekeeping service workers, street vendors, day workers, etc.) and those that work at registered workplaces

but are not protected by employment agreements or social security systems.

Generally, it is assumed that normalization of informal workers occurs in conjunction with economic growth. However, in Latin America, the percentage of informal workers within the working population remains high despite the economic growth of the 2000s. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and the International Labour Organization (ILO) point out that the governments of each country have allowed the presence of informal workers as a source of cheap labor and employment, primarily in labor-intensive industries such as agriculture and the service industry, and that their reluctance to normalize is partially the reason behind this high percentage. It has also been noted that in the process of economic development in Latin America, industrialization took place in a capital- and technology-intensive manner driven by foreign companies. High-productivity industries did not contribute toward absorbing the labor force. Furthermore, based on the historical background in the region, workers view normalization as exploitation by the government and have not been keen on it. The above organizations analyzed that all of these factors have had a combined impact.

Nevertheless, the vulnerabilities of informal workers, which had not been recognized as the economies were growing, have come to be recognized as economic growth has slowed due to the decline in commodity prices since the 2010s. These include their susceptibility to economic ups and downs and the lack of sufficient social protections in times of economic crisis. In each country, it was widely viewed that the high percentage of informal workers will lead to more poverty and deterioration of public order. Against this backdrop, some administrations in major countries in Latin America have been promoting normalization. The decline in the percentage of informal workers is particularly pronounced among leftist administrations backed by the working class (Figure 1). For that reason, the examples of normalization given in this paper are also measures enacted under leftist administrations.

Figure 1. Trend in percentage of informal workers in major Latin American countries

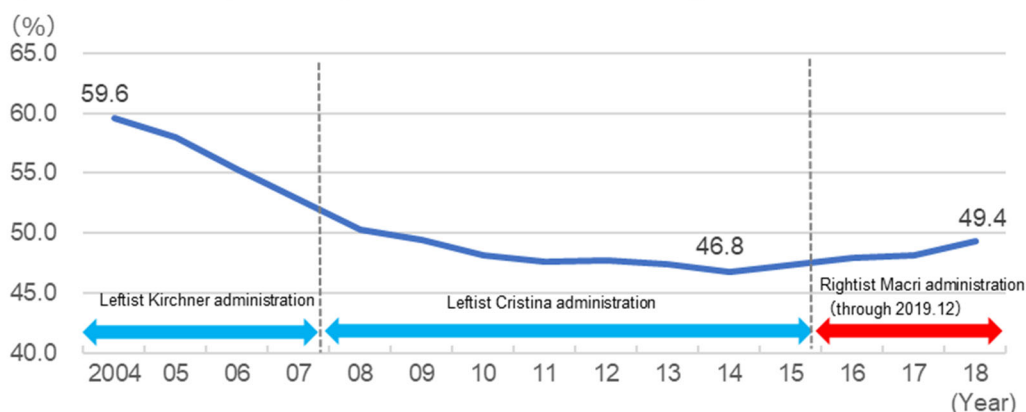


2. EXAMPLES OF NORMALIZATION OF INFORMAL WORKERS IN MAJOR LATIN AMERICAN COUNTRIES

2.1 Argentina: Decrease in percentage of informal workers under leftist administration

According to ECLAC, the percentage of informal workers among the working population in Argentina declined significantly between 2004 and 2014 from 59.6% to 46.8% (Figure 2) under the Kirchner administration (2003-2007) and then the Cristina administration (2007-2015). In the 1990s, Argentina implemented market-driven economic policies. The country worked on privatizing state-run companies and bringing flexibility to the employment system, resulting in a substantial increase in unemployment and informal workers. In response, the Kirchner and Cristina administrations promoted interventionist economic policies, and they implemented labor policies designed to protect workers.

Figure 2. Trend in percentage of informal workers in Argentina

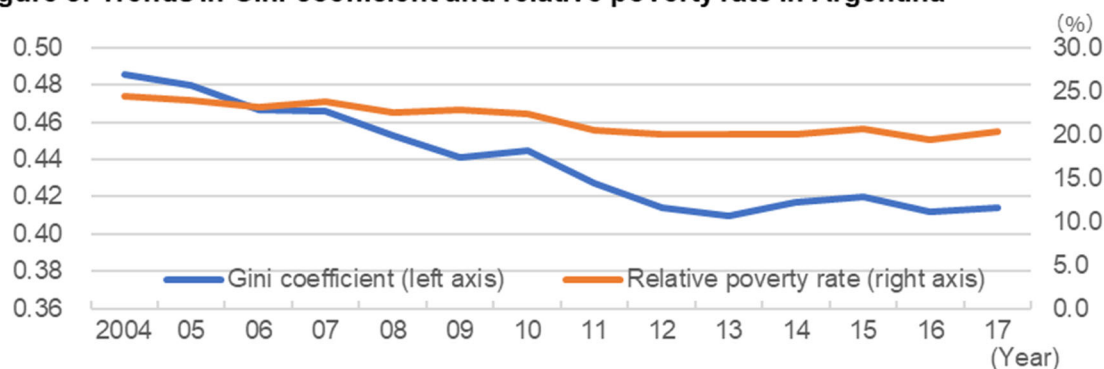


Source: Prepared by Mitsui & Co. Global Strategic Studies Institute based on World Bank and ECLAC data

Both administrations created employment in the public sector, including education, social welfare, and police, as measures for normalizing informal workers. According to the Foundation for Latin American Economic Research (FIEL), the percentage of public sector workers under these administrations increased around 63% between 2003 and 2015 from 2.21 million to 3.6 million. Next, they introduced incentives for companies, such as a reduction in the amount of their share of social security and flexibility in due dates. In addition, they amended labor laws, shortening probation periods, which had been getting longer, for part-time workers in the workplace, and increasing dismissal compensation, to promote normalization establishing upper limits within companies. The University of Business and Social Sciences (UCES) analyzed the substantial job creation, particularly in the public sector, and concluded that it led to a reduction in unemployment and the number of informal workers.

Not only did the percentage of informal workers decrease under both administrations but the Gini coefficient, which is an indicator of income disparity, improved as well. In addition, the relative poverty rate, which indicates the percentage of people living with less than half the median disposable income in their country, decreased (Figure 3). These results have led to firm support for the Kirchner and Cristina administrations, particularly among the working class. On the other hand, UCES has noted that the massive expansion of the public sector was a factor behind the financial crisis that occurred at the end of the Cristina administration and recognizes that the policy is unlikely to be sustainable. Under the leftist Macri administration, which was inaugurated in 2015, the percentage of informal workers has increased again due to labor policies that include large-scale dismissal of public employees and a more flexible employment system as well as the economic recession in 2018.

Figure 3. Trends in Gini coefficient and relative poverty rate in Argentina



Note 1: The Gini coefficient is a number between zero and one. The closer to zero, the lesser the income disparity, and the closer to one, the greater the income disparity.

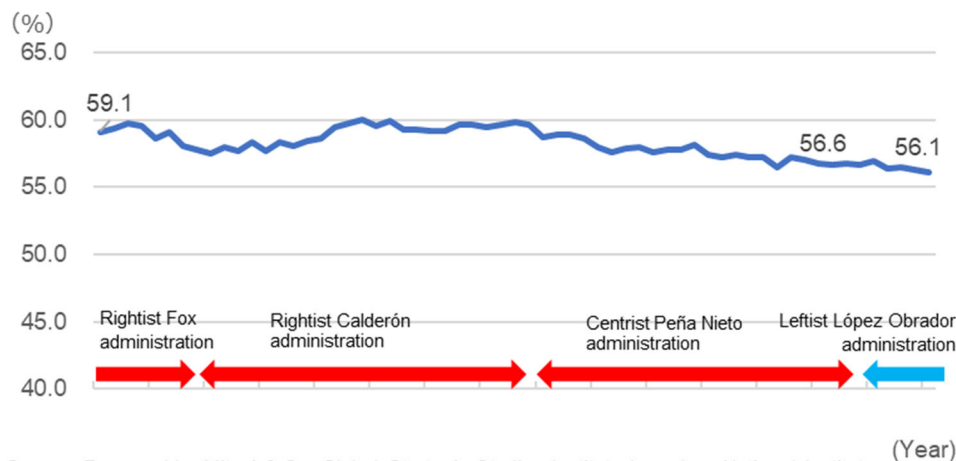
Note 2: The relative poverty rate is the percentage of people living with less than half the median disposable income in their country.

Source: Prepared by Mitsui & Co. Global Strategic Studies Institute based on World Bank data

2-2. Mexico: The current leftist administration works on programs to normalize young workers

In Mexico, the centrist Institutional Revolutionary Party (PRI) and rightist National Action Party (PAN) held power from 1929 to 2018 when the leftist López Obrador administration was inaugurated. According to the National Institute of Statistics and Geography (INEGI), the percentage of informal workers among the working population decreased 2.5 points from 59.1% to 56.6% from the earliest data available in the first quarter of 2005 to the fourth quarter of 2018, remaining mostly flat under the centrist and rightist administrations (Figure 4). Under the López Obrador administration, the percentage has dropped 0.5 points from 56.6% in the fourth quarter of 2018 to 56.1% in the first quarter of 2020.

Figure 4. Trend in percentage of informal workers in Mexico



Source: Prepared by Mitsui & Co. Global Strategic Studies Institute based on National Institute of Statistics and Geography (INEGI) data

The López Obrador administration has broad support among the working class and has promoted labor reform, beginning with normalization of the still high percentage of informal workers. President López Obrador has also emphasized fiscal discipline, and he has allocated the funds squeezed from lowering public employee salaries and consolidating public agencies to social welfare and labor-related budgets. As a result, the 2019 budget for the Secretariat of Labor and Social Welfare is 932% higher than what it was under the previous Peña Nieto administration in 2018.

To promote normalization, the government has set to work on an incentive payment program to incorporate young workers into the labor market. Over the past five years, an average of around 800,000 new workers have entered the labor market in Mexico each year. However, Mexico does not have a custom of hiring inexperienced young workers like Japan's custom of hiring new graduates, so there is a national problem of a growing number of young people not in education, employment, or training. Through this program, the government pays an incentive to trainees who select a workplace that suits them from the registered companies and spend up to 12 months undergoing training. By providing an opportunity to both companies looking for labor and young workers looking for employment, the program promotes regular employment upon completion.

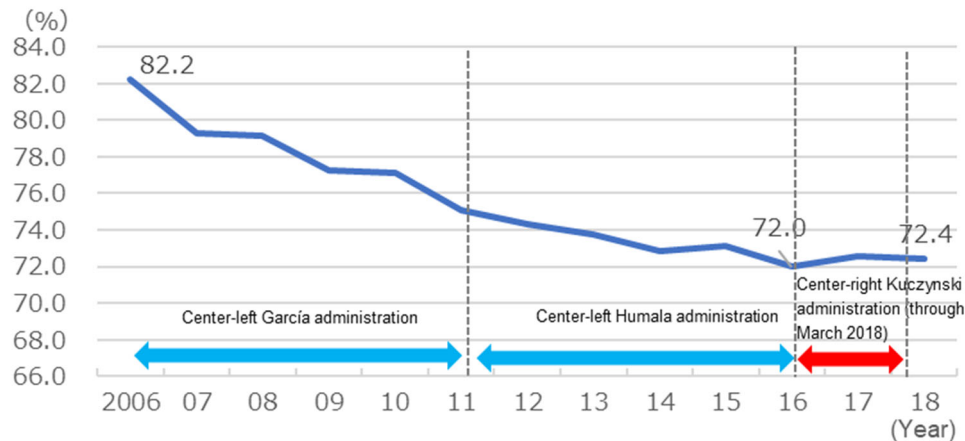
Going forward, the government is looking to prohibit temporary staffing in principle. According to the government, there are many illegal temporary staffing companies that do not provide benefits to employees as stipulated by labor laws. Out of the roughly 4.5 million people employed by temporary staffing companies, at least 2.9 million are informal workers. The government seeks to promote normalization by prohibiting temporary staffing and having companies directly hire the employees that they had previously indirectly employed through temporary staffing. In response, the Business Coordinating Council (CCE), which is the Mexican equivalent of the Japan Business Federation, has pointed out that completely prohibiting temporary staffing will not lead to a solution to the problem of informal workers but will instead cause the employees of temporary staffing companies that follow the law to lose their jobs and increase the percentage of informal workers. However, the CCE recognizes

the problem of informal workers and aims to form a consensus between the government and labor unions that incorporates a preparatory period for companies and other such steps.

2-3. Peru: Center-left administration promotes normalization focusing on major industry of mining

Under the center-left García (2006-2011) and Humala (2011-2016) administrations, the percentage of informal workers in Peru decreased 10.2 points from 82.2% to 72.0% (Figure 5). In particular, the Peruvian government focused on informal workers in the major industry of mining and introduced a normalization program focused on industry.

Figure 5. Trend in percentage of informal workers in Peru



Source: Prepared by Mitsui & Co. Global Strategic Studies Institute based on World Bank data

In the field of mineral resources, which account for more than 60% of Peru's exports, informal and illegal mining have been a problem. Informal mining refers to mining activities conducted without following the necessary procedures in areas where mining activities are permitted, while illegal mining refers to mining activities conducted where mining activities are prohibited. The workers performing these are informal workers. In 2012, the Humala administration began working on measures to address the problems of tax evasion and environmental pollution caused by informal and illegal mining.

The government is taking a double-sided approach, promoting normalization of informal mining by registering workers and business operators, as well as cracking down on and increasing the penalties for illegal mining. First, for informal mining, the government introduced the Comprehensive Mining Formalization Registry (REINFO) in 2012, lowering the hurdle for normalization by centralizing and digitalizing the procedures. Normalization was promoted by introducing preferential treatment for normalized business operators, including granting of mining areas within the region of their production activities, provision of financing from financial agencies, provision of a distribution network, and expert technical support. Next, for illegal mining, the government codified its status as a criminal act and announced legislation to increase the penalties. Additionally, many of the illegal mining businesses engaged in gold mining use mercury, so the government enforced measures to prohibit the use, sale, distribution, and storage of mercury starting in 2017, thereby restricting production activities.

According to the Ministry of Energy and Mines, out of the estimated roughly 500,000 informal mining workers nationwide, 88,736 had registered with REINFO and begun the normalization process as of mid-October 2020. Mining experts say that normalizing informal workers in the mining sector has not only enabled sustainable mining but has also strengthened the production system under the direction of government agencies and experts, thereby leading to increased productivity and worker income. On the other hand, there are workers against normalization, and there have been repeated protests against the government over the increased pressure on business operators, which is posing a challenge to promoting normalization.

3. TRENDS IN NORMALIZATION POLICIES IN MAJOR LATIN AMERICAN COUNTRIES AND FUTURE OUTLOOK

Economic growth has been slowing in major Latin American countries since the 2010s, and the percentage of informal workers among the working population remains high. Many within the region have expressed the opinion that this will lead to more poverty and deterioration of public order, and some governments have taken steps toward normalization. In the case of Latin America, normalization tends to proceed more smoothly under leftist administrations backed by the working class. A multifaceted approach is taken under these policies, including not only the development of systems to promote normalization but also the creation of public sector jobs, incentive payments, and other such incentives. In each country where normalization has progressed, there has been a decrease in the poverty rate, an increase in worker income, and an increase in the sustainability of specific industries. On the other hand, challenges that have arisen while promoting normalization include maintaining balance with finances and the necessity of sufficiently addressing the conflicting interests of the parties involved.

In recent years, there have been increasing calls to acknowledge the fundamental problems of income disparities and poverty as well as the problem of informal workers in Latin America, prompted by the protests that spread throughout Latin America starting in Chile in late 2019 and the serious economic blow of the COVID-19 pandemic. There will be presidential and parliamentary elections in many countries in 2021, but in countries like Peru and Chile where center-right administrations have control, leftist forces are on the rise, calling for revision of their constitutions, which were enacted under rightist administrations of the past. The Left in Latin America tends to prioritize protecting workers over the impact on companies. If a leftist administration were to be inaugurated in a country where the Left is emerging, amendments to the constitution or labor laws could prompt revisions to worker protections and employment systems, which is worthy of particular attention by businesses.

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