Beyond Economics: The IDB’s Account of Labour Market Turmoil

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For the promoters of neoliberal reform in Latin America, such as the Inter-American Development Bank (IDB), the need to account for the difficult state of economic and social affairs had become a perplexing task by the end of the 1990s. Although inflation and deficits had diminished and exports had risen, economic growth had cycled through expansion and recession. Unemployment rates had grown. Real wages remained below pre-crisis 1980 levels, while income and educational inequality increased. Crime rates rose dramatically. The attitudes of most ordinary Latin Americans reflected the reality: they worried about unemployment, low wages, access to education, and crime, among other things.

The deep disenchantment with the reforms, as well as the astonishing naiveté of the IDB’s economists, was captured in the following statement:

Surprising as it may seem after a decade of market reforms – which were applied in an effort to reduce government intervention in economic activities – 88% of Latin Americans think it is the government’s responsibility to give work to everyone who wants to work...and a similar percentage...for providing a decent standard of living for the unemployed (Lora and Marquez 1998, 4).

For the surprised economists at the IDB, the foremost objective was to maintain the reform agenda while attempting to account for the difficult reality in ways that did not too directly implicate that same agenda with the growing problems. Certainly one of the more puzzling and disturbing aspects of the economic ‘recovery’ of the 1990s was seen in the fact that unemployment and income inequality worsened, even as per capita growth rates averaged about 2 per cent over the decade (IDB 2000, 2). Such apparent anomalies indicated that there was a complicated story – a ‘labour paradox’ – to explain and that possibly involved the impact of the reforms on unemployment, real wages, the sectoral nature of job growth, and labour markets in general.

Between 1997 and 2000, the story told by the IDB passed through an interesting transformation of emphasis. In 1997, the IDB asserted that ‘[t]he increase in unemployment rates was not due to changes in the labour supply, but to lower growth in demand for labor’ (IDB 1997, 37). In addition, employment growth declined ‘...more forcefully where the structural reforms, and particularly trade and finance reforms, ha[d] been deepest’ (IDB 1997, 58). The restructuring of the economy with its greater emphasis on trade and capital mobility, along with the reform-induced decline in public employment, had resulted in a general displacement of labour and rising unemployment. Such unemployment was, however, ‘an indication of temporary maladjustments or of more structural rigidities in the labor market...[and] it would be a mistake to conclude...that the reforms have been a mistaken strategy’
From 1998 onward, and as the ‘temporary maladjustments’ of the short-run stretched into a longer-run, the IDB shifted its emphasis on the causal factors that influenced labour market outcomes. In a number of IDB documents and reports, a slowing of ‘employment growth’ appeared to displace the increase and persistence of ‘unemployment’ as a central issue – or apparent ‘problem’ – to be explained. In the same documents, changes in the factors affecting labour supply – the demographics of population growth and labour force participation – appeared to displace labour demand as the central explanation for changes in employment growth. Indeed, and as if to underline this shift of emphasis, the economists of the IDB titled their 2000 report: *Development Beyond Economics*, wherein the core explanatory variables were given by differences in demography, geography, and political institutions.

The purpose of moving ‘beyond economics’ was to account for the major determinants of long-term growth and development and, as such, economic variables alone were insufficient. Other important missing variables were needed. Thus variations in the age and gender structure, labour force participation rates, as well as the sectoral composition of the workforce, were now introduced as long-run, demographic determinants of job growth, unemployment, inequality, and poverty. The IDB used its new set of explanatory variables to set aside its tepid critique of neoliberal reform cited above in the 1997 report.

Globalization or neoliberal policies are often mentioned as causes of the region’s slow growth, instability, income inequality, or other shortcomings. Yet none of these problems is new, so the blame can hardly be placed squarely on any one of them *(IDB 2000 Report, vi-vii)*.

Such a statement elided the fact that neoliberal reform had not only failed to reverse such ‘shortcomings’, but had arguably contributed to the worsening of wages, unemployment and inequality. The awkward reality for the IDB was not to explain why the poor – or the unemployed – would always be with us, but why, after years of neoliberal reform, there were more of them.

Thus a new analytical approach was needed. By going ‘beyond economics’ and by introducing the new set of factors, the IDB attempted to redefine the problem of unemployment, for instance, as one of slowing employment growth and, thereby, redirect the criticism away from problems caused by neoliberal policies and onto issues related to changing demographics and continuing institutional practices which constrained the operation of free markets.

A careful examination of IDB documents dealing with the impact of the changing demographics on labour markets revealed a tangled argument replete with tautology, a fundamental mis-specification of variables, and contradiction. Such confused argumentation was necessary if the IDB was: 1) to acknowledge the worsening problems associated with labour and labour markets in the 1990s; 2) to deflect attention from the tight linkage between these problems and the neoliberal reform agenda; and 3) to continue to adhere to that policy agenda, and especially those aspects involving the reform of labour markets.
Unemployment, wages and inequality during the era of neoliberal reform

As market-oriented reform deepened in the 1990s and economic growth recovered relative to the 1980s, unemployment remained stubbornly high and even rising. In one account, unemployment trended upward from 6.4 per cent in 1990 to 7.8 per cent in 1997 (Marquez 1998, 4). When one accounted for the relative size of countries’ workforces, the rate of unemployment as a weighted average was seen to rise steadily from about 5 per cent in 1989 to around 8 per cent by 1997; an increase of 60 per cent (Lora and Marquez 1998, 9).

The IDB was at odds to interpret the data on unemployment. ‘...[T]he most conspicuous feature of unemployment rates had been their persistence: they tended to remain low where they were low before, and vice-versa’ (Lora and Marquez 1998, 9). Elsewhere, it was concluded that while unemployment rates rose over the course of the 1990s ‘the region...did not experience medium-run unemployment rates that were “excessively” high...’ (Marquez 1998, 9). Writing two years later, however, the same author drew a markedly different conclusion. Latin America had now entered a ‘...brave new world of higher and more procyclical unemployment’ (Marquez 2000, 20).

The upward movement of unemployment persisted in spite of the fact that the annual growth rate of the labour force fell from 3 per cent in the 1980s to 2.5 per cent in the 1990s. The slowing of labour supply growth was largely a consequence of the longer term drop in fertility rates and the aging of the workforce. Moreover, the earlier dramatic increases in women’s participation in the work force was slowing by the 1990s as more women entered the 30-39 age group and dropped out of the work force. The apparent significance of this slowdown in labour supply growth was not its impact on unemployment, which – had labour demand remained stable – would have been to diminish joblessness; rather this slowdown contributed to the deceleration in employment growth (Duryea and Szekely 1998, 2).

The demographic element that explained much of the rise in the ‘natural rate’ of unemployment was given by the fact that by the 1990s women not only composed a larger portion of the labour force, but they were much more likely to be unemployed. In particular, the large cohort of younger women in the workforce between the ages of 15 and 24 ‘aggravate[d] unemployment’ (Duryea and Szekely 1998, 34).

Educational attainment was another demographic factor that affected the type of employment and income inequality, even as it had an ambiguous impact on unemployment. As the neoliberal reforms matured and public spending tightened in the 1990s, educational attainment in Latin America ground to a halt. Over a 15 year period from the early 1980s to the mid-1990s, the average level of education for a Latin American teenager rose from 5.3 years to only 5.5 years (Duryea and Szekely 1998, 10). Educational attainment had gone ‘backward and...the workforce... had an average of two years less schooling than it should have for its level of development...’ (IDB 1997 Report, 72) In addition, and like income inequality, the distribution of education was increasingly skewed against the less educated.

The younger cohort of skilled workers was not only in short supply, but these better educated workers could expect increasingly higher wages than unskilled workers; a factor which contributed to growing income inequality. At the same
time, a Kuznetsian inverted U seemed to characterize education and unemployment. Workers with low and very high levels of education registered lower levels of unemployment than those with ‘middle’ levels of education (Marquez 1998, 14). Once unemployed, however, the low-skilled and the poor had a more difficult time finding a job. Thus levels of unemployment, in part, reflected differentials in the skilled/unskilled labour ratio.

The economic elements of the rising unemployment rate were a measure of the combined effects that the neoliberal reforms had on dampening labour demand. The control of inflation, the privatization of state industries, lower tariffs and tax rates, and the liberalization of capital flows resulted in a large influx of foreign capital through the mid-1990s. Exchange rate appreciation and a lowering of the user cost of physical capital followed (Lora and Olivera 1998, 15-20). The cheapening of capital relative to labour induced a rise in the stock of machinery which in turn contributed to increases in productivity and growth. As labour was displaced in this process, unemployment rose. Moreover, monetary stabilization, which suppressed inflation, meant that higher rates of unemployment – not lower real wages – would be the mechanism by which labour markets adjusted.

An IDB study of the impact of trade liberalization on aggregate employment found that greater openness to trade resulted in a decline in the number of jobs (Marquez and Pages 1997, 5). Interestingly, the same study indicated no statistical relation between the trade reforms and unemployment. This suggested that the choice faced by down-sized workers was not between a job and unemployment but between movements ‘...into and out of the labor force’ (Marquez and Pages 1997, 18). Laid-off workers apparently fell into the awkward category of ‘discouraged’ worker and no longer counted, either as labour force members or as unemployed workers.

Taken together, these results flew in the face of neoclassical trade theory which assumed differential and fixed factor endowments across regions. Such theory predicted that freer trade would generate more employment among the relatively abundant factor – unskilled workers – along with rising wages and declining wage inequality. Under the neoliberal reforms, however, production technology changed through the increased import of advanced capital goods which required relatively more skilled labour, even as it displaced others toward low paying, informal work. Thus, in spite of productivity increases, the average value of indexed real wages in the 1990s remained below 1980 levels (IDB 1997 Report, 38). By 1999, the recessionary environment had translated into ‘...more unemployment and falling wages especially for the less skilled workers’ (IDB 2000 Report, 63).

Wage differentials between skilled and unskilled workers rose dramatically in the 1990s and by the end of the decade were among the highest in the world. Between 1982 and 1994, the Gini coefficient of income inequality rose from below 0.54 to around 0.58 (IDB 1998, 15). If the percentage of those in poverty ceased to grow in the 1990s, the total number of people in moderate or extreme poverty followed a monotonic rise. Between 1980 and 1995 the number of poor grew by 95 million and totalled 227 million by the latter date. A measure of ‘excess poverty’ of 50 per cent indicated that Latin America’s poor should have been half the number actually observed. (Londono and Szekely 1997, 17, 22).

Growing income inequality and poverty coincided with the expansion of the
informal – and largely non-tradable goods – sector which included those who were self-employed, in domestic service, or working in enterprises of 10 or fewer employees. Between 1990 and 1996, the informal workforce increased by about 6 per cent and comprised over 57 per cent of all workers (Lora and Marquez 1998, 9). If jobs were being lost in the formal or tradable goods sectors which took greater advantage of the new, labour-displacing technologies, they were being created in the informal sector. The central importance of this relative shift in the locus of employment was that ‘...all of the additional jobs created in the 1990s in Latin America [were] in the non-tradable-goods sector’ (Lora and Marquez 1998, 10). Indeed, had it not been for the relief valve provided by the informal/non-tradable goods sector and the slowing of the growth rate of labour supply, there would have been ‘...an explosion in the unemployment rate’ (Marquez 1998, 11).

The IDB’s characterization of unemployment, low real wages and poverty incorporated both demographic and economic factors. Significantly, the elements of economic policy that seemed to have a negative impact on social indicators, and especially on labour markets, were precisely the elements that were central to neoliberal reform. The dilemma for the IDB was to recognize, quite frankly, a correlation or linkage between the neoliberal economic agenda and the poor social indicators, while attempting to provide a narrative spin which downplayed that same linkage. The resort to demographic factors provided the Bank’s economists with one means of deflecting the focus from the failure of neoliberal economic policies to improve employment, wages and access to education, among other things. Their argument, however, was deeply flawed.

**The labour paradox and the explanation that went missing**

Rising levels of unemployment, falling wages, growing wage inequality and greater poverty in the 1990s presented the IDB’s economists with a:

‘labor paradox’ that demanded an explanation…. How can we explain the fact that the higher economic growth rates of the 1990s have not translated into... reductions in unemployment?... [C]an it be said that the [neoliberal] changes in economic policy during the last decade were misguided, since they have led to a situation of ‘growth without employment?’ (Lora and Olivera 1998; 7-8).

There was a shift in emphasis in the issues raised above that became more evident as the IDB’s argument developed. The initial concern with the failure to create jobs and reduce unemployment was replaced quickly by a focus on the slower growth of employment. This obfuscation of the problem was made more apparent in another article:

If there are no changes in [labor] demand, declines in the rate of labor supply growth...will reduce employment. As long as unemployment does not change dramatically over time in a given country, the rate of employment growth in the long-run must correspond to the rate of growth of labor supply (Duryea and Szekely 1998, 29).
Assuming constant labour demand and unemployment, the argument above reduced to nothing more than an empty tautology: all things being equal, declines in the growth rate of workers – that is in the labour supply – meant declines in the growth rate of workers, or in employment growth. With labour demand assumed constant, changes in labour supply did not explain changes in labour supply. As the IDB had recognized, one explanation for slower labour supply or employment growth was to be found in changes in the long-run determinants of labour supply, such as fertility, mortality, and gender-related participation rates.

If the objective, however, was to explain a ‘labour paradox’ understood as the worsening of the conditions of labour, then the assumptions of constant labour demand or of unemployment rates that were not ‘dramatically’ changing, simply explained away – or ignored – the problem. To be sure, rising unemployment in the 1990s was perceived as a serious and growing problem by the Latin American populace – and by the IDB at various moments. The IDB’s economists had argued precisely that labour demand had dropped, especially in the sectors affected by neoliberal policy. At the same time, labour ‘demand’ in the informal sector had risen; a fact that would focus the IDB’s attention on the role played by the informal sector in the larger economy.

In contradictory fashion, the IDB wanted to have it both ways: to acknowledge the problems affecting labour and which were induced by the reforms, while absolving the reforms from responsibility. Thus, given the slower pace of labour supply expansion, the ‘permanent’ gain in capital intensive growth and labour productivity induced by the reforms did not ‘by definition’ generate more jobs. To the contrary, jobs were lost in the formal sector. On the other hand, the ‘policies of openness’ which had brought about ‘higher rates of permanent economic growth’ had not reduced job creation, or the ‘elasticity of employment’ relative to changes in GDP (Lora and Olivera 1998, 8).

Implicit in this line of reasoning was that rates of unemployment must have fluctuated around relatively stable levels in each country, and that these fluctuations must also have reflected the cycles in economic activity (Lora and Olivera 1998, 9).

In order to both recognize and downplay unemployment as a growing problem, the IDB often asserted its stability over time, while relegating its movement to that of a short-run, cyclical issue which a dynamic economy would normally experience in a business cycle. Could the IDB legitimately argue that the reforms had short-run and transitory effects on unemployment as well as on real wages? The IDB’s emphasis on the reform-induced changes in unemployment as a normal, cyclical issue was only possible by an egregious mis-specification of the types of unemployment.

A given level of unemployment is commonly defined as comprising some combination of three types of unemployment: cyclical, structural, and frictional. The standard textbook explanation of these categories identifies: 1) cyclical unemployment as that which reflects short-run fluctuations in the level of aggregate economic activity, or in the business cycle; 2) structural unemployment is due to long-run changes that reflect new technology [automation], new products, or the permanent closure or movement of whole industries due to cost factors or competition; and 3) frictional unemployment reflects a short-run condition given by workers’
decisions to leave one job for another, presumably better, job. Frictional unemployment is understood as voluntary and the number of job seekers is assumed to equal the number of available jobs. Cyclical and structural unemployment are involuntary from the worker’s point of view and, in both cases, job seekers outnumber jobs. Significantly, structural unemployment represents a condition wherein workers’ skills are often rendered obsolete or useless, resulting in a more intractable and possibly longer-term unemployment which would persist beyond the ups and downs of a business cycle.

According to the IDB, however, frictional unemployment resulted from ‘...changes in the composition of production, production techniques, [and] organizational methods of work organization’ (Lora and Olivera 1998, 9). But this was more precisely the standard definition of structural unemployment.

For the IDB, structural unemployment was defined by ‘sociodemographic characteristics (such as age, fertility, and education) and institutional aspects (such as labour laws, minimum wages, etc.) that determine the rate at which participants enter the labor market...’ (Lora and Olivera 1998, 9). Yet, the sociodemographic characteristics, in particular, were precisely the long-run determinants of labour supply, and hardly a definition of one type of unemployment. Cyclical unemployment was correctly identified as related to short-run changes in the business cycle. A correct identification of frictional unemployment was completely missing.

The specification error permitted the IDB to confuse, again, the nature of the problem to be investigated by conflating both the short-run and long-run effects of reform, as well as the ‘problem’ of the slowing of employment growth with the ‘problem’ of higher unemployment.

We have seen that short-term fluctuations of employment growth and unemployment rates have been closely associated to cyclical and frictional factors, which can be regarded as transitory in nature (Lora and Olivera 1998, 9).

While the IDB was correct to suggest that frictional and cyclical unemployment were ‘short-term’ and ‘transitory’, the Bank had mis-specified frictional and structural unemployment. The mis-guided implications of these mis-identifications were that: 1) the impact of the neoliberal ‘apertura’ of trade and capital markets on unemployment was only temporary; that is, the influx of new technologies with their high capital/labour ratios had only momentarily displaced workers, much like a downturn in the business cycle would be expected to do; and 2) once structural unemployment was mis-identified as the slower growth of labour supply or employment growth, the IDB could suggest that the unemployment problem was related to demographic elements and hence ‘beyond economics’ and thus not a reform-induced problem.

It was important to emphasize the fundamental and egregious nature of these errors. When reform-induced changes introduced new production processes and products and displaced workers in the process, these workers were not apt to find commensurate work in terms of wages and skill compatibility in the short-run. The job displacement that occurred in the formal sector would be – in economic theory and in labour’s experience – involuntary, non-cyclical, and of a long-run nature.

At the same time, the IDB cited evidence to the effect that actual long-term periods of unemployment of one year or longer in Latin America were low relative to
OECD countries (Marquez 1998, 20-1). If France and Germany experienced long-term rates of unemployment of 3.9 per cent and 2.2 per cent respectively, in Latin America long-term unemployment averaged less than 1 per cent.

In countries with limited unemployment compensation or other forms of a social ‘safety net’ and relatively high levels of severe poverty, it was hardly surprising that rates of long-term unemployment would be small. Indeed, such unemployment would not be survivable for individuals with few assets. If the net effect of neoliberal reform was not to produce jobs, but in fact to eliminate jobs – and all the while long-term unemployment did not change ‘dramatically’ – then where did the unemployed find employment?

As the IDB recognized, the fact that unemployment had not exploded as labour demand dropped was due both to the slowing of labour-supply growth and to the expansion of the informal, non-tradable goods sector. Indeed, the informal sector became a central part of the IDB’s attempt to salvage their confused argument. In doing so, the argument became yet more intractable and confused.

Recall that the informal sector had grown by 6 per cent during the 1990s to 57 per cent of the work force in 1997. This growth reflected the displacement of workers from the capital-intensive tradable goods sector which had seen rising levels of physical stock. The reform-induced industrialization of work in tradable goods resulted, ironically, in the ‘deindustrialization of labour’ since large numbers of workers were ‘replaced’ toward the informal or non-tradable goods sectors (Lora and Olivera 1998, 21).

Deindustrialization in this form was a push factor that would be expected to produce involuntary, structural unemployment. Off-setting the push factor, was the fact that the price of non-tradable goods had risen relative to tradable goods (Lora and Olivera 1998, 19). The changing relative price structure might be expected to operate as a voluntary pull factor in attracting employers and employees to the informal/non-tradable goods sector.

In this dynamic inter-play between the formal and informal economies, the IDB saw in Latin America – at least in one argument – an example of well-functioning and flexible labour markets where price signals induced more efficient outcomes. The shift toward informal work was:

...not evidence of weakness in the demand for labor, nor of the presence of any kind of economic rigidities... contrary to the usual assumption, it [was] not even evidence of a deterioration in conditions on the job market... there [was] no foundation for traditional theories that consider[ed] the informal economy as... barely integrated with the rest of the economy... (Lora and Olivera 1998, 21).

Trade and financial liberalization with the accompanying rising capital/supply ratios had ‘replaced’ workers and given them the involuntary push into unemployment. The informal/non-tradable goods sector, however, stood ready to voluntarily pull these workers since labour demand was expanding given the improving relative price structure. As further evidence of job market flexibility, informal sector employment was argued to be pro-cyclical, rising ‘during economic boom periods, when employment options improve[d]’ (Lora and Olivera 1998, 21).

This attempt to make a virtue out of a necessity foundered on its own argument. The displacement to informal work was not likely to be frictional and voluntary, an
instance where workers held out for a better job. If the relative price of informal/non-tradable goods gave indications of rising, there was no evidence that the wages of workers in this sector were rising. To the contrary, since large numbers of workers were pushed toward the informal sector, then wages were likely to be pushed down relative to the tradable goods sector. Recall that growing Gini coefficients and wider wage differentials coincided with the neoliberal reforms’ ‘deindustrialization’ of labour. Contrary to the IDB’s assertion, it was almost surely ‘deterioration in conditions in the job market’ that both led to and accompanied the rise in informal sector work.

The IDB’s odd argument that informal sector employment was ‘procyclical’ and, therefore, an indication of a strong, well-functioning job market during boom times, ignored the fact that the IDB had elsewhere noted that informal sector employment was counter-cyclical; that is, it grew during recessions in response to formal sector layoffs (IDB 1998-99 Report, 101). Thus, regardless of the business cycle, the informal sector’s monotonic growth was apparently explained by well-functioning job markets. Under these circumstances, the IDB’s argument was no longer in the realm of critical empiricism wherein hypotheses should be falsifiable.

Still another awkward fact marked the IDB’s attempt to wrongly redefine structural unemployment as frictional. The informal/non-tradable goods sector in the countries investigated had higher skilled/unskilled worker ratios than the tradable goods sector by the mid-1990s. It might generally be presumed that the informal sector, which had a lower capital/supply ratio than the tradable goods sector, would have had lower skill requirements and a lower skilled/unskilled worker ratio, but the evidence indicated otherwise. This was a counter-intuitive reality in search of an explanation. According to the IDB, and:

Owing to the characteristics of the demand for labor in the services sector, ‘terciarización’ [deindustrialization] had also been associated with a higher relative demand for skilled labor (Lora and Olivera 1998, 22).

Yet, the IDB’s ‘explanation’ was no explanation at all, but simply an assertion that begged the question of what were these new labour demand characteristics in the service sector.

A more intuitive explanation would be that the displacement of workers from tradable goods flooded the informal sector with relatively better educated workers who, rather obviously, stood a better chance of finding employment when matched with the less educated and unskilled. It was not a question of labour demand suddenly and inexplicably raising the skill requirements of domestic servants, cab drivers, seamstresses, or sidewalk retailers, for instance, but rather of a skilled labour supply finding itself involuntarily unemployed due to structural factors.

The IDB was correct to argue that the informal sector was not un-integrated with the rest of the economy, even if the workers entered it under involuntary circumstances owing to reform-induced adjustment and cyclical economic volatility. In fact, the informal sector during the era of neoliberal reform performed the role much as it always had: providing jobs of last resort, wherein most of such jobs were self-created or ‘invented’ (IDB 2000 Report, 62).
Implications for the last bastion against reform: labour policy

The discrepancy between positive rates of growth and rising levels of unemployment and inequity defined the labour paradox that needed explaining. In its effort to explain this paradox, the IDB introduced demographic factors and resorted to tautology and mis-specified variables. By mis-identifying structural unemployment as the slower growth of the labour force, the IDB was able to suggest that many of the problems and solutions were now ‘beyond economics’.

In this vein, the IDB saw demographic changes as a substitute for interventionist policies, or more government. Since fertility rates were declining faster than mortality rates, society could expect fewer dependents per worker. Thus an aging workforce promised to lower the ‘dependency ratio’ and bestow a ‘demographic gift’ by raising household per capita incomes, savings, and educational opportunities (IDB 2000 Report, 56); or, lower fertility rates meant that a slowing of the growth of the school age population promised greater per capita expenditures ‘by simply maintaining the same tax contribution per worker...’ (Duryea and Szekely 1998, 46). The mere anticipation of the demographic tidal wave that would wash over society was now elevated to – and substituted for – fiscal policy.

At another level, the IDB argued that the demographic gift would only be bestowed fully if the labour market was made more ‘flexible’. Historically, labour code rigidity in Latin America was high relative to OECD countries and this had undermined job creation and promoted informal sector activity (IDB 1998-99 Report, 140-55; IDB, 2000 Report, 61-2). Codes defining levels of severance pay and the minimum wage, work-day conditions and duration, dismissal notification, and re-hiring practices were seen as excessive by the IDB. Designed to offer income protection under conditions where unemployment compensation or insurance was limited or absent, these codes worked to exclude women and raised the permanent rate of unemployment. Making these codes and, thereby, labour markets more ‘flexible’ by lowering the bar – reducing severance payments and minimum wages, shortening dismissal notification time, offering temporary work contracts, etc. – would lower costs and generate jobs.

As the IDB recognized, however, lower severance payments and shorter dismissal times would make it easier to terminate jobs, as well as to create them. In a world of less restrictive labour codes, ‘job churning’ might increase; a condition given by greater job destruction and job turnover. By 2000, and in countries that had earlier implemented labour reforms, outcomes were being analyzed. New labour codes which permitted temporary work contracts and eliminated severance payments had increased job creation, while simultaneously raising the level of job churning. The IDB gave a characteristically oblique assessment:

The studies on Argentina, Colombia and Peru indicate[d] that lower job security [was] associated with higher employment rates, although the evidence [was] not as strong as that for [job] churning (IDB, 2000 Report, 65).

No matter where the IDB turned, the unpleasant ironies produced by neoliberal reform abounded. ‘The adoption of growth oriented sustainable economic policies’ had not reduced the ‘high level of macroeconomic volatility in Latin America’ by
2000 (Marquez 2000, 1). Neoliberal labour market reform had generated more job churning than job creation and apparently contributed to higher rates of unemployment and lower wages. By design, the temporary contracts introduced greater job insecurity and paid lower wages, which, together, had the effect of reducing the potential benefits of deregulation for young people and women, since they were the workers most likely to be hired temporarily. Greater income inequity ensued.

Significantly, the practical effect of such code reductions was to make the formal sector approximate the informal sector, where labour codes were largely nonexistent. Indeed, the presence of a metastasizing informal sector went a long way toward explaining the discrepancy between the public’s perception of increasing employment-related hardship, and the IDB’s perception of the informal sector as a robust sign of market flexibility and strength, and of unemployment as a mere short-run, cyclical or voluntary phenomenon.

After considerable vacillation in the working papers that informed the 2000 Report on whether unemployment levels were rising, the IDB concluded in unequivocal fashion:

From a [pre-neoliberal] world where unemployment was almost absent, and where low quality jobs in the unregulated [informal] sector were the crux of the problem, Latin America jumped into a brave new world of growing unemployment. By the end of 1999, a record number of countries were experiencing double-digit unemployment...[which] remained high even when economies recuperated after each shock (IDB 2000 Report, 63).

The ‘brave new world’ of unemployment – a strangely revealing concept – gave every indication of enduring. Indeed, in the neoliberal world the trade-off was not, as it was before 1980, between low unemployment and excessive numbers of ‘low quality’ informal sector jobs; rather now both unemployment and the informal sector were growing. So serious was the omnipresent, Orwellian nature of the unemployment that it was deemed ‘procyclical’, even as one had no reason to doubt that it remained firmly counter-cyclical as well (IDB 2000 Report, 63). The IDB’s attempt to characterize the higher rates of unemployment as temporary and voluntary was accomplished only by an egregious mis-specification of terms. To suggest that the new unemployment was both ‘transitory in nature’ and ‘procyclical’ was flatly contradictory.

As always, and in spite of the evidence of increasing economic and social hardship, the policy implications for the IDB remained unshakable: continue reducing the size and the role of government in an effort to ‘get the prices right’ and to enhance efficiency (see Jonakin 2001, 49-81). If, after almost 20 years of neoliberal reform, the IDB’s economists were ‘surprised’ by the results of Latin American opinion polls that showed overwhelming support for greater government involvement in job creation, education and income protection, they were the only ones.

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Bibliography