

Labor Market Flexibility
in the Global Economy:

The cases of Chile and Ecuador

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My name is Miguel F. Ricaurte,
and I am from ECUADOR and COSTA RICA:



... 400
years
ago ...

... as we all know it currently ...

And I studied in

Ecuador,

Chile, and

Kalamazoo, MI!



Content:

- ▶ Presentation of Chile and Ecuador
- ▶ Introduction to ***Employment, Unemployment, and Labor Market Flexibility***
- ▶ The case of Ecuador: Failure of the labor market
- ▶ The case of Chile: The effect of “moderate” inflexibilities
- ▶ Conclusions

I will talk about two countries:

	Ecuador	USA
GDP (PPP 2003 est.)	\$45.46 billion	\$10,980 Billion
GDP Per Capita (PPP 2003 est.)	\$3,300	\$37,800
Size (sq km)	276,840 (smaller than Nevada)	9,631,418
Population (Jul. 2004)	13,212,742	293,027,571
Currency	US Dollar	US Dollar

Source: CIA World Fact Book, <http://www.cia.gov/cia/publications/factbook>

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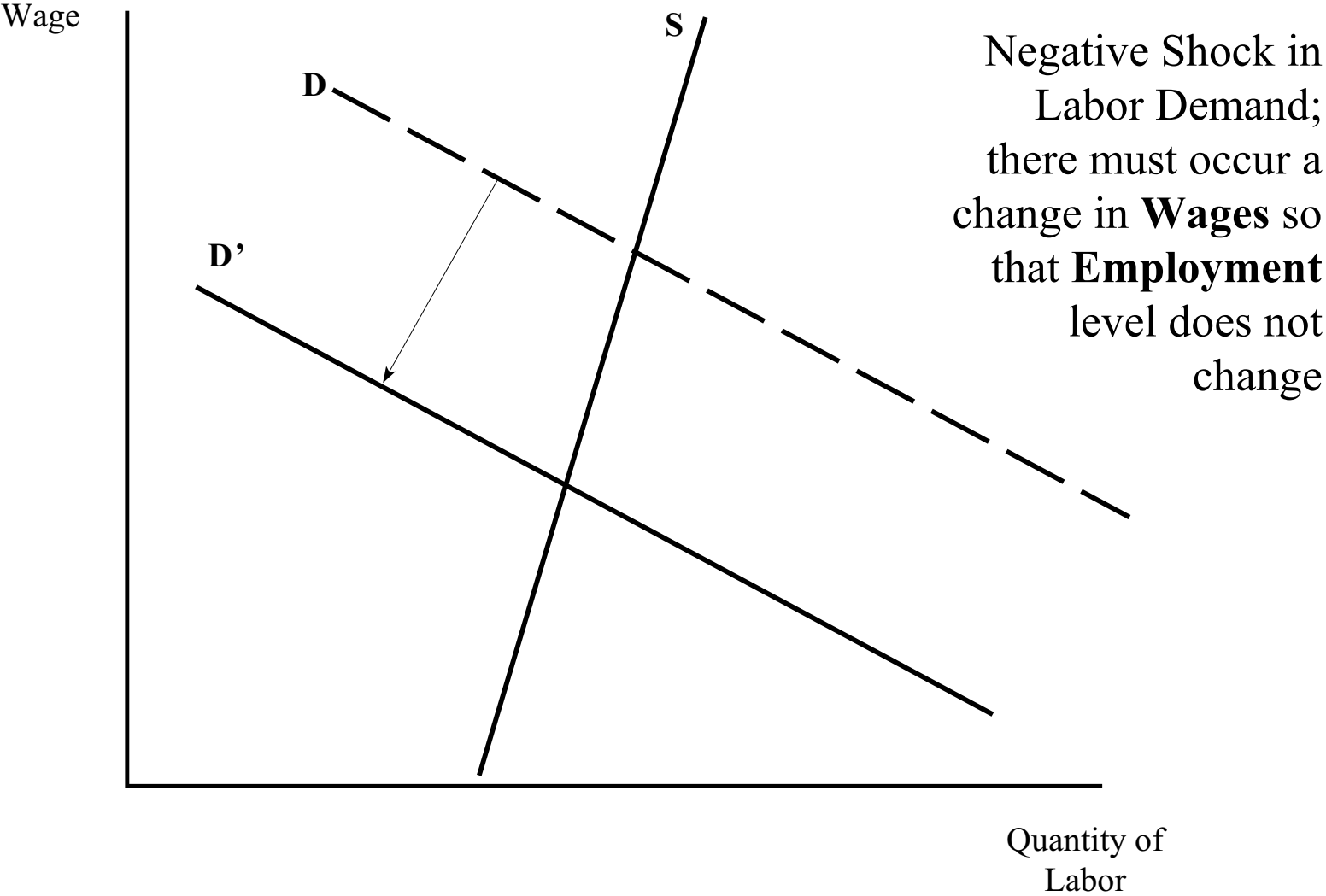
	Ecuador	Chile	USA
GDP (PPP 2003 est.)	\$45.46 billion	\$154.6 billion	\$10,980 Billion
GDP Per Capita (PPP 2003 est.)	\$3,300	\$9,900	\$37,800
Size (sq km)	276,840 (smaller than Nevada)	756,950 (a little bigger than Texas)	9,631,418
Population (Jul. 2004)	13,212,742	15,823,957	293,027,571
Currency	US Dollar	Chilean Peso	US Dollar

Source: CIA World Fact Book, <http://www.cia.gov/cia/publications/factbook>

Some Terms

- ▶ ***Labor Market Flexibility*** refers to the degree to which the labor market responds to *shocks* (that is, how easily does a market “recover” from a *shock*).
- ▶ A ***shock*** can be: natural disaster, war, or other phenomenon that “violently” disrupts the normal functioning of a country’s economy.
- ▶ A market is said to be ***flexible*** if employment suffers **little** change when a *shock* occurs.

This means (for example):



- ▶ **Underemployment or subemployment** refers to the fraction of the population that reports having a source of income but whose nature is unstable, temporary, and/or informal (for example, sales people on the street and workers with no working contract)

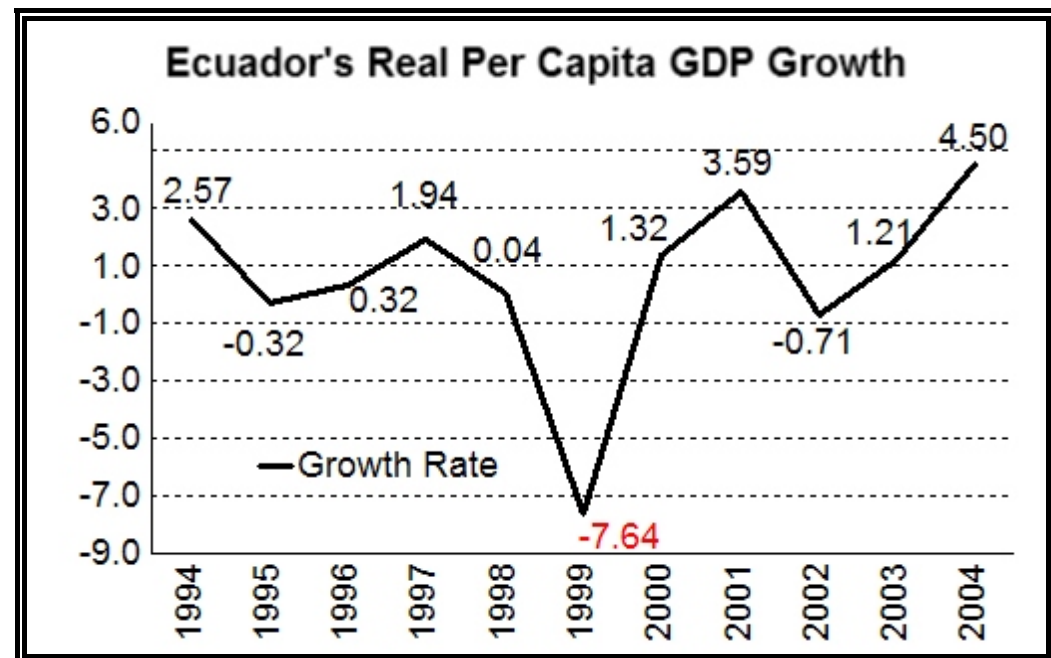
- ▶ Factors affecting flexibility:
 - ▶ Legal aspects:
 - ▶ minimum wage laws
 - ▶ firing laws (noticing time, compensation)
 - ▶ social security, unemployment benefits
 - ▶ Technological aspects
 - ▶ production technologies
 - ▶ ability / skills of workers

The case of Ecuador:

Failure of the labor market

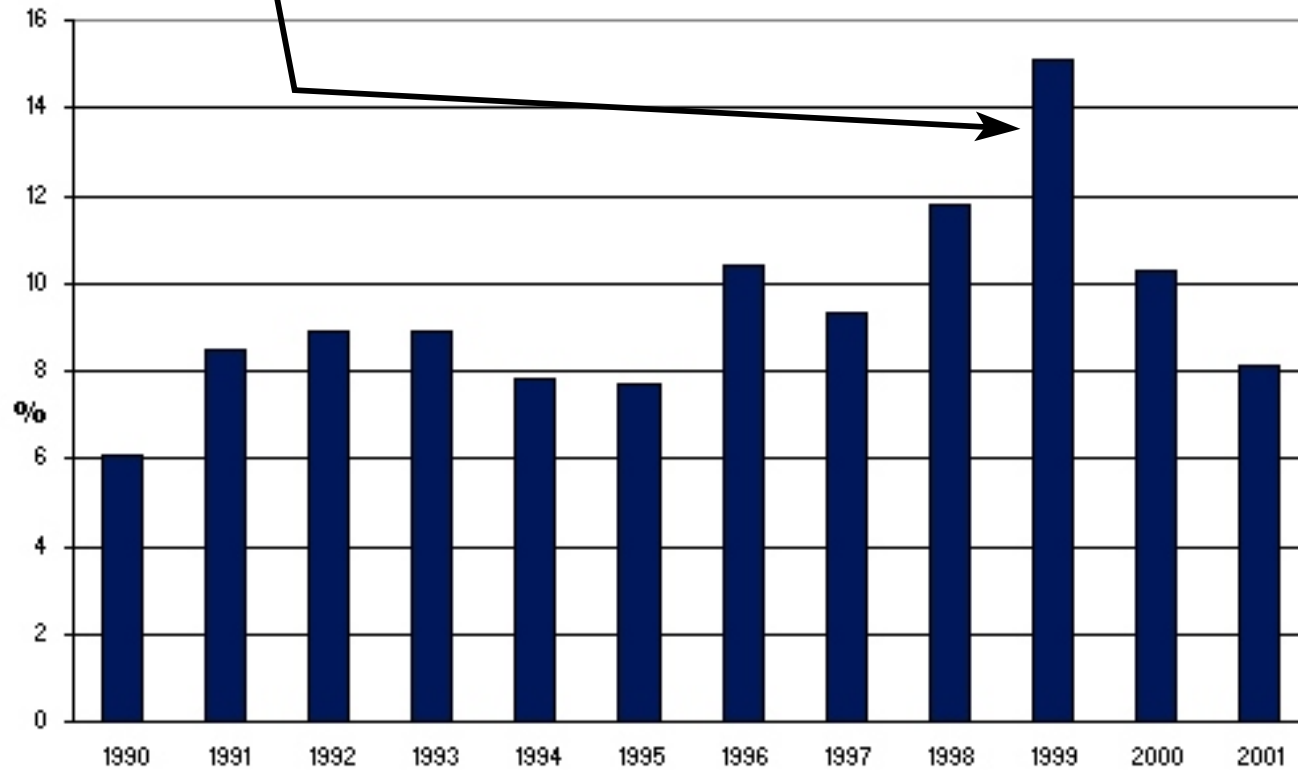
Ecuador suffered a severe shock in 1998-1999:

Real Per Capita
GDP fell by from
\$1384 in 1998 to
\$1279 in 1999 ...
(2000 US Dollars)



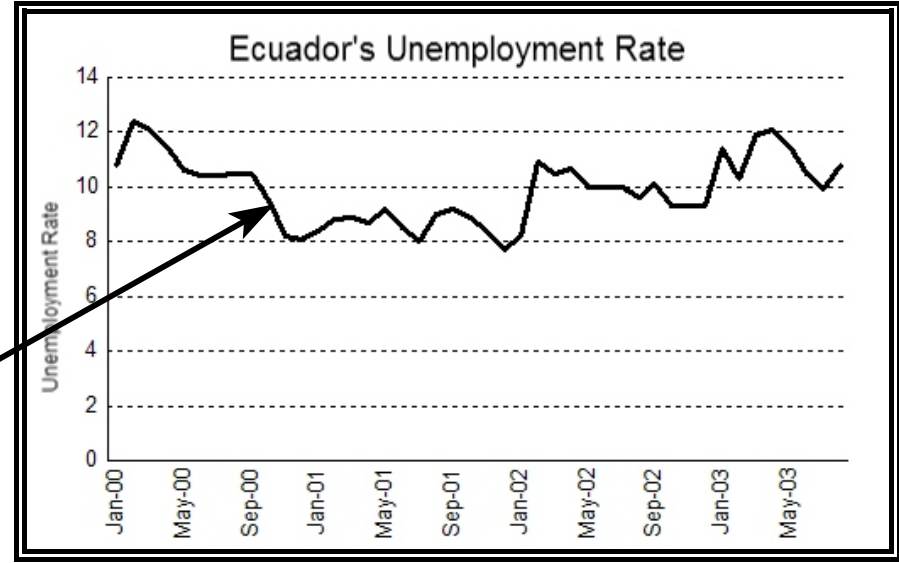
Unemployment raised after the crisis:

Ecuador's Unemployment Rate

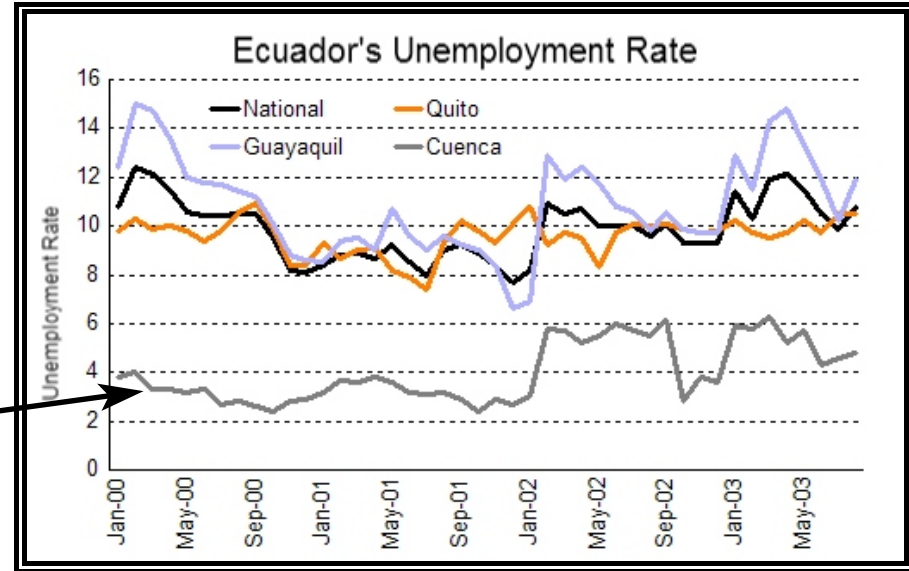


Source: Latin Focus.

... but decreased within months ...

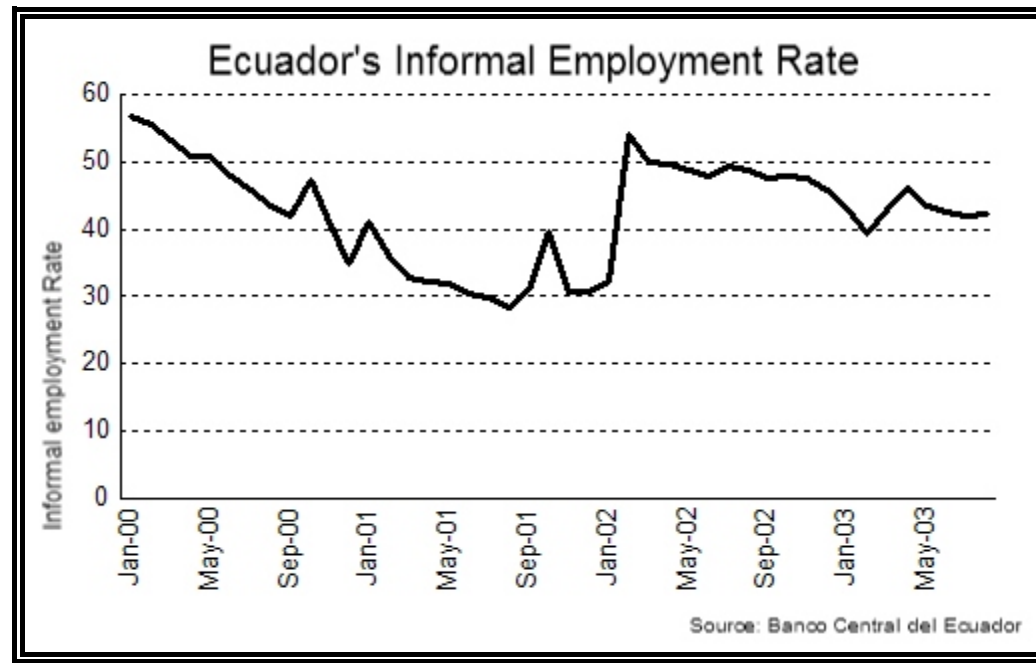


... and growth did not occur in every major city; Cuenca was an exception!

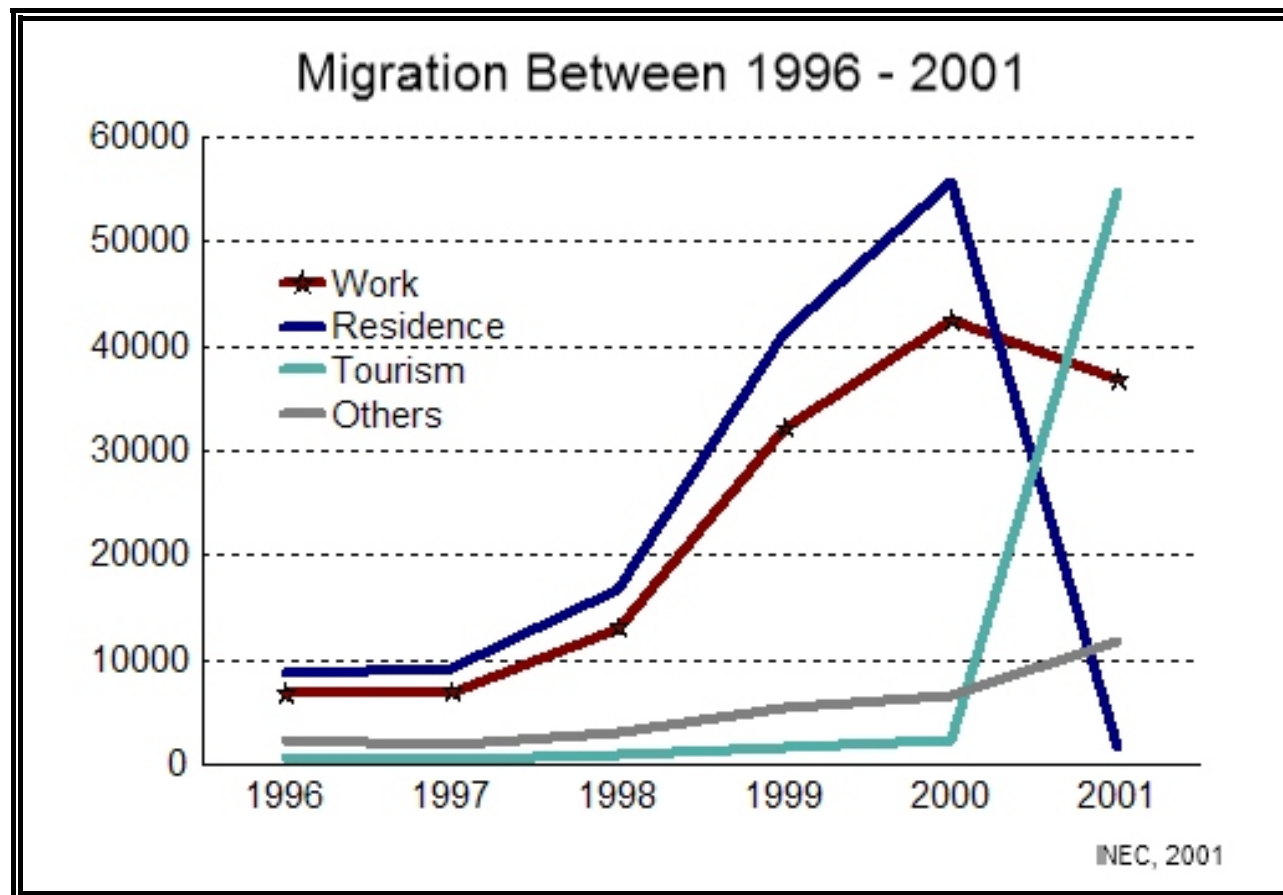


We know the labor inflexibility was inflexible because two things happened:

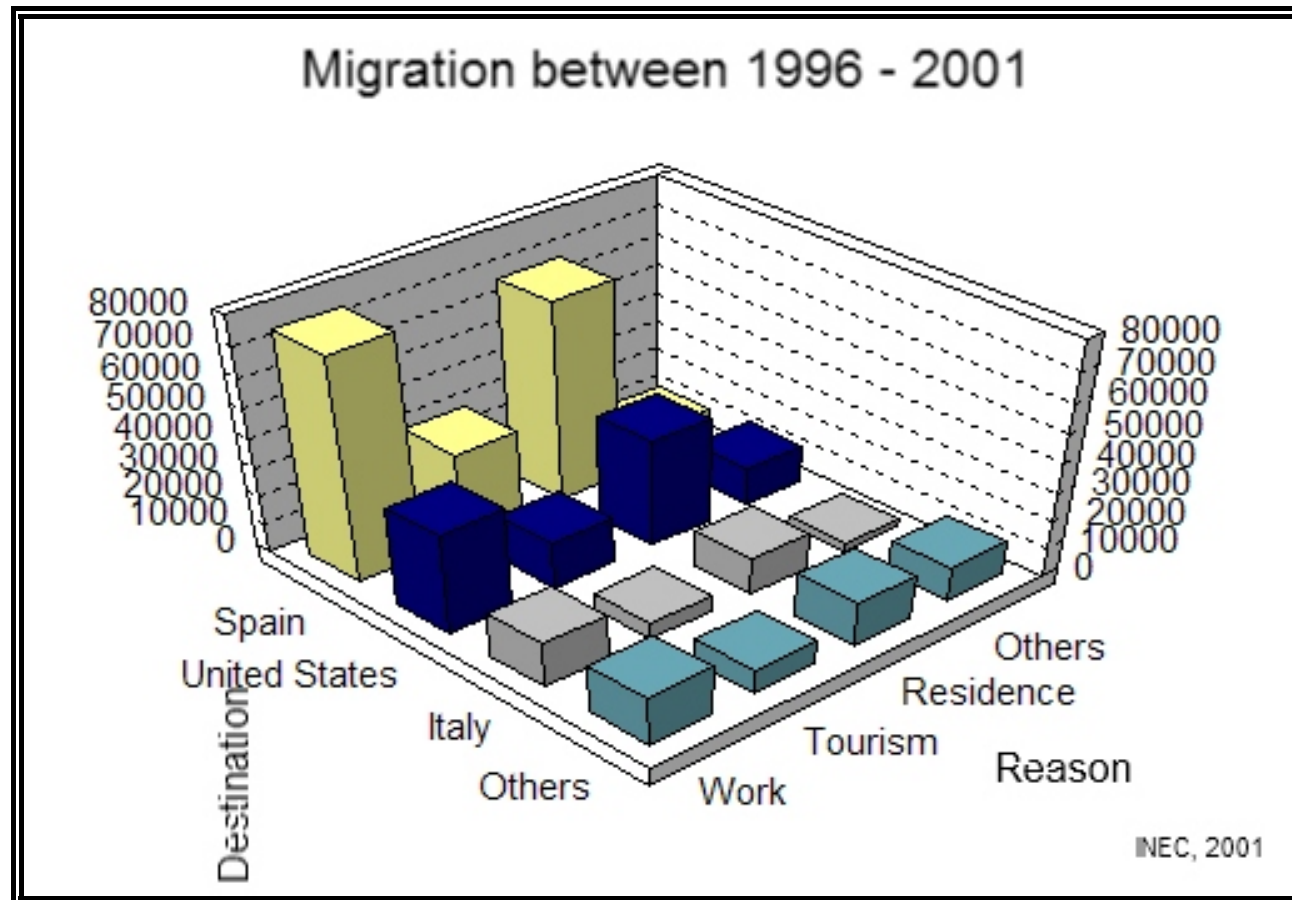
1. ***Informal employment*** rates soared since the crisis . . .



2. Massive *migration* occurred following the crisis . . .



... main destinations: Spain and the US.



- ▶ 350,000 Ecuadorians migrated between 1996 and 2001 (many pretending to be tourists!).
- ▶ That means that roughly 3% of Ecuadorians left the country.

(if 3% of US citizens left the US, that would mean that 8 million people would leave the country!)

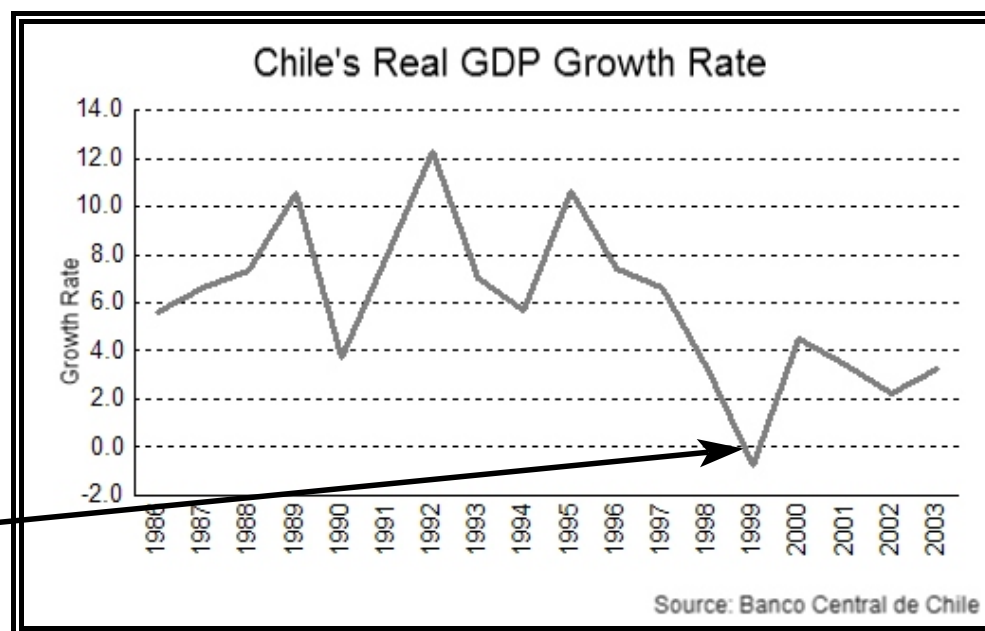
- ▶ Migration slowed down in 2002 when Spain enforced a tourist visa for Ecuadorian citizens and the US less lenient in granting visas.

- ▶ Major changes in the labor laws were introduced in 2000 to make the market more flexible:
 - ▶ Hiring per hours or per task was allowed
 - ▶ Wage schemes were simplified
- ▶ The economy is now (slowly) recovering, few of those who migrated have returned to Ecuador.
- ▶ However unemployment and underemployment remain relatively high (officially, at around 10% and 50%, respectively)

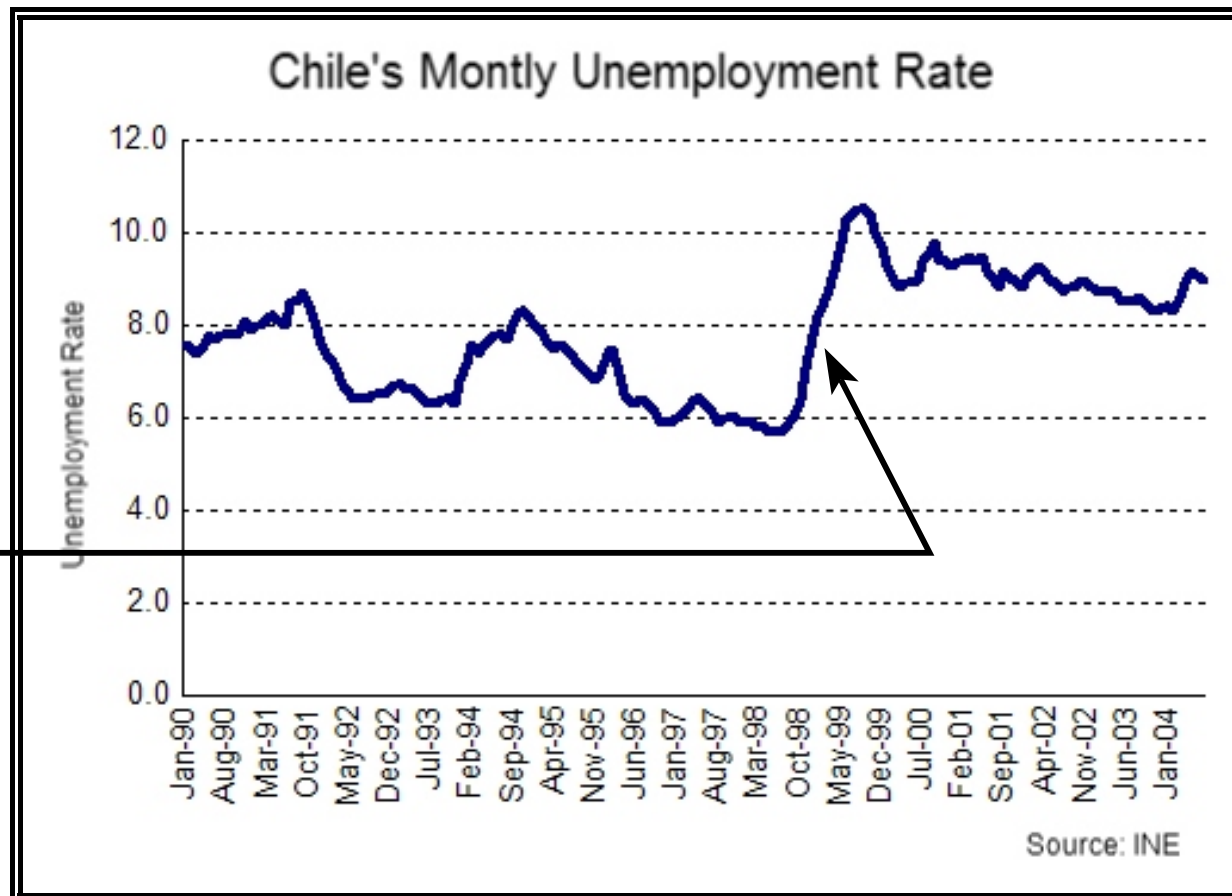
The case of Chile:

The effect of “moderate” inflexibilities

- ▶ Chile was one of the fastest growing economies in the world in the early 1990s
- ▶ It was affected by the “Asian” Crisis in 1998-1999 and growth slowed down



- ▶ At the same time, the *unemployment rate* grew and has not returned to 1998 levels



- ▶ No significant migration occurred in Chile as wages continued to increase



- ▶ Chile had *norms* and *laws* that made the market inflexible:
 - ▶ High firing compensation costs
 - ▶ High medical and retirement benefits (which make hiring expensive)
- ▶ Chileans are still debating on how to “soften” these norms to favor hiring without weakening the workers’ position (hard to do!)

Comparing Chile and Ecuador

- ▶ Both countries' economies suffered shocks that resulted in the loss of jobs
- ▶ In Chile,
 - ▶ wages didn't decrease, so . . .
 - ▶ . . . the unemployment rate increased
- ▶ In Ecuador,
 - ▶ unemployment increased relatively little . . .
 - ▶ . . . many people migrated abroad

- ▶ The increase in unemployment occurred:
 - ▶ in Chile because of ***legal inflexibilities***,
 - ▶ in Ecuador, because of ***technological inflexibilities*** (production technologies and workers skills did not allow the economy to match the existing labor supply).
- ▶ In Chile, where people are “rich,” unemployed workers could rely on family or even the state to survive while unemployed.

- ▶ We call these ***social and public safety nets***.
- ▶ In Ecuador, people could not afford to do that, so they sought ways to make money abroad.
- ▶ In fact, migrant workers' transfers to Ecuador accounted for more than 8% of Ecuador's private consumption in the last five years.

