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CHAPTER 4

Employment under Adjustment and the Effects of Labour Market Reform on Working People

Wealth is generated by human labour, without which there is no income, whether in cash or in kind, no consumer goods, no technology, no capital nor organization. Without labour there would be neither production nor distribution of wealth, nor would markets exist. In other words, it is not the market that determines the existence of this labour; on the contrary, without labour, markets cannot exist.

Labour can be employed in many different ways. In developed economies, where the relationships between supply and demand are clearly articulated, work is usually salaried. Such is not the case everywhere, however. The labour market can coexist with many types of workers and employment, including small-scale rural producers, independent merchants, the self-employed, and non-paid family workers. Paradoxically, within the logic of the market, some activities necessary for the reproduction of society remain outside all economic considerations. Non-remunerated housework underpins work performed outside the home by other household members. Such work, however, is considered to be 'non-economic', and whoever performs it is almost always classified as part of the economically inactive population.

That is to say that, from a market point of view, labour is reduced to a simple relationship of supply and demand. The economic policies that have predominated since the beginning of the 1980s have placed emphasis on the labour market rather than on the value of work itself. Within structural adjustment programmes, labour has been defined in terms of individual productivity and competitiveness, with little regard for social and labour rights or social equity and collective well-being. The isolated, competitive individual supplants the collective and cooperative effort.

Structural adjustment, including specific labour market reforms, has significantly affected labour and living conditions in all of the participating countries.

The national investigations into the impact of a broad range of adjustment policies – including privatization, deregulation, and trade and financial sector liberalization – indicate that structural adjustment has significantly affected labour and living conditions in all of the countries participating in the SAPRI and CASA exercises. This impact has been deepened by specific labour market reforms undertaken as part of structural adjustment programmes in numerous countries. These policies and their effects on employment, wages and working conditions have been examined in Ecuador, El Salvador, Mexico and Zimbabwe. The studies are illustrative of the international trend towards reducing the concept of work to that of the labour market, reorganized through the concept of flexibilization.

This chapter first presents a brief description of the differing, as well as similar, characteristics of the four countries. It then discusses two types of impacts that adjustment has had on employment: those caused by general economic adjustment strategies; and those derived from specific labour market reforms. Finally, it summarizes the findings and recommends a change in course.

Country Characteristics

The countries under consideration have very different points of departure. Their geographical and population sizes, as well as that of their markets, are contrasted in Table 4.4 below.

Mexico, which possesses over three quarters of the total population of the four countries studied, also generates 91 per cent of the combined GDP. It is classified by the World Bank as a high-middle-income country, while Ecuador and El Salvador are listed as lower-middle-income nations and Zimbabwe as a low-income country.

Table 4.1 • Selected Countries: Population, Territory and GDP

	Population (millions)		Territory (thousands of km²)	GDP (millions US$, 1987)		GDP *per capita*		
	1980	1997		1980	1997	1980	1997	Average annual growth
Ecuador	8.0	11.9	256,370	11,733	19,768	1,467	1,661	0.7%
El Salvador	4.6	5.9	21,041	3,574	11,264	777	1,909	5.4%
Mexico	67.6	94.3	1,958,201	223,505	402,963	3,306	4,273	1.5%
Zimbabwe	7.0	11.5	390,580	6,679	8,906	954	774	(1.2)%

Source: World Bank, *World Development Indicators 1999*, Washington, DC: World Bank.

Macroeconomic evolution, expressed in GDP *per capita*, shows not only very different initial structural characteristics but also different types of development. Under an orthodox adjustment regime since its Economic Reform Programme was launched in 1991, Zimbabwe's growth has slowed significantly. Likewise, Ecuador's GDP *per capita* appears to have fallen in real terms during the past two decades of economic liberalization and particularly during the recent period of economic crisis. In contrast, El Salvador grew significantly in the 1990s after the Peace Accords were signed in early 1992. Its GDP *per capita* was scarcely half of Ecuador's in 1980, but by 1997 surpassed it by 15 per cent. Mexico's dynamic can be located somewhere in between Ecuador's and El Salvador's – a weak level of growth *per capita* that does not keep up with the growth rate of the economically active population.

Because of these differing conditions, each country's specific characteristics were taken into account in the participatory consultative exercises. But, in spite of such differences, all of the countries where employment and the labour market were studied have shared a number of basic structural characteristics.

- All four countries have had an extremely heterogeneous[1] market structure (Zimbabwe's reached dualism and enclave formation), with economic control exercised by a handful of businesses and the majority of work performed outside the formal hiring schemes usually found in developed economies. For example, in Mexico, out of an economically active population of 40 million, fewer than 18 million were enrolled in the social security system. (The law requires that all labour contracts enrol workers in this system; therefore, those not enrolled either work in the informal sector, are self-employed or are unpaid.)
- At the same time, all the countries have shown a high concentration of income, wealth and factors of production. Above and beyond the countries studied here, Latin America and Africa are historically the two regions with the highest concentrations of wealth. In Zimbabwe, 70 per

[1] In economic development theory, heterogeneity refers to disparities in development within a country's economy. A heterogeneous economy tends to include the following: a sector producing raw materials or primary goods – whether for export, domestic markets or direct consumption – with low levels of technology and poor working conditions; a modern industrial sector that is generally linked to transnational firms; an urban informal sector involved in small-scale production, commerce and services; and a *maquila* or assembly-plant sector that produces goods for export using mostly imported inputs. Adjustment policies applied in a heterogeneous economy tend to increase competition on an unequal playing field and thus will have differentiated impacts, benefiting most those sectors that are better off and further exacerbating inequality.

cent of the land belonged to fewer than 1 per cent of producers, who have also controlled 85 per cent of the water resources. It should be pointed out that racial and labour discrimination against indigenous peoples in some areas of Latin America, as well as against blacks in parts of Africa (Zimbabwe, for example, given the enduring effects of its colonial inheritance), is translated into conditions of total disparity in economic development. In Zimbabwe, at the end of the last decade, the white population comprises 2 per cent of the population while receiving 37 per cent of national income.

- The four countries studied here are among those with the highest concentration of income in the world. Out of 96 countries appearing in the World Bank's *World Development Report 1999*, Zimbabwe has the eighth-poorest distribution of wealth, Mexico is in fourteenth place, El Salvador in twenty-first and Ecuador in thirtieth – although, with the breakdown of the financial and monetary systems at the end of the 1990s in Ecuador, this situation has clearly worsened.
- Latin America experienced a situation of massive external debt, which led to the debt crises of the 1980s in Ecuador and Mexico. This was one of the factors that spurred the adoption of structural adjustment policies. During that same period, El Salvador's war economy enjoyed significant assistance from the United States government. Since then, its foreign exchange needs have been met largely by migrant workers, especially those living in the US, who send money home.
- Associated with the debt during the 1980s was a growing fiscal imbalance frequently linked to cases of public sector corruption and inefficiency. To give an idea of the extent of fiscal crisis in these countries, Zimbabwe's deficit was 9.6 per cent of GDP in 1980 and Mexico's was 16.5 per cent in 1981.
- On top of this, the 1980s showed a profound deterioration in the terms of trade for raw materials, which particularly affected Ecuador and Mexico in the area of oil.
- In the case of Zimbabwe, a fundamental element to consider is that of HIV/AIDS. Life expectancy at birth dropped from 61 to 48 years, and one fourth of the population became infected. The lack of concern shown by many, including the World Bank, with regard to the spread of the disease in sub-Saharan Africa during the 1980s should be noted.[2]

[2] AIDS has had an immediate impact on employment due to reduction of the healthy working-age population and the growing rate of dependency. In addition, HIV/AIDS presents an ethical problem in terms of market criteria: how can you invest in human capital

In summary, these are highly indebted countries that are finding it difficult to meet their financial commitments. They have had growing fiscal imbalances, highly concentrated income distribution structures and markets controlled by oligopolies. Such were their characteristics in the early 1980s, and it was obvious that substantial modifications to their economic organizational structures were necessary. However, the types of changes implemented have not reduced labour disparities existing before adjustment. On the contrary, the heterogeneity of these economies has substantially increased. It would almost seem that the main common denominator among these countries is their internal structural heterogeneity.

Adjustment Programmes, Employment and Poverty

Employment and the labour market have been significantly affected by structural adjustment policies that directly impact the productive sectors.

Employment and the labour market have been significantly affected by a broad range of structural adjustment policies that have direct impact on the productive sectors of the economy. The impact of these policies on employment is a reflection of their effect on the country's productive apparatus. Furthermore, as discussed later, decisions made by governments under adjustment to liberalize the labour market are often carried out through specific labour market reforms: that is, legal changes regulating labour relations.

Employment is a function of the level and structure of economic activity and productivity. That is to say:

- An increase in demand for goods and services tends to increase a sector's economic activity. With constant levels of productivity, if this demand is not met by imports, employment rises. In effect, in order to produce more, additional labour is needed, whether by increasing time worked by those already employed or by adding new workers.
- If demand increases as a result of a net increase in those productive sectors requiring little labour per unit of capital, accompanied by decreases in highly labour-intensive sectors, then, even when production increases, employment declines.

[2 cont.] in an HIV-infected population when you know beforehand that the investment's profitability will be less than in the case of non-infected persons?

- Increased productivity has a double-edged effect: it directly results in technological unemployment (substitution of workers by technological modernization), but also indirectly generates employment linked to the new technologies and provides a stimulus to production that will, in turn, generate new jobs.

Just as production and productivity depend on an economy's overall functioning and its relationship to the rest of the world, so employment's behaviour is linked to the entire economy's performance and the primary economic strategies promoted by public policy. As a result, the effects of structural adjustment on employment cannot be determined by specific labour market policies alone but also depend on the economy's evolution, the restructuring of its productive apparatus and the effects this generates in terms of overall changes in employment patterns.

Economic activity

In the countries studied, economic restructuring has not led to greater modernization and competitiveness even after 20 years of adjustment. As well as being irregular and insufficient, the growth of GDP has been concentrated in the development of the leading businesses, sectors and regions. This has exacerbated the gap between these and the sectors left behind, as well as the heterogeneity already existing before adjustment. In addition, the concentration in the distribution of generated wealth has tended to increase, and, as a result, the consumption capacity of growing segments of society is deteriorating even further. In the face of such imbalances within the real economy, financial equilibrium has been given precedence. Nevertheless, even in this domain, Ecuador and Mexico have experienced major problems, including disastrous banking crises.

Economic restructuring has not led to greater modernization and competitiveness after 20 years of adjustment.

Ecuador's GDP grew at an average annual rate of 2.5 per cent from 1980 to 1997; however, population growth was 2.4 per cent, and, thus, growth *per capita* was practically at a standstill. For the following two years, up to 1999, GDP *per capita* decreased at an average of 6.2 per cent annually and only rose two per cent in 2000.

Mexico's economic performance under adjustment has also been inadequate. The mean rate of yearly GDP growth from 1980 to 1997 was barely 1.3 per cent, while the average rate of population growth was 2 per cent. Recovery began in 1997, indicated by an annual GDP *per capita* of 2.7

per cent from 1997 to 1999. However, these cycles of recovery have been short and unstable, and a process of deceleration, rooted in the US economic downturn, began during the last third of 2000.

El Salvador experienced profound economic stagnation during the 1980s because of the civil war. Recovery during the 1990s following the Peace Accords was accelerated, with GDP *per capita* growing at 2.9 per cent per year, with the help of a lower population growth rate (1.5 per cent). However, the situation has reversed since 1997, with GDP *per capita* increasing by barely 0.9 per cent over the following three years. On top of this, the country experienced the adverse impacts of Hurricane Mitch at the end of 1998 and, in particular, the earthquakes in 2001.

Finally, Zimbabwe was the country that grew most rapidly over the last two decades (2.9 per cent annually). However, strong growth in the 1980s, before structural adjustment policies were applied, was followed by a weakening during the 1990s, when growth reached only 1.6 per cent annually. Also, Zimbabwe had a higher population growth rate (2.96 per cent) than the other countries studied, and by the end of the twentieth century its situation was similar to that of 1980 in terms of economic activity, as GDP *per capita* had stagnated. When the effect of the HIV pandemic and the recent political crisis are added to this mix, the panorama becomes more critical.

Restructuring of the productive apparatus

Given that the primary determinant of employment is production, and that much productive activity is concentrated in micro, small and medium-sized businesses, it is important to examine the restructuring of the productive apparatus resulting from adjustment policies.

In Ecuador, the impacts on employment of restructuring both production and the financial sector have been significant. A reorientation of policy to foster an export-based economy produced constraints on the domestic market, particularly small and medium-scale businesses, and strengthened large enterprises. From 1992 to 1998, several thousand workers were shed by the country's thousand largest firms (in terms of economic activity), which accounted for 75 per cent of GDP while employing 35 per cent of workers in formally registered enterprises, even as the amount of these firms' investment per worker increased by 50 per cent. Thus, large firms in the export sector were further concentrating capital while failing to generate employment.

Policy reforms led to massive closures of small businesses that employ the majority of Ecuador's workforce.

At the same time, the SAPRI investigation in Ecuador notes the massive number of closures of micro, small and medium-sized businesses, which make up the vast majority of the country's registered enterprises and employ the majority of its workforce. From 1990 to 1996, 4,600 businesses went bankrupt (1,675 of them closed in 1995 alone), leaving a total of 17,352 formally registered enterprises. As a result, thousands of workers joined the ranks of the unemployed, as 96 per cent of registered firms account for 65 per cent of employment in all firms, although they produce less than 25 per cent of GDP. Participants at the SAPRI Opening National Forum blamed this massive loss of jobs in part on the flood of imports that has emanated from Ecuador's trade liberalization.

The Forum participants also pointed to the country's credit policy and to interest rates that have reached as high as 70 per cent. The concentration of capital has contributed to the weakening and/or failure of businesses that were unable to compete in the new international context by directing credit towards monopolistic productive structures. Since 1992, 1 per cent of borrowers in Ecuador have received 68 per cent of the available credit, and the country's banking system has constrained lending that would have preserved and created jobs in the most labour-intensive sectors. To add insult to worker injury, the subsequent bail-out of the banking system then channelled public resources away from employment creation to protect a financial system that did not generate employment in such sectors.

Similarly, in Mexico, only 25–30 per cent of industries existing in 1982 are still in operation. Between the economic crises of 1982 and 1995, micro, small and medium-sized businesses stagnated, despite an apparent economic upturn, partly as a result of high interest rates and the dismantling of the country's development banking system. Trade liberalization, with the influx of imports that it has brought, and the reorientation of economic strategy towards exports, have considerably weakened these firms, as only 1 per cent of Mexican companies participate in international trade, with 700 companies controlling 75 per cent of all exports. Working conditions in the smaller businesses are particularly precarious, and their possibilities of modernizing and becoming successful in the export sector are practically non-existent. National Forum participants also pointed to the massive loss of jobs caused by the privatization of state-run enterprises.

The Mexican rural sector has felt the effects of structural adjustment policies through Article 27 of the country's constitution, which now allows the sale of *ejidos* (collective farms). This change has bolstered the profitability of agriculture, especially for export, while neglecting the domestic market, community organizational structures and efforts to attain domestic food security. This situation has resulted in a new dynamic of renting and potential selling of land and the displacement of small-scale farmers. Because of technological breakthroughs and crop substitution, a growing percentage of farmers find it necessary to migrate for economic reasons, whether: (1) as agricultural day labourers under conditions of monopsony for export companies; (2) to the country's urban-industrial centres where their knowledge and culture do not coincide with labour demand; or (3) to the United States as undocumented workers under precarious working conditions after risking their lives to cross the border. Rural women migrating to the cities usually become domestic workers. In short, from having been owners of their own land, small farmers have become day labourers or sweatshop workers in *maquiladoras*,[3] with the resulting deterioration in wages and working conditions.

In 1991, the Economic Reform Programme, financed by the World Bank, was implemented in Zimbabwe with the usual adjustment policies, including privatization and trade liberalization. As in the Latin American countries, liberalization brought about massive shutdowns. The SAPRI study drew out the analysis and perspectives of the Zimbabwean people on these changes through a series of consultations and found that, as businesses closed, the formal sector shrank and the informal sector expanded, there were fewer opportunities to obtain employment and poverty increased, while there was a growing phenomenon of people holding multiple jobs. An oversupply of overqualified workers was also observed. Paradoxically, in spite of the closings and greater vulnerability of micro, small and medium-sized businesses due to economic restructuring, this sector has experienced the most growth, given the small amounts of capital such businesses need to operate and how easily they can enter the informal sector. This phenomenon also indicates the high birth and death rates of these businesses and the fact that, while they are vulnerable to crisis, they also serve as a refuge from it.

Liberalization in Zimbabwe brought about massive closings of companies, fewer opportunities to obtain employment and increased poverty.

Employment in Zimbabwe was also affected by actions taken to correct public finance problems. In order to eliminate an existing fiscal deficit, 25 per cent of public workers were laid off. While the situation before adjustment was in some ways untenable, given the accumulation of the

3 *Maquiladoras* are assembly plants in which most of the inputs are imported (in Mexico, about 98.5 percent). They enjoy an especially favourable tax environment, and production is focused on exports. Enclaves are formed to utilize 'comparative advantages' offered by the host countries: low salaries; fiscal breaks; lax controls on pollution (whether tacitly or implicitly defined); possible donations of electricity; and locations that may be conveniently close to consumers in the large international markets.

deficit and low job creation within a highly regulated structure, the adjustment programme failed to meet the challenge of modifying economic policy so as to generate fiscal equilibrium and employment.

Furthermore, there has been a 'maquiladorization' of industry, particularly in Mexico and El Salvador, while a similar process has taken place in Zimbabwe since 1996. As businesses in this sector do not generate either forward or backward productive linkages within the country's economy, they become enclaves and generate employment only in the production of the final product. They can also destroy existing businesses and the jobs of those providing inputs for the now-displaced firms, while dampening domestic investment. A case in point is El Salvador, where adjustment has brought about stagnant production, particularly in regard to manufacturing for the domestic market. Thus, gross employment generated by the *maquiladoras* can produce a negative sum in the net generation of employment, and increasing underemployment and informality.

This type of industrialization is also linked to the depression of wages and, with labour markets deregulated, to a high level of vulnerability of its predominantly female employees to arbitrary lay-offs, harassment and poor working conditions. Participants in the National Fora in these three countries zeroed in on this exploitation. Due to the removal of labour regulations and, with it, the disappearance of a functional grievance system, women in Zimbabwe, for example, who are sexually harassed at work, are far less likely to report an incident for fear of being fired, it was explained at that country's SAPRI Forum. At the Mexican National Forum and at other consultative workshops in Mexico, participants told of how the relaxation of regulations on hiring and firing has enabled employers to require a certification of non-pregnancy, for example, for employment and to refuse to provide maternity leave. They expressed concern that the *maquiladoras*, as significant sources of job creation in Mexico and as principal employers of women, are exploitative workplaces, as reflected in their low pay, paucity of benefits, poor working conditions and failure to respect basic labour rights.

'Maquiladorization' in Mexico and El Salvador was linked to depression of wages and increased vulnerability for its predominantly female employees.

In sum, there has been a concentration in production for export (much of which is not labour-intensive or employs mostly unskilled workers in low-paying jobs), a breakdown in the integration of industrial sectors, employment dislocation, and, with a policy of reducing public expenditures paralleling business closings and lay-offs, a further concentration of employment in the service and informal sectors.

Unemployment and poverty

The increasing movement towards the service sector in all the countries studied has paralleled a sharp fall in agricultural employment for both men and women and the inability of the industrial sector to absorb these workers. Only in El Salvador has there been an increase in industrial employment and that has been minimal (and mostly in the *maquila* sector) compared to the loss of agricultural work. Furthermore, there has been an increase not only in female employment among those still employed, but in child labour and elderly workers, all in a situation of deteriorating working conditions and income levels.

Unemployment levels are not specifically dealt with in this chapter since the operative defining criteria for unemployment are significantly different for each country. While open unemployment stood at about 2.3 per cent in Mexico in 2000, in El Salvador it was 7.3 per cent, 14.4 per cent in Ecuador in 1999, and 22.3 per cent in Zimbabwe in 1993. This does not mean that there was nearly full employment in Mexico, as only active full-time job seekers are counted, leaving out laid-off workers who have immediately joined the informal sector, taken unstable jobs, or are not actively seeking work. In Zimbabwe, labour force surveys are not undertaken on a regular basis, and, when they are, methodologies and types of data collected are so different that they defy comparative analysis. The Zimbabwe Congress of Trade Unions estimated unemployment at between 35 and 50 per cent in 1997. The government's Central Statistical Office concedes its own estimates

Table 4.2 • Proportion (%) of Men and Women Employed by Sector, 1980 and 1990–97

	Agriculture		Industry		Services	
	1980	1990–7	1980	1990–7	1980	1990–7
Men						
Ecuador	44	39	22	20	34	41
El Salvador	56	50	20	22	24	29
Mexico	43	35	30	25	28	40
Zimbabwe	63	58	19	13	18	29
Women						
Ecuador	22	16	16	16	63	68
El Salvador	9	7	18	19	73	74
Mexico	19	12	28	20	53	69
Zimbabwe	85	81	4	2	12	17

Source: World Bank, *World Development Indicators, 1999*, Washington, DC: World Bank.

are low, as neither discouraged job seekers who have not been actively looking for a job nor those who have worked even one hour in the previous week are included in the figures. Unemployment in Ecuador was found to be much higher for the poorest 20 per cent of the population than for the richest 20 per cent, standing at 24 per cent and less than 5 per cent, respectively, in 1999. At the same time, underemployment was estimated at 50 per cent.

At the end of the 1990s in Ecuador, about two thirds of workers were either un- or underemployed, with 66 per cent of the population living on less than two dollars a day. Those employed were working longer hours, but new jobs were not being created. As a consequence, the informal sector grew by 5 per cent between 1998 and 2000. Meanwhile, the country's thousand largest companies (in terms of economic activity) employed fewer workers in 1998 than they had six years earlier (147,147 compared with 150,000). Yet, given the trend towards monopolization resulting from the impact of liberalization on competition, these companies have played a growing role in the country's economy. As a result, the formal sector has become increasingly powerful while generating less employment and producing ever-greater exclusion.

Many references are made in the Ecuadorean study to the widening breach between the formal, export sector and the traditional sector linked to the domestic market that has occurred as a result of privatization and trade and financial sector liberalization, a point driven home by National Forum participants as well. The impact on the marginalized communities participating in the study has been significant. Through a series of consultations and case studies, the SAPRI investigation found that, in the case of urban marginal populations (Bastión Popular and Itchimbia), instability in the residents' employment situation has increased perceptibly. Many people have gone from having a steady job to underemployment or unemployment. This has resulted in the modification of family survival strategies, with a significant increase in the number of household members (especially children) participating in economic activities. While the percentage of women employed nationally with respect to men grew from 38 per cent at the end of the 1980s to 48.6 per cent in 1992 and 50.1 per cent in 1999, open unemployment of women increased from 9 per cent to 13.2 per cent to 19.6 per cent during the same time period. The women's groups consulted as part of the SAPRI research explained that this increase of women in the labour force does not indicate an improvement in gender equity, but rather a tendency for employers to seek women for jobs that are low-paying and lacking in benefits and job security.

In El Salvador, a strong relationship was also detected between the deterioration of the employment situation and an increase in poverty. In

1998, open unemployment had risen to 7.3 per cent, urban underemployment was 17.4 per cent and informal sector employment reached 26 per cent. For the country as a whole, two thirds of the economically active population earned less than the minimum wage, and half of those employed worked 45 or more hours a week. These figures for informal and precarious employment explain how very high levels of poverty can coexist with relatively low levels of official unemployment. Nearly 19 per cent of the population was deemed to be living in extreme poverty and 25.7 per cent in relative poverty, meaning that 44.6 per cent of the Salvadoran population lived in poverty conditions.

In El Salvador, two thirds of the economically active population earned less than the minimum wage.

The social impact is exacerbated by the differential treatment of women. Of the 83 per cent of *maquiladora* workers in El Salvador who are women, 42 per cent receive less than the minimum wage, 67 per cent receive no severance pay, 53 per cent suffer from abusive treatment and only 3 per cent of pregnant women are given paid maternity leave. The social fabric has deteriorated through a process of exclusion, and the combination of policy-induced labour instability, marginalization and poverty is seen as a determining factor in the increased migration out of the country. Family structures have suffered, said National Forum participants, as a result of this instability, low salaries and long workdays. So have health, nutrition and the ability to find affordable and adequate housing. More and more children, they reported, are entering the workforce in an effort to supplement declining family incomes. These children are usually forced to drop out of school to take jobs that pay 'apprentice' salaries far below the minimum wage, although their duties are similar to those of adult employees.

The population in Mexico has been affected in a similar manner, especially the most vulnerable groups, with similar consequences in terms of employment instability, poverty and migration. Furthermore, the wave of privatization of state enterprises and public services that began in the 1980s (in 1992 alone, more than 1,000 state-owned enterprises in the industrial, financial and communication sectors were sold, merged or transferred) generated massive firings of over 500,000 state employees. These lay-offs were not accompanied by job creation programmes in the newly privatized enterprises, nor were incentives or aid given to the fired workers.

Although unemployment in Mexico was officially at 2.3 per cent in 2000, employment for nine million members of the economically active population was precarious, and 50 per cent of those able to work were making their living from the informal economy. Forty per cent of Mexicans get by on less than two dollars a day, and in the poorest regions labour instability has aggravated social conditions. Forum and workshop participants spoke of the increasing difficulty that heads of households have in maintaining steady jobs due to flexibilization measures in the labour market, and they asserted that those who are able to do so generally find that their incomes are insufficient to cover the basic needs of their families. Many are forced to seek a second job, which is difficult to find given the unemployment problem, or to revert to situations of underemployment or employment in the informal sector. These would-be solutions often involve a significant expansion of the working day, as well as greater job instability and income insecurity.

Other alternatives sought, particularly by low-income families, include the incorporation of additional family members, often children, into the labour market and migration to urban centres or to the United States. These survival mechanisms, said the Mexican Forum participants, provoke changes in the social and family structures that, in turn, generate additional hardship for large segments of the population, with women and children often bearing the brunt of the burden. Families often cannot afford to keep children in school, owing to both the direct costs of school materials and the opportunity cost of education. Children are increasingly needed to bring in additional income or, particularly in the case of girls, to take responsibility for household chores for which their mothers no longer have time, including the care of younger siblings. Longer working days for both parents, Forum attendees explained, often leave children with inadequate parental guidance and, when combined with intra-household tensions from added responsibilities and reduced purchasing power needed to cover basic needs, fuel social problems such as domestic violence and juvenile delinquency. The CASA study documented an increase in child malnourishment and infant mortality rates in the southern provinces (Oaxaca, Guerrero and Chiapas), while child labour is on the rise. By the age of 12, or upon entering secondary school, the school desertion rate increases considerably, especially for girls, while at the same time, out of 3.6 million agricultural day labourers, 1.2 million are under 18 years of age.

In Mexico, children were increasingly entering the work force to bring in additional family income.

Similarly, in Zimbabwe, after a decade of adjustment, employment creation had stagnated before the current political crisis took hold. Average annual employment growth rates fell from 2.9 per cent between 1991 and 1995 to only 0.3 per cent from 1996 to 1999. By the end of the 1990s, 68 per cent of the population was surviving on less than two dollars a day, as even those workers who did find full-time jobs were no longer guaranteed a living wage, said participants in the Opening National Forum. The collapse of wages has meant that many workers live far below the poverty line, they reported.

Labour Market Reforms and Flexibilization

Under adjustment programmes, labour market policy is being adapted to the free market model. Among the 'active' policies designed to adjust the labour supply to the needs of the market are those that increase the flexibility of the labour market. They address hiring and firing practices, as well as working conditions, including union organizing. Greater labour flexibilization can be effected by relaxing regulations in labour codes or as a result of negligence on the part of authorities and businesses with regard to the prevailing norms of formal employment. For example, while Ecuador and Zimbabwe instituted new laws regulating relationships between business owners and workers, practices changed ahead of the law in such countries as El Salvador and Mexico.

Economic policy reforms have accompanied the technological revolution of the 1980s as well as shifts in the forms of work organization and industrial relations. That is to say, adjustment policies have facilitated technological change and changes in the organization of work; these changes, in turn, have generated incompatibilities between the new economic policies and preexisting labour legislation. Labour codes were based on the welfare state model, and in Latin America, although this often meant a corporative type of state, labour relations involved aspects usually found in industrialized countries: the Taylor principle of specialization of tasks with standard procedures and times; production of homogeneous, identical goods; and the expansion of society's capacity to consume. With the implementation of adjustment, the technological revolution and changes in industrial relations, however, such legislation has become obsolete for the new groups in power.

Labour code reforms have increased labour flexibilization through the use of temporary, part-time, seasonal and hourly contracts, as well as the contracting out of work.

The changes in labour law and practice have been justified using the free market argument that greater investment and employment will be attracted by: (1) fewer regulations concerning labour stability (limited or temporary contracts) and firing practices; (2) greater flexibility in labour conditions (hourly contracts, workers performing numerous functions); (3) lower labour costs (reducing social security payments, bonuses, vacations, minimum wage, costs of firing workers); and (4) less ability for workers to organize. While these conditions might produce short-term competitiveness for countries undergoing adjustment because of the low costs they can offer to attract investment, workers experience a deterioration in working and living conditions and a loss of collective capacity to defend their rights, eroding their stake in the companies' futures. The result is greater poverty and social problems, which can lead to social unrest and limit the attractiveness for investors. Furthermore, these practices have also hindered the development of a quality-based competitiveness that would produce greater labour stability and directly improve the living standards of workers.

In order to reinforce the market-based economic programme in Ecuador, from 1991 the labour code in that country was reformed to increase labour flexibilization and remove regulations governing employer–employee relations. Among the elements introduced, which further weakened labour unions, were the use of temporary, part-time, seasonal and hourly contracts, as well as the contracting out of work through an intermediary so that the employee establishes no labour relationship with the company. These hiring schemes avoid adding personnel to the company's permanent payroll, thereby freeing it from paying benefits or having to adhere to regulations governing regular, full-time personnel. The SAPRI study in Ecuador shows that 72 per cent of large and medium-sized businesses and 16 per cent of small businesses had turned to employing temporary workers, and 38 per cent of them laid off permanent staff in response to the economic conditions during the last half of the 1990s. Fixed-term contracts were also introduced, renewable at the company's discretion, thus tending to replace the use of indefinite contracts. At the same time, labour reform increased restrictions on the right to strike, collective bargaining and the organization of workers. Employers are no longer required to bargain collectively with workers, only one union is permitted in public sector workplaces, and the number of workers necessary to form a union has been doubled.

In El Salvador, modifications of legislation annulled clauses containing positive discrimination towards women, such as those outlining special conditions for pregnant women. Under the principle of 'equality' and based on Agreement 111 of the Labour Code, protection for women and for future Salvadorans (unborn children of pregnant women) was withdrawn. All regulations making distinctions between the sexes when hiring workers were eliminated, including those regulations protecting women from being hired for dangerous or unhealthful work. The Second National Forum in El Salvador spotlighted the degrading situation faced by women who – as in Mexico – now have to prove that they are not pregnant in order to be hired in the *maquiladoras,* or are being forced to sign illegal contracts in which the employee must agree to being laid off if she becomes pregnant.

Within the context of the adjustment programme in El Salvador, the country's weak labour laws concerning all workers have also been exploited by employers. The effects have been an increased absence of employment contracts, greater work instability, salaries below minimum wage, work weeks of over 40 hours, informalization of work done mostly by women, who endure double and triple workloads (as mother, wife and employee), reduced access to social security benefits, and failure to respect the right to organize or to uphold the rights of union members. There has been a negative impact not only on worker rights, but also on the ability of unions to fight for those rights.

Modifications of legislation in El Salvador annulled clauses containing positive discrimination towards women.

Those attending the Opening National Forum in San Salvador addressed this troubling pattern. They pointed to the increased use of temporary, part-time workers, to longer working days with no overtime pay, to the replacement of unionized employees with non-union workers, to the exploitation of women as *maquiladora* and domestic workers, and to an increasing reliance in the countryside on temporary day labourers.

There have as yet been no significant legal changes made in labour legislation in Mexico, but the country's corporative union structure served the interests of the government and the political party in power from 1929 through 2000, including the process of economic liberalization that they have promoted since 1982. It has permitted constant violations of existing rights, especially those of women, as documented in the Mexican study. The International Labour Organization (ILO) notes that Mexico is among member countries most frequently accused of violating the right of workers to free association (that is, in labour unions), discrimination against the female workforce, and non-compliance in the payment of social and economic benefits.

National Forum and workshop participants in Mexico expressed strong bitterness over the impact of those labour market reforms that have been made. Measures intended to create flexibility in the labour market have modified employer–labour relations by giving the former greater discretion in determining employment conditions. This has meant greater use of part-time labour and temporary contracts and the absence of benefit packages. As a result, according to the participants, there has been an increase in job instability. Flexibilization has also meant a relaxation of labour market regulation, oversight and enforcement mechanisms. This has led to a failure to recognize unions, respect collective bargaining contracts, and enforce labour rights, causing a serious deterioration in working conditions. Experiences were recounted of refusals to grant pregnancy or sick leave, failure to pay minimum salary or overtime, employment requirements that women not become pregnant and dismissal if they do.

Forum participants in Zimbabwe noted that the government, upon signing its first stabilization agreement with the IMF in 1983, abandoned the relatively high minimum wage that it had established, along with laws supporting collective bargaining, shortly after independence three years earlier. By the end of the decade and the institution of an adjustment programme, the government had begun to look at the labour market as any other market in need of deregulation. Wage flexibility was introduced, some restrictions on worker lay-offs were abolished, and competition in the area of labour organizing was promoted. In 1991, Zimbabwe began to restructure a highly protective legal framework established in 1985. The Labour Relations Act was reformed so that salaries would be determined by the market and defined in individual contracts, as well as to facilitate employers' ability to fire workers. Meanwhile, requirements that employers inform authorities before firing workers disappeared, as did mechanisms for conciliation and arbitration between workers and management and recognition of collective bargaining contracts.

Wages and Working Conditions

Impact on wages

Since stabilization and adjustment policies were first implemented, the reduction of wages and salary costs has constituted an important strategy for containing inflation and production costs. It has also served as a mechanism allowing a country to achieve competitiveness *vis-à-vis* the rest of the world by controlling labour costs.

As early as the mid-1980s, the Inter-American Development Bank noted that it has been working people, through their significant sacrifice in labour stability and the standard of living as a result of the reduction of real wages, who have borne the burden of policies to improve Latin America's current account. While corrections made to the external deficit in most countries have been fleeting and financial crises have abounded, Mexico and Ecuador being prime examples, wage deterioration has not reversed itself under adjustment regimes in the countries studied.

The Mexican minimum wage has lost 69 per cent of its purchasing power under adjustment.

The Mexican minimum wage has lost 69 per cent of its purchasing power since the beginning of adjustment in 1982, and the number of people living in extreme poverty (those unable to obtain the basic food basket) rose from 6 million to 30 million between 1994 and 2000. Salaries were restricted in order to maintain competitiveness and reduce demand. Meanwhile, corporativist (official) unions have defended business and government projects that maintain low salaries and replace collective with individual labour contracts, leaving the unions without any real power or independence. According to the leader of Mexico's Business Coordinating Council (and presidential adviser from 1988 to 1994), 'The day our country pays salaries above a competitive level, national industry will be priced out of the market and any hope of creating new jobs will disappear'.

Table 4.3 • Ecuador: Average Monthly Salaries (in 1998 US$) in Urban Areas by Economic Sector and Gender

	1987			1997		
	National average	Informal sector	Formal sector	National average	Informal sector	Formal sector
Total	242	191	293	199	136	279
Men	282	218	315	231	165	301
Women	175	149	243	147	92	238

Sources: Banco Central del Ecuador, *Información Estadística Mensual No. 1776*, April 1999.
Instituto Nacional de Emples (INEM), *Encuesta Permanente de Hogares*, 1987.
Instituto Nacional de Estadistica y Censos (INEC), *Encuesta de Empleo, Desempleo y Subempleo en el Sector Urbano*, November 1997.

In Ecuador, the average real income of those employed in urban areas dropped by 18 per cent between 1987 and 1997, from US$242 to US$199. The decrease was much more dramatic for those employed in the informal sector. Overall, it was pointed out at the Opening National Forum, adjustment took away more than one half of workers' incomes over the course of the 1980s and 1990s and substantially increased unemployment and underemployment. The increasing instability of employment and deterioration of wages as a result of adjustment, and flexibilization measures in particular, have also been facilitated by dollarization and inflation. When the national currency – the sucre – was eliminated, the minimum wage, strictly speaking, fell to about six dollars per month, and take-home wages, when all non-taxable benefits were included, did not exceed US$75. This represented, in real terms, a 19 per cent loss in purchasing power between 1998 and 2000 alone. During two decades of structural adjustment, Forum participants stressed, poverty and inequality have increased substantially in Ecuador.

The deterioration of salaries in Zimbabwe has been worst among the least skilled workers.

National Forum participants in Zimbabwe reported that flexibilization had decreased real wages to such a point that even those who have managed to find full-time jobs are no longer guaranteed a living wage. This collapse in wages has meant that many workers live far below the poverty line. The deterioration in salaries has been worst among the least skilled workers. The ratio comparing salaries of unskilled European workers with those in Zimbabwe is 25 to 1, for example, while it is 4 to 1 for skilled workers. Zimbabwe is experiencing growing inequality, the Forum participants said, with the burden of adjustment falling largely on workers and peasants.

Declining working conditions and job security and protection

In Ecuador, violations of the right of free association and discrimination against women's labour were cited in research consultations as impacts of adjustment policies and the accompanying preferential treatment given to business owners by government and its sanctioned unions. Only 2 per cent of workers enjoy social protection or have signed collective contracts. In the participatory workshops, workers talked of the fear of losing their jobs now that labour reforms have rendered their situation in the workplace more precarious at a time when the great mass of unemployed had rendered them all fully 'interchangeable'. In addition to the limitations on labour organizing and the right to strike that were a direct result of labour reform, the precariousness of employment (in terms of stability and security) unleashed a 'permanent fear' of job loss and the resulting willingness of workers to renounce their labour rights and accept whatever conditions they were offered while refraining from joining unions. Depending on the sector (public, private or informal), 45–66 per cent of workers in Ecuador are willing to give up labour rights in return for keeping their jobs. In addition, a process of polarization throughout the workforce can be seen in terms of the length of the work week, with the hours worked by those in the lowest-income deciles rising and the hours worked by those in the highest-income brackets having dropped. Those attending the Opening National Forum emphasized that the weakened respect for the rights of workers has left them increasingly unprotected and open to abuses by employers. They also pointed to the precipitous fall in real wages and the concomitant and explosive rise in poverty that have ensued.

Deterioration in working conditions and a decrease in union activity due to labour market reforms were also noted in Zimbabwe, where, in spite of wage deterioration, the number of strikes dropped radically after 1997 (from

230 in that year to 130 in 2000). Flexibilization has also increased in Mexico through such mechanisms as subcontracting (formerly illegal) by large industry and due to industrial development concentrated in *maquiladoras*, rendering employment conditions more precarious for significant numbers of workers. El Salvador follows the same model as Ecuador and Mexico: fewer collective contracts; labour flexibilization practices (beyond those that have been legally defined); and gradual liberalization of the economy to allow the market to set salaries as if they were just one more price.

The precariousness of employment in Ecuador resulted in a willingness of workers to renounce their labour rights.

Conclusion

Structural adjustment has had an impact on workers in the countries studied on two levels. On the first level there is the general impact of policy packages – including stabilization policies and the reduction of public spending, privatization, deregulation and trade liberalization – on employment. At a second level, specific labour market reforms have had a direct impact on wages, job security and protection, working conditions and the strength of labour organizing through the flexibilization of the labour market. These sector reforms often concretize already existing governmental permissiveness allowing practices that violate labour rights. Furthermore, and contrary to what their proponents had claimed, they have not been shown to have had a positive net impact on overall employment generation. While the extent to which the countries studied have implemented and been affected by these policies is not identical, in all cases the trend has been towards exacerbating, rather than correcting, imbalances existing before adjustment programmes were introduced.

In summary, the country assessments have revealed the following:

- *Employment levels have worsened.* New jobs have not been generated to keep pace with new job seekers, and there has been a critical loss of employment in economic sectors on which low- and middle-income groups depend. The concentration of growth in export-oriented production – such as assembly-plant industrialization via *maquiladoras* or export processing zones – has contributed to the low levels of net job creation, as this sector tends to have weak links with the domestic economy, and to keeping wages down.
- *Real wages have deteriorated and income distribution is less equitable today than before adjustment policies were implemented.* The investigations show that the

share of wages in gross domestic income has declined, while the share of profits has increased markedly during the reform period. More workers have been employed without job security or benefits, and underemployment has increased. The lowest-income groups have tended to experience the largest increase in unemployment and the greatest deterioration in their wages. A reduction in purchasing power and the further concentration of income is evident in all the countries studied.

- *Employment has become more precarious.* Flexibilization has been applied on a non-level playing field in the labour market. Employers have been given the means to hire and fire workers at the least possible cost and with minimal social responsibility. Workers, particularly in low-skilled and labour-intensive sectors, are in oversupply, face depressed wages, and are in a weak position in salary and contract negotiations. There were no cases observed in which steps have been taken to improve working conditions, include workers in decision-making processes, or link the purchasing power of wages to increases in productivity. Thus, workers worry increasingly about losing their jobs and, as a consequence, are now more likely to renounce their labour rights or refrain from joining unions.

- *Reforms have also allowed employers greater flexibility in establishing employment conditions and have eroded workers' rights.* This greater employer flexibility has been reflected, for example, in the increased use of hourly labour and temporary and part-time contracts, as well as in contracts permitting numerous worker functions. At the same time, workers' rights have been weakened because there are fewer protections of their right to organize and bargain collectively. Lower direct labour costs have also been achieved through reduced wages and benefits.

- *Women have suffered the most as a result of labour market reforms.* Women tend to be the majority of those employed in low-skilled jobs and have been disproportionately affected by job insecurity and policies that have made employment conditions more flexible. In some cases, reforms have eliminated special protections for women, such as protection against lay-offs due to pregnancy, and such benefits as maternity leave.

- *There has been an increase in work by children and senior citizens as a response to the decline in household income by primary wage earners.* An increase in the number of hours worked per week has also been documented, for example, in Ecuador. These family survival strategies have had negative impacts on levels of education and health and have led to deterioration in the quality of life.

- *Productivity and competitiveness, sought through labour market flexibility and related adjustment policies, have not been achieved overall.* Although export sectors may have experienced growth through the use of new technology or lower-cost labour, any such productivity increases have tended to be confined to specific economic sectors or regions. Any benefits of growth in these limited areas have been offset by deteriorating labour conditions associated with an expansion of the informal economy, underemployment, and the shift of labour to low-productivity sectors.

Labour market reforms have had a direct impact on wages, job security and protection, working conditions and labour organizing.

In order to address these problems, an employment-intensive growth strategy should be pursued that stimulates job creation by supporting those labour-intensive productive sectors, particularly small and medium-scale enterprises, that serve the domestic market and fuel the local economy. Tripartite commissions involving workers, employers and government can be established to seek consensus on an adequate regulatory framework for labour and employment practices, as well as wage policies. Reforms should protect and enhance labour rights, including the right to unionize, and ban discrimination against women and minority groups, as well as strengthening protections for workers with regard to job security and employment conditions.

An employment-intensive growth strategy should be pursued, and reforms should protect and enhance labour rights.