A Fragmented Landscape

Economic Restructuring and Employment in Latin America in the Age of Globalization

Eric Hershberg

The disappointing results of the policies of the Washington Consensus led Latin America to look for other options, which could be divided broadly into three different models for development and for coming to terms with the globalized world: to the north, the continuity of neoliberal policies within the framework of trade alliances with the United States; in the Southern Cone, orthodox macroeconomic policies combined with re-industrialization strategies, in an attempt to build a «globalization with a human face»; and in some Andean countries, experiments of a more radical nature. This article argues that, in all cases, basically what is at stake is the future of capital and its relation with the State and with Labor; and it is this that will determine the way in which the region comes to terms with the rest of the world.

Eric Hershberg: Simon Fraser University.
Key Words: Globalization, Economy, Capital, Labor, Neoliberalism, Latin America.

Beginning during the 1980s, and accelerating during the 1990s, a series of structural reforms were enacted in economies across Latin America. Clustered under the rubric of «The Washington Consensus,» these policies aimed to rekindle growth – and thus boost the capacity of Latin American governments to pay off the mountains of debt accumulated during the previous decades – by opening Latin America to the global economy. Washington Consensus reforms, promoted aggressively by both the US government and International Financial Institutions, encompassed such areas as privatization of state industries; opening to foreign direct investment; liberalization of international trade; tight monetary policies designed to bring down inflation; deregulation of labor markets and the achievement of balanced budgets through reductions in government spending.

These neoliberal policies set in train the region's heightened engagement with processes of globalization. They provoked considerable resistance, to be sure, ranging from street protests to riots to armed rebellions in such extreme cases as Chiapas, Mexico, where the Zapatistas staged their improbable uprising in January 1994. But they were enacted everywhere, albeit to varying degrees and at different paces. Significantly, despite opposition to market-oriented reforms in public opinion polls, presidential candidates elected on the basis of opposition to these «neoliberal» policies frequently adopted those very policies once in office (Stokes 2001). More significantly still, upon doing so, those leaders were often re-elected!

Yet despite its achievements in terms of macro-economic stabilization, the neoliberal strategy for becoming integrated into globalization proved disappointing in at least three important respects. First, from Mexico in the North to Argentina in the South – with the noteworthy exception of Chile – economic growth remained anemic, both in absolute terms and in comparison to the golden years of Import Substitution Industrialization. And, low growth meant little job creation, with adverse consequences for social welfare throughout the region. Overall, Latin America=s performance in terms of job supply constitutes one of the most noteworthy areas in which the Washington consensus reforms were not successful. Entire industries disappeared with the opening to global competition, taking along the jobs they once provided. At the same time, other areas of economic activity emerged or expanded, creating avenues of employment that sometimes though not always substituted for jobs that had been lost. There were losers and winners, whether the impact of these processes is analyzed spatially, sectorally or along lines of gender or generation.

Overall, however, average unemployment rates exceeded 10 per cent in 2001 (IDB, 2004: 16), and have diminished only modestly since that time. Worse still, the limited economic growth that was achieved under the Washington Consensus typically failed to generate high quality employment. In South America, expansion tended to be concentrated in highly capital and technology-intensive sectors of the economy: sectors that did not generate many jobs. In Mexico and Central America, by contrast, employment did expand considerably, but this was largely achieved through the advancement of low-skill, low-wage and labor-intensive manufacturing activities, frequently in *zonas francas*. The IDB (2004:162-164) reviews the increasing employment levels in export processing zones across the region and in the Caribbean. In some countries, the increase is nothing short of astounding. From 118,000 Mexican workers employed in 1980, the maquila sector came to employ 1.2 million by 2001. Whereas 500 Dominican workers were employed in export processing zones in 1970, the sector accounted for 164,000 jobs – 8 per cent of total employment – by 1996. For this and other reasons, globalization thus gave rise to the phenomenon that some observers have labeled «immiserizing growth.»

Secondly, and inextricably related to this, poverty and inequality remained endemic. Latin America retained its status as the most unequal region on the planet: what sociologists Hoffman and Centeno (2003) refer to as «the lopsided continent.» The figures underestimate the true extent of the problem, in that asset inequality is generally understood to be even more unequal than income inequality. But the data for income alone are sufficiently disquieting: At the end of the 1990s in Brazil, for example, earnings of the top tenth of the population were 68 times those of the bottom tenth; in Guatemala the top decile earned 55 times the bottom decile. Regionwide, the top tenth of the population earned 48% of income, compared to an average of 29% in the OECD countries. A related – though not identical – problem was poverty: despite nearly two decades of economic reforms, at the beginning of the new century nearly half of Latin America's population lived in poverty, and the figure approached three quarters in some of the poorest countries. The phenomenon of social exclusion, with its corollaries of heightened alienation and violence, marked the social landscape virtually everywhere in the region.

Thirdly, Latin American countries witnessed a weakening of the capacity of the state and collective actors to bring about more equitable distribution of social welfare and opportunities. The Washington Consensus advocated a decrease in the size of the state apparatus and a reduction in the scope of public intervention. Public sector employment declined regionwide from an average of 16 per cent of the workforce in 1990 to around 13 per cent by the end of the decade, amd countries such as Panama, Argentina and Honduras saw nearly one third of such positions disappear over the course of the decade (IDB, 2004:170, citing ILO statistics).

Meanwhile, a wide range of subsidies for social welfare were eliminated, and expenditures on public health and education systems were curtailed, as states gave way to markets across numerous domains. Meanwhile, labor and other collective actors were impacted negatively as well. During the import-substitution period workers and other traditionally low-income groups were able to organize themselves in efforts to secure greater political voice and to obtain a larger slice of the economic pie. Formal, stable employment allowed a worker to be covered by the minimal guarantees of a country's labor laws and to organize collectively to press for better wages, benefits and working conditions. Unionization rates surpassed a third of the formal sector workforce in some countries. It is the ability to organize, more than anything else, that is undercut by the regime of labor flexibility that accompanied neoliberal globalization, and unionization rates have fallen sharply over the past quarter century: in few countries does the figure exceed ten percent of the workforce.

While the second half of the 1990s witnessed a temporary improvement with regard to growth, the years 2001-03 marked yet another serious decline in Latin America's economic performance, symbolized this time by the catastrophic collapse of the Argentine economy, which reverberated to neighboring countries and across the region at large. Argentina had long been held up, rightly or wrongly, as an example of a country that had followed the prescriptions of the Washington Consensus. Now it found itself a basket case, and down with its fortunes went whatever consensus remained around the package of economic policies implemented from the late 1980s onwards. If mainstream observers were wavering in their confidence in neoliberal reforms (Birdsall and de la Torre, 2001), public opinion exhibited increasing skepticism as well. Popular doubts gained expression through the ballot box. In contrast to the 1990s, the new century witnessed the emergence of a growing number of elected leaders on the left of the political spectrum who questioned whether globalization had served to enhance social welfare and emphasized the imperative of new development strategies aimed at achieving greater equity.

At the risk of oversimplification, one can identify today three distinctive approaches espoused by Latin American governments to engaging the global economy and distributing the benefits of integration. The first current reflects a continuation of the basic policies of neoliberalism and, not surprisingly, is exemplified by Mexico and Central America – the areas of the region that remain most closely tied to the United States . Here we see continued emphasis on promotion of manufactured exports, supplemented by non-traditional agricultural products and services such as tourism. Poverty alleviation strategies accompanying this outward-oriented mix aim to ameliorate the lot of the poorest of the poor, and envision improvements in life chances being achieved eventually through the effects of increased access to schooling. The commitment to free trade remains firm, commercial accords are oriented above all toward the United States, and market mechanisms reign the predominant means through which to distribute public goods.

A second approach, most prominent in the relatively institutionally stable countries of the Southern Cone and Brazil, is to maintain macro-economic orthodoxy and continue to emphasize market-competitiveness and international trade, but to supplement these practices with renewed commitment both to industrial policies and to strengthening state capacity to distribute resources and opportunities. Leaders in these countries advocate pressing forward with global integration – globalization with a human face, as it were, while holding out the possiblity of constructing a social democratic alternative to neoliberal globalization. For the latter to succeed, of course, will require the reconstitution of collective actors capable of sustaining such a project over time, and the consolidation of a private sector committed to negotiating with labor and supporting the state through payment of taxes.

Finally, a third set of strategies departs more radically from orthodox prescriptions, featuring renewed emphasis on development at the national and regional levels, and a broader rethinking of Latin America's terms of engagement with the international economy. For leaders in the latter camp, concentrated prinicipally in energy exporting economies in the Andes where political institutions were discredited by the failure of neoliberal policies. Promotion of domestic industrial performance, diversification of trade flows, renegotiation of relations with multi-nationals, and withdrawl from ties to the Bretton Woods Institutions are among the objectives that have come to the fore to a degree that would have been unimaginable just a few years ago.

Whether any of these three approaches to development are sustainable remains to be seen. Much will depend on global demand for the goods and services that Latin American economies manage to produce. In the short term, the good news is that the present conjuncture is highly favorable, particularly for South America, because of the rebound in growth rates since 2004, when prices for the region's commodity exports began a skyrocketing trajectory that persists to this day. Commodity export revenues in South America have increased at an annual rate of 20 per cent for the past four years, and prospects for sustaining that trajectory are reasonably good despite the growing prospect of a recession in the United States. Since 2004 growth rates throughout the region have averaged nearly four percent per year, and some South American countries have managed to double that pace. In this context, one idea worth contemplating is that the recent electoral shifts reflect a desire of electorates to see the left administer prosperity, after a lengthy period during which the right and center administered scarcity.

But if today's conjuncture today is favorable, over the longer term Latin America's fortunes will hinge on the still unsettled question of what role it will play in the world economy. Here what is at stake is nothing less than the future character of Latin American capital and its relationship to the state and to the workforce.

Globalization has provoked a restructuring of Latin American economies that is still ongoing and that has significant consequences for welfare because it affects not only economic growth but also the sectoral and technological composition of economic activity, as well as the availability of employment, the working conditions experienced by different segments of the labor force, and the quality of jobs, understood in terms of remuneration, stability, and opportunities for skill upgrading.

The restructuring of the past quarter century has promoted a substantial concentration of ownership in industry, and both exports and productivity gains have often been concentrated disproportionately in those areas where concentration is greatest. Moreover, and related, those industries in which the productivity gap between Latin America and the core economies (including those of East Asia) has been reduced – and where wages have increased in tandem with productivity – tend to be highly capital intensive, and thus, as noted already, do not create jobs at a rate that corresponds to increases in production (Katz, 2002). Conversely, the areas in which employment has been created over the past two decades – in small and medium-sized enterprises operating frequently in the informal sector – are those in which wage levels and social protection are comparatively low (IDB, 2004: 45-46).

Several factors account for the increasing prominence of large firms and conglomerates, but tendencies associated with the reforms are important among them. Privatization processes in much of the region implied a significant transfer of assets to transnational enterprises, alone or in alliance with those domestic *grupos* which managed to shift from uncompetitive industry to infrastructural (telecommunications, utilities, infrastructure development, etc.) and service sectors in which competition from abroad was not as powerful. Generally, this has implied capital intensive investment, and has not generated substantial increases in employment; nor does this approach to generating growth create many opportunities for backward or forward linkages to small and medium sized enterprises (PYMES). This is crucial, for it is precisely in this sector that opportunities for job growth are generally concentrated. In this respect, even where these shifts in the positioning of large domestic enterprises have generated growth and manifest significant gains in productivity, they do not tend to offer many opportunities, direct or indirect, for enhancing equity.

Large firms and conglomerates are typically in a far better position than their smaller counterparts to upgrade their facilities and production processes, and to enter new markets. Access to capital is particularly key: large firms are able to attract credit in domestic and global markets. Similarly, they are the recipients of increased flows of foreign direct investment, which often brings know how and/or market access as well as capital. All of this is at first glance favorable to their prospects for surviving and even prospering in global markets.

But although Latin America=s large firms and conglomerates have achieved substantial increases in productivity, there are serious reasons to doubt their ability for sustaining this performance over the long term and at a pace that would be needed to attain levels achieved by firms in core economies. In part this is because their presence disproportionately in markets in which global competition is high and in which their own goods are not dramatically distinct from those of competitors from outside the region.

More important still is their their limited links to other segments of the local economy, due largely to the absence of effective industrial policies designed to promote supplier relationships between large firms and domestic SMEs: transnationals operating in Latin America continue to rely heavily on imported inputs. Moreno Brid et. al. (2004: 163). The absence of such industrial policies is rooted not only in the stubborn persistence of neoliberal ideology, but also in the chronic insufficiency of state capacity, which in turn results from the continuing insufficiency of government revenues throughout much of the region (Paus, 2005). Strengthening the capacity to tax, which means inducing the wealthy and private enterprise to pay, is a sine qua non for Latin American prosperity in the age of globalization.

Even where globally competitive export industries exhibit signs of significant modernization in enterprise structure, production processes, and management techniques, the human resource dimension of modernization is often notably lacking. This seems to be especially clear in comparison to analogous sectors in East Asia. Cecilia Montero's pathbreaking work on Chilean enterprises during the 1990s is especially striking in this regard, as it suggests that human resource management is the single area in which the transformation of business practices has lagged the most. In large measure this reflects attitudinal factors that are common to enterprise managers throughout Latin America, and that contrast sharply with those of competitors in Asia. Regard-less of the origin of strategies that limit input from a highly skilled, relatively autonomous labor force, their predominance has implications for skill acquisition, for worker well being, and for long term prospects for continual upgrading.

Finally, and related to speculation about prospects for European-style bargained adjustments, that is, for a social democratic approach to development in the era of globalization, some Latin American unions have concluded in recent years that in order to retain a voice in industries subject to heightened competition and significant market volatility they will need to take part in negotiations that assume the need for flexible work processes and managerial autonomy. In exchange, they have sought greater voice in production decisions, increased job security, training opportunities and/or linkages between productivity increases and wage rates. For the most part, however, unions have resisted considering these sorts of tradeoffs. *Ajuste concertado* will require flexibility on the part of unions, as well as employers. Yet overall there remains widespread reticence on the labor side, as well as by employers, to take this leap into an undoubtedly risky future. A future that is imperative if Latin America is to engage globalization ina manner that can foster high quality jobs and social inclusion.

References

Birdsall, Nancy, and Augusto de la Torre, 2001. *Washington Contentious*. Washington, DC. Carnegie Council, 2001.

Hoffman, Kelly, and Miguel Angel Centeno, «The Lopsided Continent: Inequality in Latin America,» *Annual Review of Sociology* 29 (2003): 363-390.

Inter-American Development Bank, 2004. *Good Jobs Wanted: Labor Markets in Latin America*. Washington: Inter-American Development Bank.

Katz, Jorge M., 2002. El Nuevo modelo economico latinoamericano: Aspectos de eficiencia y equidad que cuestionan su sostenibilidad. In Tilman Altenburg and Dirk Messner, eds. *America Latina Competitiva: Desafios para la economia, la sociedad y el estado*. Caracas: Nueva Sociedad.

Montero, Cecilia, 1997. Santiago: *La Revolucion Empresarial en Chile*.

Moreno-Brid, Juan Carlos, Esteban Perez Caldeney and Pablo Ruiz Napoles, 2004, «El Consenso de Washington: Aciertos, yerros y omisiones,» *Perfiles Latinamericanos*, 25: 149-168 (December).

Paus, Eva, 2005. Foreign Investment, Development and Globalization: Can Costa Rica Become Ireland? New York: Palgrave/Macmillan.

Peres, Wilson, ed. 1998. *Grandes empresas y grupos industriales latinoamericanos*. Mexico City: Siglo XXI.

Stallings, Barbara, and Wilson Peres. 2000. *Latin America a Decade After Economic Reforms*. Washington: Brookings Institution.

Stokes, Susan, 2001. Mandates and Democracy: Neoliberalism by Surprise in Latin America. Cambridge: Cambridge University Press.

Este artículo es la versión original en inglés de «América Latina fragmentada. Economía y empleo en la era de la globalización», incluido en Nueva Sociedad Nº 214, marzo-abril de 2008, ISSN 0251-3552, <www.nuso.org>.