

The Americas:

## **Thanks, Mr. Hoffa, but Chile Has Plenty of Labor Laws By Sebastian Edwards**

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On his way to a rally at the World Trade Organization meeting in Seattle this fall, Teamsters President James P. Hoffa expressed his concerns about labor rights in the developing world. "It [the WTO]", said Mr. Hoffa, "has to consider human rights and worker rights along with trade."

But just what Mr. Hoffa actually knows about worker rights in other countries is not clear. A recent study by Gustavo Marquez and Carmen Pages, economists at the Interamerican Development Bank (IDB), compares employment protection under labor legislation in Latin America, several European countries and the U.S. It finds that, contrary to what many labor activists argue, employment protection in Latin America is, in general, higher than in the European nations and higher than in the U.S., which is the most unregulated of all.

One notable example is Chile, which, out of 37 countries in the study, has the 11th-most-restrictive employment protection legislation, despite some reforms in the 1980s and early 1990s. The authors also find evidence that more restrictive labor legislation has resulted in slower job creation and a larger "informal" labor market. Surprisingly though, American union workers, out to protect their own interests, are not the only ones who would like to make it harder for Chileans to find jobs in the formal economy.

On Sunday, Chilean voters will choose their next president, either Ricardo Lagos, a socialist member of the ruling coalition, or Joaquin Lavín, the center-right candidate. Both men broadly support Chile's market-oriented economic system, and have promised to strengthen schools, reduce crime, and help increase investment and economic growth.

But on one issue they hold deep philosophical differences. While Mr. Lagos favors greatly increasing the degree of labor-market regulation, Mr. Lavín argues for labor-market flexibility. If Mr. Lagos has his way, Chile will take a gigantic step backward into an era of high unemployment, slow productivity growth, and protracted labor conflicts, all good things for Mr. Hoffa and his constituency.

One of Chile's most remarkable achievements during the last two decades has been the dismantling of some of this restrictive labor regulation. Two major reforms modernized labor relations, reduced labor-market distortions and increased labor-market flexibility. The first reform was implemented in the

early 1980s by the military regime, while President Patricio Aylwin undertook the second during the early 1990s.

From the period 1983-85 to 1993-95, Chile went from high unemployment rates normally associated with some European countries, to unemployment rates similar to traditionally prevailing U.S. levels. While during 1983-85 the open rate of unemployment averaged 17.3%, by 1993-95 it had declined to 5.8%. Real wages experienced growth rates in excess of 5% per year during the same period. More recently, and partly due to the effects of "contagion" from the East Asian crisis, unemployment has increased significantly. The latest figures indicate that unemployment is still 10%, slightly down from its peak of 11.5% last year.

The labor reforms covered three areas. First, employment protection legislation was reformed to increase the degree of labor -market "flexibility." This, in effect, imposed a ceiling of 11 monthly wages on severance payments. Second, legislation on union bargaining was modified. The goal of this reform was to reduce unions' monopoly power, increase the degree of decentralization of the bargaining process and reduce the extent and length of labor conflicts. Third, payroll taxes were reduced substantially. This measure was undertaken as part of a major social security reform that replaced an insolvent "pay-as-you-go" system with a privately managed, full-capitalization regime.

Last month, and in an effort to boost Mr. Lagos 's support among blue-collar workers, President Eduardo Frei submitted to Congress new labor legislation. Most analysts and politicians supported some aspects of the proposed law, including making it easier to form unions. However, many also agreed that the overall impact would imply turning back the clock on Chile 's gains toward a modern, competitive and agile labor market. The legislation was narrowly defeated in the Senate, but Mr. Lagos has vowed to reintroduce it if elected president. At that time it would have a very good chance of being approved, as Mr. Frei would have joined the Senate as a former president.

Two provisions of the proposed legislation are particularly harmful. First, wage bargaining would become greatly centralized, with unions having the discretion to decide whether to negotiate at the firm level or at the industry level. Second, firms would be unable -- even after a cooling-off period, as the current legislation dictates -- to replace striking workers. These policies would move Chile 's labor structures closer to the European social-welfare model, reducing the economy's ability to react rapidly to new opportunities in the world economy. Chile 's remarkable export success of the last two decades has, indeed, been made possible by very lean labor machinery that responds rapidly and efficiently to changing international incentives. A study forthcoming in the April edition of the journal Economic

Policy shows that the decentralization of the wage-bargaining process in the 1980s contributed significantly to reducing Chile 's long-run rate of unemployment.

Supporters of the reform have argued that if Chile does not pass it, the country will not comply with the dictates of the International Labor Office (ILO), and will not be able to sign new free-trade agreements with advanced nations. This is not true. There are more than 180 ILO conventions, and Chile has ratified 49 of them. In contrast, the U. S. has only ratified 12, while Australia and New Zealand have ratified 54 and 48 respectively. No one has insinuated that these countries will be left behind in the globalization process. Chile needs modern labor laws that respect basic international norms and encourage the creation of good, high-paying jobs. But putting labor legislation in the hands of Geneva bureaucrats is not the way to achieve that goal.

Improving existing labor laws is a challenge for Chile 's next president. This, however, does not mean traveling the tired path of European social welfare. The new legislation should encourage productivity and entrepreneurship, at the same time as preserving individual liberty. Independent of the election's outcome, Mr. Lagos and his supporters would do a great service to their country by acknowledging this principle.

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