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Law and Employment: Lessons from Latin America and the Caribbean.

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BOOK REVIEWS

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Law and Employment: Lessons from Latin America and the Caribbean. Edited by James J. Heckman and Carmen Pages. Chicago: University of Chicago Press, 2004. 475 pp. ISBN 0-226-32282-3, \$95.00 (cloth).

The extensive empirical literature on the effects of labor market institutions has mostly concentrated on European labor markets. The institutional features that have been investigated by this literature are, however, present also in other parts of the world, and there is much to learn by bringing these regions into the picture. Latin American countries offer very good case studies of the interaction between institutions and labor market outcomes. Many of the institutions that have been thoroughly investigated in Europe are well established in middle-income Latin American countries. Enforcing the regulations in that setting is complicated by the large size of the region's informal sector. This fact actually may turn out to be useful for the researcher, as it provides a control group against which one can assess the effects of the regulations on the segment of the labor force where they are actually enforced. Moreover, these institutions have been frequently reformed over time. Thus, there is much to learn from Latin America by exploiting both cross-country and time-series variation in institutions and labor market outcomes. That is the task taken up by this book, which consists of 11 chapters covering different institutions and countries, written by some of the field's leading scholars together with labor market experts from these countries.

The introduction by the editors, James Heckman and Carmen Pages, provides background for the country analyses. It also develops a new summary measure of the costs of labor market regulations. There is a clear need for such an innovation, as we are dealing with multi-dimensional institutions whose overall economic impact can be measured by translating the different institutional details, including information on qualitative features, into monetary equivalents. One may argue that the measures provided by Heckman and Pages neglect important features of these regulations. For instance,

the measures of the costs of job security seem to ignore the fact that employment protection legislation involves not only transfers from employers to employees in the form of severance pay and advance notice periods, but also pure deadweight costs, such as attorney fees, procedural costs, and side payments to third parties not involved in the labor contract. Yet, the idea of compacting all of the regulatory information into a single scalar measure of the costs of labor market regulations is definitely a good one. The introductory chapter also defines a simple static and a dynamic framework to analyze the effects of social security taxes and employment protection and contains estimates of reduced form employment and unemployment equations from macro data covering both OECD and Latin American countries. While the value added of this book consists mainly in the micro evidence it presents, these macro estimates usefully highlight the much stronger degree of wage pass-through of the costs of regulation in Latin America than in Europe. In Europe, adjustments to employment levels are the main mechanism for accommodating institutional changes, while in Latin America wage adjustments are more important.

The authors of the following chapters, using micro data for individual countries, exploit the natural experiments provided by reforms of labor market regulations to empirically evaluate the effects of specific institutions. Their analyses often employ a double-difference framework, with the first difference being provided by labor market outcomes before and after the reform and the second by the sectoral coverage of these regulations (the formal sector versus the informal sector). A problem with this methodology is that the allocation of workers and firms in the two sectors is endogenous to the regulations themselves, reducing the heuristic content of these natural experiments. This problem is addressed by Adriana Kugler, who, analyzing the effects of a 1990 reform of employment protection in Colombia, develops a simple model in which firms (regrettably not workers) decide to be either in the formal or the informal sector depending on the productivity of the match and the extent of regulations. Her analysis suggests that measures not controlling for self-selection in the two sectors may be biased downward insofar as lower employment protection increases turnover in both the for-

mal sector *and* the informal sector via composition effects. This is important in assessing the results obtained by Jaime Saavedra and Máximo Torero and by Ricardo de Barros and Carlos Corseuil, who draw on reforms of employment protection in Peru and Brazil, respectively.

The country chapters provide valuable insights not only into the effects of employment protection, but also into the wage and employment effects of minimum wage legislation. These findings are particularly relevant because in Latin America, unlike in several OECD countries, the Kaitz index (the ratio of the minimum wage to the median wage) is fairly large, pointing to a potentially stronger effect of minimum wages on the wage distribution. As documented in particular by William Maloney and Jairo Mendez for eight countries (Argentina, Bolivia, Brazil, Chile, Colombia, Honduras, Mexico, and Uruguay), minimum wages not only generate spikes at the low end of the wage distribution, but also impart a rightward shift to parts of the wage distribution that are initially well above the minimum wage. The relevance of these spillover effects suggests that minimum wages can play a more important role than is generally posited by the theoretical literature. For example, minimum wages may strengthen the bargaining power of workers or indirectly increase social security contributions and taxes (as some benefits are indexed to the minimum wage). Maloney and Mendez's recognition of these effects is particularly notable given that most of the literature focuses just on local effects of minimum wages in the so-called "low-pay" segment. Surprisingly enough, the authors also find that minimum wages affect wages in the informal sector. This may be explained by measurement issues (it is notoriously difficult to identify informal sector workers using survey data) or by a "lighthouse effect" whereby minimum wages in the formal sector play a pivotal role in wage setting in the informal sector as well.

Overall, this volume suggests that we can learn much from Latin American and Caribbean countries' experiences with reforms of labor market institutions. Beyond providing answers, it raises important issues relevant not only for the region, but also for OECD countries. I hope it is widely read. I also hope it generates more research. Not only does the book make a convincing case that the effects of these institutions in Latin American countries are well worth investigating, but also it provides intriguing examples of the analytical uses to which imaginative researchers can put the

region's sources of firm- and worker-level data and the several "natural experiments" (institutional reforms) of its history.

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Economic and Social Security and Substandard Working Conditions

Three works by Marc Linder, all published by Fanpìhuà Press, Iowa City, Iowa: "*Moments Are the Elements of Profit*": *Overtime and the Deregulation of Working Hours under the Fair Labor Standards Act*. 2000. xvii, 524 pp. ISBN 09-6738-9933, \$15.00 (paper). *The Autocratically Flexible Workplace: A History of Overtime Regulation in the United States*. 2002. viii, 532 pp. ISBN 09-6738-9992, \$10.00 (paper). "*Time and a Half's the American Way*": *A History of the Exclusion of White-Collar Workers from Overtime Regulation, 1868–2004*. 2004. 1,342 pp. ISBN 09-7195-9412, \$20.00 (paper).

For more than 100 years prior to the passage of the Fair Labor Standards Act (FLSA) in 1938, the United States' labor movement had struggled to obtain both the 8-hour day and the 40-hour week. The Act somewhat protected each of these objectives of labor, in part by using the legislative stick of overtime pay (1-1/2 hours of pay for each hour worked over 40 per work week). In the years since the FLSA's passage, however, U.S. workers, unionized or not, have watched this workplace hope and protection slip away. "Just in time" inventory, globalized markets, temporary workers, and "free" trade notions have put the United States in fierce economic competition with other nations and left American workers laboring longer than their counterparts in all other advanced capitalist countries. It is no longer uncommon for American sociologists to tell us that any leisure time we may have is in steady decline. (In the early 1990s, Julia Schor's *Overworked American: The Unexpected Decline of Leisure* pointed this out; and as Linder discusses [*The Autocratically Flexible Workplace*, p. 7], more recent research indicates that in 2000 the average U.S. employee logged 1,979 hours at work.)

Efforts to alter or amend the substance of the FLSA, often to water down its protections, are