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Confronting Crises:

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Learning From Labour Markets in the Past

The current economic crisis is spreading to the developing world. Even solid emerging economies are affected. **IPC Working Paper 51** reviews labour markets in three Latin American countries over the past two decades and suggests how recessions affect the working poor. This One Pager looks at experiences that might guide policy options to confront the crisis. It examines two large, export-dependent countries, Chile and Mexico, and reviews two kinds of economic period: slow growth (Chile, 2000–2003; and Mexico, 2000–2004); and decline (Mexico's 1995 tequila crisis).

In each of these periods, poor workers (the 20 per cent with the lowest labour income) performed relatively better than in non-recession years. In the two slow-growth periods, poor workers' income rose by about 0.7 percentage points more than the increase for the average worker, which was 0.2 per cent in Chile and 1.9 per cent in Mexico. During Mexico's contraction, poor workers' labour income fell by 3.6 percentage points less than the 15.1 per cent drop in mean incomes. Since the supply of unskilled workers is much larger, one assumes that poor workers have less bargaining power when demand is slack, and thus the improvement in their relative income might be surprising. But the fact is that wages at the bottom of the distribution are already so low that there is little room for further cuts.

We offer insights into these income patterns by distinguishing those that stem from adjustments in workers' socio-demographic characteristics from those arising from changes in the returns to those characteristics: sex, age, education, place of residence, employment sector and contract type. The change in returns is the main factor in overall changes in earnings. Some of the most relevant changes in returns are summarised below.

In Chile, during 2000–2003, a 2.4 per cent fall in the returns to full-time (against part-time workers) was the most important factor in the change in relative earnings. This change gave poor workers—who do more part-time work than the average worker—a 0.8 percentage point edge, explaining most of their improvement in earnings. All other changes were smaller and they worsened poor workers' relative income, albeit by a small margin. The table lists four of the main changes.

Mexico's slow-growth period of 2000–2004 was different. The main change was the fall in returns to urban workers relative to rural workers, spurring a 1 percentage point improvement in poor workers' relative income. The 0.9 per cent increase in the returns to informal employees, relative to the self-employed, improved the poor's relative income position by about a third of a percentage point (though this was partially offset by a -0.6 per cent relative loss from the increase in the return to formal employees against the self-employed). Since men are better paid, the 0.7 per cent fall in the relative returns of male workers also improved the poor's relative incomes. This implies that women make up a larger proportion of the poor.

The most striking changes came during the tequila crisis. Two-thirds of the poor's relative income "gain" stemmed from two changes: a 3.7 per cent fall in the returns to urban (against rural) workers and a 2.4 per cent fall in the return to services (relative to agriculture). A drop of 2.4 per cent in the returns to male workers added to the poor's relative income, albeit modestly. But not all factors favoured the poor. Their relative incomes worsened with the 2.6 per cent increase in the relative return to full-time workers.

This review suggests that periods of slow growth and recession in Mexico and Chile improved the poor's relative income. That their labour income does not fall as much as others' during crises may offer comfort, but even a small decline can exact a heavy toll. Safety nets and emergency assistance help protect minimum consumption levels, but policies to confront economic crises should not be mere mitigation strategies. They should include interventions to strengthen human capacity and improve the poor's main asset: labour.

Changes in Mean Labour Earnings and Relative Returns to Workers' Characteristics. Annual Percentage Changes

Chile 2000–2003, slow growth		
	mean	20% (df)
Actual earnings per worker	0.19	0.64
40+/-39 hours	-2.37	0.76
Secondary/no education	0.96	-0.16
Urban/rural	0.42	-0.05
Male/female	0.32	-0.06
Mexico 2000–2004, slow growth		
Actual earnings per worker	1.88	0.65
Urban/rural	-2.62	1.02
Informal/self-employed	0.89	0.27
Male/female	-0.66	0.17
Formal/self-employed	0.64	-0.57
Mexico 1994–1996, recession		
Actual earnings per worker	-15.11	3.54
Urban/rural	-3.69	1.45
40+/-39 hours	2.63	-0.88
Male/female	-2.45	0.55
Services/agriculture	-2.42	1.07

Source: Zepeda et al. (2009).

Note: (df)= difference between the mean change for the bottom 20 per cent of the earnings distribution and the mean change for the entire sample.

Reference:

Zepeda, Eduardo, et al. (2009). 'Changes in Earnings in Brazil, Chile and Mexico: Disentangling the Forces Behind Pro-Poor Change in Labour Markets', *International Policy Centre for Inclusive Growth Working Paper 51*. Brasilia, IPC.

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