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The employment situation in Latin America and the Caribbean

Employment formalization and
labour income distribution



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The Employment Situation in Latin America and the Caribbean is a twice-yearly report prepared jointly by the Economic Development Division of the Economic Commission for Latin America and the Caribbean (ECLAC) and the Office for the Southern Cone of Latin America of the International Labour Organization (ILO), headed by Daniel Titelman, Director, and Guillermo Miranda, Deputy Regional Director for the Coordination of Policies and Programmes, respectively. Work on the document was coordinated by Gerhard Reinecke, Senior Expert on Employment Policies of ILO, and Jürgen Weller, Senior Economic Affairs Officer of the Economic Development Division of ECLAC.

The first section of this report was prepared by Jürgen Weller, while the second was based on a text by Mario Velásquez, ILO consultant, drawing on a special processing of household surveys carried out by Rigoberto García and Manuel Cordova, programmers of the Labour Analysis and Information System for Latin America and the Caribbean, coordinated by Bolívar Pino. Contributions by David Glejberman, Gerhard Reinecke and Jürgen Weller were used in the drafting of the second section. Sonia Gontero and Andrés Marinakis provided valuable comments on draft versions of the report.

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Foreword

Strong job creation and wage gains have proved to be a key factors in reducing poverty —quite substantially— in our region over the past decade. Together with the implementation of innovative social policies, the narrowing of wage gaps has played a fundamental role in reducing inequality between households. The success of these two processes —reducing poverty and inequality— count among the most important achievements of this period. In the past few years, however, the fight against poverty has noticeably lost momentum,¹ showing the extent to which job creation has been hit by the recent economic slowdown.

Despite sharp differences between countries and subregions (mainly a result of their uneven embeddedness in global markets), the economy of the Latin American and Caribbean region made a remarkable recovery from the fallout of the international financial crisis of 2008-2009. In the intervening years, however, the region's rates of growth have fallen continuously, to reach 2.5% in 2013.

Growth is projected to be more modest still in 2014. The fact that investment has stagnated or is even falling in several of the larger countries is a particular cause for concern, since it not only affects current economic progress, but also stifles future growth potential.

Against this backdrop, the regional employment rate continued on the downward path begun in 2013, falling from 56.0% in the first half of 2013 to 55.7% in the same period of 2014, owing principally to slack wage employment. However, as in 2013, the lower job creation has not pushed up regional unemployment, because the fall in labour participation more than offset the reduction in the employment rate.

In this light, and however paradoxical this may seem, the falling unemployment rate is not unreservedly good news. On the positive side, it reflects only limited pressure on the labour market, which helps preserve real wage levels.

On the downside, however, the fall in labour participation underlying this drop in unemployment is bad news for the economic autonomy of a growing swathe of the population, women in particular. What is more, even when real wages are rising, a falling employment rate will tend to erode household income, something that cannot easily be offset by social policies. It may therefore be assumed that the fall observed in the region's labour participation rate will soon be reversed, as more people seek employment and labour income. And unless the region is able to galvanize employment creation to accommodate these job-seekers, unemployment will likely to start rising again.

Weaker job creation has also put a brake on another positive trend: the (moderate) narrowing of the gender gap in several employment indicators. In the past decade, the increase in formal employment in various branches of the tertiary sector helped many women join the labour force. Changes in growth trends in early 2014 to the detriment of these sectors have hit women harder than men, thus widening the gender gap in terms of employment, participation and unemployment in most of the countries.

Despite the current stagnation, the overall picture in the region's labour markets has been positive. The progress made in recent years is attributable to, among other factors, the increasing formalization of employment, which has not only helped many women find more productive employment, but has also played a part in reducing wage inequality.

The second part of this report explores several mechanisms that are playing a part in this picture, using an analysis of data on the period 2009-2013. These data show that in many countries the wage gap continued to narrow after the 2008-2009 crisis, while employment formalization continued.

¹ See ECLAC, *Social Panorama of Latin America 2013* (LC/G.2580), Santiago, Chile, December 2013.

The increasing numbers of formal jobs, the creation of new productive jobs and the formalization of previously informal jobs have benefited all categories of workers, especially those with intermediate levels of educational attainment and women. The formalization of employment for workers with low or intermediate levels of education has helped improve labour income distribution, while recent data on the impact on gender gaps are mixed. However, given the trends in job creation in the first half of 2014, it may not be possible to sustain this positive performance.

Thus far, the economy of the Latin American and Caribbean region has performed unimpressively in the second half of 2014, and job creation is unlikely to post an upturn at the regional level at this point in the year. Nevertheless, owing to lower labour force participation, the yearly average urban unemployment rate is expected to ease down from 6.2% in 2013 to 6.0% or 6.1% in 2014.

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I. The employment situation in the first half of 2014

The economic performance of Latin America and the Caribbean in the first half of 2014 was less than encouraging, with preliminary estimates putting growth at 2.3% in the first quarter and an even lower figure expected for the second quarter. Accordingly, growth projections for the year as a whole were revised down to 1.8% at midyear, which would be less than the 2.5% growth recorded in 2013. However, the regional slowdown masks a high degree of heterogeneity: in particular, higher growth is projected in the countries of Central America (including the Dominican Republic and Haiti),

with a rate similar to that of 2013 (4.4%), while growth in the Caribbean is expected to be stronger than in 2013, albeit still modest (2.0%) (ECLAC, 2014). Colombia and Mexico should also see something of an improvement from 2013. On the other hand, growth is expected to have slowed to a greater or lesser extent in almost all of the South American countries.

The region's labour market performance in the first half of 2014 should thus be analysed against this backdrop of slower regional growth, even though the results vary by subregion and country.

A. The paradoxical fall in unemployment despite weak job creation

The average urban employment rate in 10 countries of the region fell to 55.7% in the first half of 2014, which was slightly down on the 56.0% seen in the first half of 2013. The downward trend in this indicator that began in 2013 thus continued.¹ However, as will be shown below, the participation rate also declined in the period, resulting in an apparent paradox as the unemployment rate continued to fall.

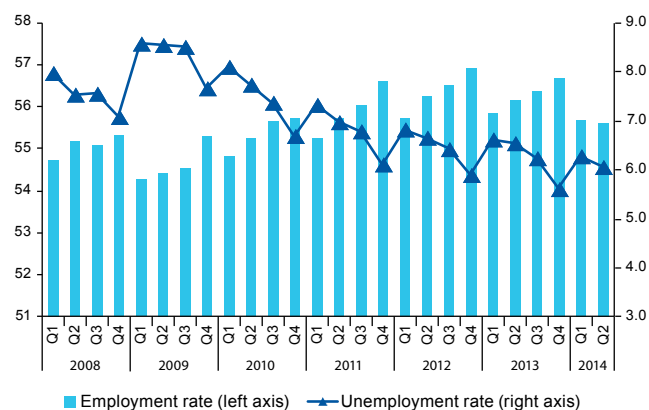
The negative year-on-year trend in the employment rate actually accelerated during the first half of 2014, as it contracted by 0.15 percentage points over the same period in 2013 in the first quarter and by 0.5 percentage points in the second. This reflects something that can be observed in figure I.1: the seasonality prevalent in the region means that the employment rate typically rises between the first and second quarters, and this was the case for all years between 2008 and 2013. In 2014, by contrast, the employment rate fell slightly between the two quarters, giving rise to the aforementioned acceleration in the year-on-year decline.

The regional urban participation rate declined by even more than the employment rate, as it had done since the second quarter of 2013. That trend began with a decline from an average of 60.5% in 2012 to 60.3% in 2013. Then, between the first half of 2013 and the same period in 2014, the urban participation rate in the 10 countries fell even more steeply, from 59.9% to 59.3%. As with the employment rate, the year-on-year fall in this indicator was more pronounced in the second quarter (0.9 percentage points) than the first (0.4).

This trend in the urban employment and participation rates meant that the first half of 2014 saw the continuation of a paradoxical regional tendency for urban unemployment to carry on falling despite low economic growth. In fact, the rate

decreased from 6.6% to 6.2% in the 10 countries between the first half of 2013 and the same period in 2014.

Figure I.1
LATIN AMERICA AND THE CARIBBEAN (10 COUNTRIES): ^a URBAN
EMPLOYMENT AND UNEMPLOYMENT RATES, WEIGHTED AVERAGE,
FIRST QUARTER OF 2008 TO SECOND QUARTER OF 2014
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from the countries.

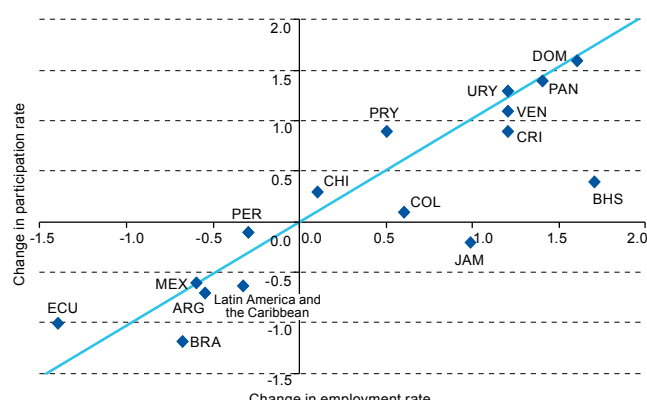
^a Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Ecuador, Jamaica, Mexico, Peru and Uruguay.

It should be noted that the drop in the regional urban employment rate is chiefly a reflection of declines in the largest economies (Brazil, Mexico and Argentina), since most of the countries with data available actually posted higher rates. Nor did participation rates fall in many of the region's economies, even though the regional rate did. Figure I.2 shows changes in employment and participation rates for 15 countries in the region.²

¹ See ECLAC/ILO (2014) for a summary of labour market performance in 2013.

² See also tables A.2 and A.3 of the annex.

Figure I.2
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES):
YEAR-ON-YEAR CHANGES IN PARTICIPATION AND
EMPLOYMENT RATES, FIRST HALF OF 2014
(Percentage points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from the countries.

Figure I.2 shows that in the first half of 2014 the employment rate increased in 10 countries from the same period in 2013 and decreased in only 5, while the participation rate rose year-on-year in 9 countries. The chart also shows how the combined movement of the two rates affected unemployment. In the countries below the diagonal line, the unemployment rate fell because employment rose by more than participation (the Bahamas, the Bolivarian Republic of Venezuela, Colombia, Costa Rica and Jamaica, with participation actually falling in the last of these) or because participation fell by more than employment (Argentina and Brazil). The unemployment rate rose in the countries above the diagonal line, either because participation increased by more than employment (Chile and Paraguay) or because employment declined by more than participation (Ecuador and Peru). In a third group of countries, the unemployment rate held steady because there were similar increases (the Dominican Republic, Panama and Uruguay) or decreases (Mexico) in the participation and employment rates.

Thus, the pattern for the region as a whole in the first half of 2014, with lower participation more than offsetting the decline in the employment rate and unemployment coming down as a result, was observed only in Argentina and Brazil. However, a similar pattern, with falling participation preventing the lower employment rate from translating into significantly higher unemployment, was seen in Mexico and, in the second quarter, Peru. In sum, although this pattern is confined to only a few countries, on the whole the slowing of economic growth has not driven up the unemployment rate, with only four countries in the region recording an increase of more than 0.1 percentage points (see table A.1 of the annex).

Although economic growth remained slow in the Caribbean, it was the only subregion to record an uptick,³ which led to a slight improvement in employment indicators. Indeed, the three countries with data available for the first half of 2014 (the Bahamas, Belize and Jamaica) reported a drop in unemployment.

In the countries most responsible for the region's falling participation rate (because of the scale of the decline in them or their share of the regional economy), the biggest drop was generally among the youngest age groups. In Brazil, for example, the participation rate among young people aged 15 to 24 decreased from 52.8% to 50.2% between the first half of 2013 and the same period in 2014, while the rate among those aged 25 to 49 contracted only slightly from 81.5% to 81.1%. There was also a significant reduction in the older adults group (ages 50 and over), from 40.6% to 39.3%. In Argentina, the activity rate for young people aged up to 29 contracted by slightly more than the adult rate (-1.2 percentage points compared with -0.9). In Mexico, the participation rate fell by only 0.2 percentage points in the first half, and this was entirely due to the rate among young people aged 14 to 29 declining by 0.7 percentage points, with the rate among those aged 30 and over holding steady. Presumably, many young people who are "secondary" workers in their respective households are withdrawing from the labour market as expectations of finding work decline. Some are remaining in or returning to the education system to improve their future employment options, while others are swelling the ranks of those not in education, employment or training (NEETs).⁴

B. Slower growth in registered employment

Growth in registered employment represents the combined effect of total demand for labour in formal firms and advances in the formalization of existing businesses and jobs in the informal sector. As figure I.3 shows, the rate of growth in registered jobs continued to moderate in the first half of 2014 everywhere except Brazil and Costa Rica, where it was similar to the 2013 rate.

Slack labour demand and the limited impact from formalization of existing informal jobs meant that registered employment was

undynamic, as evinced by the fact that the rate of growth in the number of registered jobs was no higher than 2% in most of the countries with data available.⁵

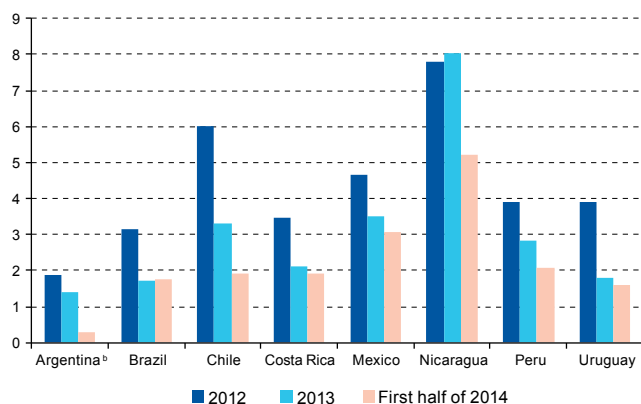
³ Projections in ECLAC (2014) have economic growth in the Caribbean expanding from 1.2% in 2013 to 2.0% in 2014.

⁴ See ECLAC/ILO (2012).

⁵ Registered employment growth averaged 4.5% a year between 2004 and 2013 in the countries with information available.

Figure I.3

LATIN AMERICA (SELECTED COUNTRIES): YEAR-ON-YEAR CHANGES IN REGISTERED WAGE EMPLOYMENT, 2012 TO FIRST HALF OF 2014^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from the countries.

^a The data are for wage earners or employees contributing to social security systems, with the exception of Peru, where they are for employment in formal small, medium-sized and large enterprises.

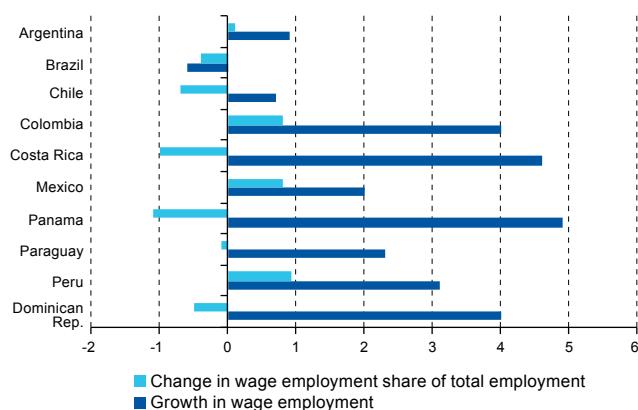
^b The 2014 figure is for the first quarter.

The weakness of labour demand was also reflected in a decline in the share of wage employment in most countries with data available (see figure I.4). The main exceptions were Colombia, Mexico and Peru, where this share increased in the

first half of 2014 relative to the first half of 2013. However, in some countries where the proportion of wage employment fell, the number of such jobs did expand in absolute terms against a background of relatively strong economic growth, examples being Costa Rica, the Dominican Republic and Panama.

Figure I.4

LATIN AMERICA (SELECTED COUNTRIES): YEAR-ON-YEAR CHANGES IN WAGE EMPLOYMENT AND ITS SHARE OF TOTAL EMPLOYMENT, FIRST HALF OF 2014
(Percentages and percentage points)



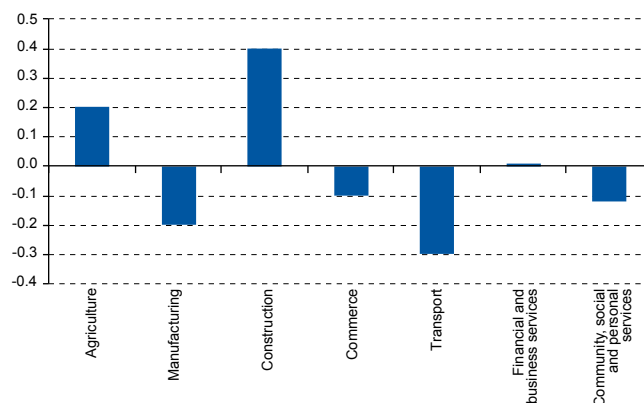
Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from the countries.

C. Shifts in job creation patterns

Job creation by branch of activity varied markedly from country to country. In broad terms, however, there were some prominent patterns which differed from the trends prevailing up until then. In the previous decade, most new jobs had been created in the tertiary sector, primarily in commerce, services and transport, but this dynamic had lost momentum. Net job creation was closely linked to household demand, the main driver of growth in the region over recent years. That consumption has weakened recently, however, curtailing both domestic demand and overall economic growth.⁶ This slowdown would be expected to curb job creation in certain sectors, and indeed, taking the median for a group of 11 countries, the total employment share of commerce, transport and community, social and personal services contracted in the first half of 2014 (see figure I.5).

Figure I.5

LATIN AMERICA AND THE CARIBBEAN (11 COUNTRIES):^a MEDIAN YEAR-ON-YEAR CHANGE IN SECTORAL SHARES OF TOTAL EMPLOYMENT, FIRST HALF OF 2014^b
(Percentage points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from the countries.

^a Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Mexico, Panama, Paraguay, Peru and Uruguay.

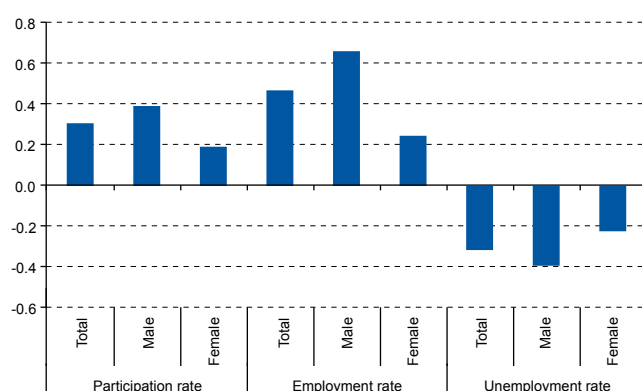
^b Not all countries provide information on all sectors of activity.

⁶ See ECLAC (2014), part I, chap. 1, sect. C for further details on this and on patterns of economic growth by sector of activity in early 2014.

Construction increased its share of employment in 7 of these 11 countries, with particularly strong growth in Colombia, the Dominican Republic, Panama and Paraguay, where there was a two-digit increase in this segment's economic activity in the first quarter of the year. In countries such as Brazil, Chile and Mexico, by contrast, weak job creation in construction attested to the low level of activity in the sector. Meanwhile, the recent sluggishness of job creation in manufacturing continued, and the sector's share of total employment fell in 7 of the 11 countries analysed.

The drop-off in job creation in commerce and services also worked against another trend seen in recent years: the gradual narrowing of some gender gaps, specifically in participation, employment and unemployment rates. Among other factors, this progress has been due to the expansion of some branches of the tertiary sector whose employment structure has a relatively high proportion of women workers, leading to substantial rises in female employment. Women were the hardest hit by the cooling of job creation in these activities, and this was why their employment indicators performed worse than men's in the first half of 2014. Figure I.6 shows simple averages for changes in the participation, employment and unemployment rates of 15 countries.⁷

Figure I.6
LATIN AMERICA AND THE CARIBBEAN (15 COUNTRIES):^a
CHANGES IN PARTICIPATION, EMPLOYMENT AND
UNEMPLOYMENT RATES, BY SEX, FIRST HALF
OF 2013 TO FIRST HALF OF 2014^b
(Percentage points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from the countries.

^a Argentina, Bahamas, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Paraguay, Peru and Uruguay.
^b Simple averages.

The first thing that can be observed here is that both the participation rate and the employment rate increased on this measure (unlike the regional figure, which is a weighted average),

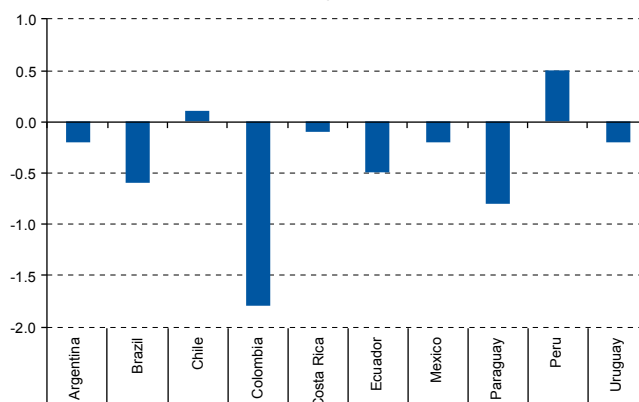
⁷ See table A.4 of the annex.

reflecting the fact, already noted (see figure I.2), that these indicators went up in a majority of the countries with information available. The employment rate, as a simple average, rose by considerably more than the participation rate, meaning that on this measure it was the increase in employment that pushed down the unemployment rate.

Second, the employment and participation rates rose more for men than for women, a reversal of the long-term trend towards the closing of the gender gap in these indicators.⁸ The increases in these rates led to a slight drop in the simple average unemployment rate in these countries for both sexes, although more so for men than for women.

As noted earlier, in the first half of 2014 the economic slowdown had yet to translate into higher unemployment across the board. This shows that, for various reasons, labour supply pressure had yet to overwhelm the employment options available. An indicator that is related to open unemployment is time-related underemployment, which also measures one aspect of low demand.⁹ In the first half of 2014, consistently with the pattern for open unemployment, there was no general rise in time-related underemployment. On the contrary, as figure I.7 shows, 7 of the 10 countries providing data for this indicator reported a drop in time-related underemployment, 2 registered no major changes (± 0.1 percentage points) and only 1 showed a significant increase.

Figure I.7
LATIN AMERICA (SELECTED COUNTRIES): YEAR-ON-YEAR
CHANGE IN TIME-RELATED UNDEREMPLOYMENT
RATES, FIRST HALF OF 2014
(Percentage points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from the countries.

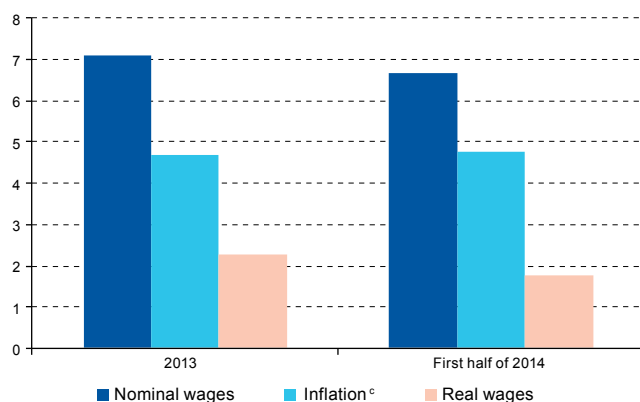
⁸ In Argentina, Brazil and Mexico, the participation and employment rates fell for both men and women, but in the first two countries the dip was more marked for women, contributing to a widening of the gender gap.

⁹ The time-related underemployment rate is the proportion of the labour force who work a number of hours deemed below normal in the country in question and who are willing and available to work more.

D. Continued moderate wage growth

Similarly, the economic slowdown has yet to have an effect on real wages, which are consistent rather with labour markets free of major imbalances. Indeed, real wage growth in eight countries averaged 1.8% in the first half of 2014 relative to the same period in 2013. This was a slightly smaller increase than in 2013, as more moderate rises in nominal wages combined with steady average inflation (see figure I.8).

Figure I.8
LATIN AMERICA (8 COUNTRIES):^a YEAR-ON-YEAR CHANGE IN AVERAGE NOMINAL AND REAL WAGES IN THE FORMAL SECTOR AND INFLATION, 2013 AND FIRST HALF OF 2014^b
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from the countries.

^a Brazil, Chile, Colombia, Costa Rica, Mexico, Nicaragua, Peru and Uruguay.

^b Simple averages.

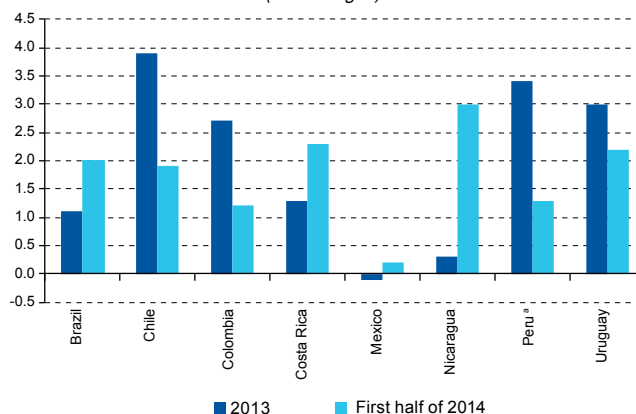
^c Consumer price index.

The regional average is a reflection of the moderate rises in real wages that predominated at the country level in the first half, as shown in figure I.9.

The South American countries, with the exception of Brazil, saw a slowdown in wage growth relative to 2013, while in Costa Rica, Mexico and Nicaragua real wages rose by slightly more in the first half of 2014 than the 2013 average. This may reflect differences in economic dynamics between subregions.

In sum, slowing economic growth reduced the demand for labour in the first half of 2014 and fewer jobs were created as a result, particularly in formal wage employment. Regionally, however, sluggish job creation (with a drop in the employment rate) did not lead to higher unemployment because labour market participation also contracted.

Figure I.9
LATIN AMERICA (SELECTED COUNTRIES): YEAR-ON-YEAR CHANGE IN AVERAGE REAL WAGES IN THE FORMAL SECTOR, 2013 AND FIRST HALF OF 2014
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from the countries.

^a The data are for the earnings of wage workers in the Lima metropolitan area.

Looking beyond the aggregate regional data, national figures are very heterogeneous, with many countries actually recording increases in employment levels, including in wage work. What is more, the lower rates of time-related underemployment and moderate increases in real wages reveal that in the first half of 2014 labour markets remained free of serious imbalances associated with slower growth.

Women's employment appears to have been affected by the changing dynamics of job creation, especially the smaller numbers of new jobs being created in several branches of the tertiary sector. Thus, contrary to the pattern in recent years, the gender gap in labour market participation, employment and unemployment has been tending to widen.

Regional growth is expected to be modest in the second half of 2014 and, although several countries are forecast to see a slight growth acceleration towards the end of the year, no major rally in job creation is foreseen, particularly in wage employment. The regional unemployment rate is nonetheless projected to decline on average over the year as a result of the fall in labour market participation. Assuming that this fall moderates in the second half, the annual unemployment rate can be expected to drop by between 0.1 and 0.2 percentage points, a lesser decline than in the first half, leaving the average regional rate for 2014 at between 6.0% and 6.1%.

II. Employment formalization and earnings inequality in Latin America, 2009-2013

A. Background

Although earnings inequality and extensive informal employment are still characteristics of Latin American economies, there has

been unmistakable progress with both in the last decade, against a background of strong economic growth and job creation.

1. The decline of earnings inequality

Earnings inequality in the region has displayed different trends in recent decades (ECLAC, 2014b). In the 1990s, the trend was towards concentration, mainly owing to a rising wage premium for skilled workers in a context of growing unemployment. In this period, too, developments in taxation and employment were dominated by the effects of liberalizing structural reforms in trade and finance, with evidence that trade opening contributed to the rise in inequality.

This trend began to be reversed in the early 2000s, however, and particularly from 2002-2003 onward. Thus, to take the period between those years and 2011, at least 15 of the 17 countries in Latin America for which information was available recorded statistically significant distribution improvements in a context of sustained economic growth and poverty reduction.

This reduction was accounted for particularly by the evolution of adult earnings, owing to a narrowing of the wage gap between skilled and unskilled workers. To a lesser degree, government transfers to lower-income households also played their part in reducing inequality (ECLAC, 2012).

Gasparini and others (2012) showed that the relative supply of skilled and semi-skilled workers had been increasing since the 1990s and that the returns to complete secondary education had diminished in both that decade and the 2000s, while the returns to tertiary education increased in the 1990s and decreased in the 2000s. They also noted the role played by the slackening of relative demand for skilled labour, associated with the commodity price boom and stronger demand for unskilled labour.¹

Some labour market policies have also had an effect. Thus, Cornia (2010) emphasizes the role of the political dynamic in the region, with new and more redistributive measures favouring greater social inclusiveness. The same author (Cornia, 2014) conducted a regression analysis on the determinants of the changes seen in the Gini index and found that, among other factors, the policy of increasing the minimum wage over the past decade had helped to reduce inequality, albeit to a moderate degree. This policy was effective in a period of employment growth and significant advances in formalization.

This effect is also highlighted by ECLAC (2014b), which evaluates the impact of minimum wage policy in countries where minimum wages increased at the same time as wage inequality fell in a context of rising employment, such as Argentina, Brazil and Uruguay, where minimum wage growth has been particularly strong, and Chile, where it has been less substantial recently, although the trend has been steadily upward for 25 years. The findings show that the minimum wage had an equalizing effect in all the countries, although this was not significant in Chile.

Thus, besides the explanations given for the decline of inequality in the region, centring on the factors driving the supply of and demand for workers with different skill levels, the above findings suggest that it is also important to consider the role of labour market institutions in the distributive improvements seen in some countries, such as rising minimum wages in a context of increasing employment and formalization, as already mentioned.

¹ De la Torre, Messina and Pienknagura (2012) also stress these changes, noting movements of workers from manufacturing to service-intensive sectors associated with natural resource production. Cornia (2014), while agreeing with the explanation based on shifts in the relative

supply of and demand for skilled and unskilled labour as a result of the commodities boom, argues that this was not the only cause, since inequality also fell in semi-industrialized countries and those highly dependent on remittances.

2. Growth in formal employment

In its latest publication on employment formality in Latin America and the Caribbean (ILO, 2014a), the International Labour Organization (ILO) uses recent data to analyse the most important characteristics of informal employment² in the region together with the most salient public policy initiatives being implemented in the countries, against the background of a steady reduction in informality since 2007.

Thus, 46.8% of non-agricultural employment in Latin America was informal in 2013, a reduction of 3.3 percentage points from 2009, when the figure was 50.1%. Of its three components, all of which have declined in recent years, informal employment in the informal sector, which mainly includes own-account workers and workers in unregistered informal microenterprises, accounted for almost two thirds of all informal employment and for 30.7% of total non-agricultural employment in 2013. The second-largest component was informal employment in the formal sector, which accounted for 11.7% of all those in non-agricultural employment and was the result of non-compliance with regulations, whether because of ignorance of the law, financial incapacity or institutional weakness. The third-largest was informal employment in domestic service, representing 5% of total employment in 2013.

By occupational category, the highest rates of informality in 2013 were among self-employed workers (82.7%), followed by domestic workers (79.1%) and workers in microenterprises with less than 10 workers (60.2%).³ The rate of informal employment

is over four times as great in microenterprises as in larger firms, although there are differences between countries.

The distribution of informal employment affects some groups more than others. It is higher among women, it has a negative association with education levels, and it is most prevalent in the areas of construction (70.3%) and of commerce, restaurants and hotels (56.4%), with these two between them accounting for some 50% of informal employment in the region. As rates of informality decrease, furthermore, earnings rise.

Together with the characteristics described, ILO has identified a number of formalization efforts in the past few years by analysing public policies implemented in the countries. This is important in a region where informal employment grew and accumulated over decades (ILO, 2014b).

Formalization has been pursued through actions to create conditions within firms such that they can achieve and sustain growth, together with measures to make economic units better able to comply with the relevant rules or standards. At the same time, efforts have been made to increase the institutional capacity or strength of economies to bring about compliance with employment standards via policies to simplify, improve and publicize rules, establish incentives, register firms, provide vulnerable groups with social security coverage and improve enforcement of employment standards, promote compliance and strengthen the bodies responsible.

B. Employment formalization and inequality

1. Formal employment and the distribution of earnings

In addition to reviewing the formalization of employment and the reduction of earnings inequality over the last decade, this study will explore the links between the two processes.

For the years prior to the 2009 international financial crisis, a study by Maurizio (2014) shows that advances in formalization and the reduction of wage inequality were correlated, as figure II.1 illustrates. Informal wage employment fell as a share of total wage employment between 2000 and 2009 in 9 of a total

of 12 countries analysed, the exceptions being Chile, where the share remained virtually unchanged, and El Salvador and Mexico, where informality continued to grow. At the same time, the region also experienced a near-universal decline in earnings concentration, as illustrated by the fact that the Gini index for hourly wages fell in all countries except Costa Rica. Argentina, Brazil, Ecuador and Paraguay made the greatest simultaneous advances in both aspects.

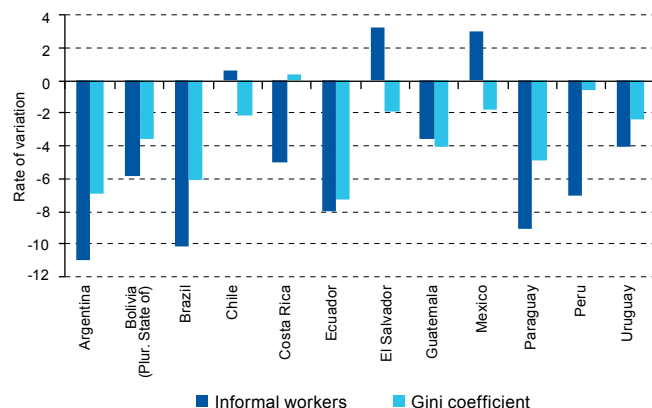
² The definition of informality and the method of measuring it have evolved from an original definition based on company size and occupational category, including self-employed workers and unpaid family workers, as a proxy for low-productivity sectors, according to the Regional Employment Programme for Latin America and the Caribbean (PREALC). In 1993, the fifteenth International Conference of Labour Statisticians (ICLS) adopted a Resolution concerning Statistics of Employment in the Informal Sector that took the characteristics of production units into consideration. At the seventeenth ICLS, held in 2003, Guidelines concerning a Statistical Definition of Informal Employment were issued to supplement the 1993 resolution; based on job characteristics, these captured the phenomenon of informal jobs outside the

informal sector. On this definition, informal employment comprises informal employment in the informal sector, informal employment in the formal sector and informal employment in households. It is also important to realize that the employment data presented in this publication differ slightly from those previously published by ILO, as 14 countries have been included (formerly there was information on 13). In addition, the data are for the employed population aged 15 and over in all the countries, whereas previously data for different age groups was used depending on national definitions.

³ The unpaid family worker category is 100% informal because, by definition, all workers in this category are deemed informal regardless of the sector (formal or informal) they work in.

Figure II.1

LATIN AMERICA (SELECTED COUNTRIES): CHANGES IN HOURLY WAGE INEQUALITY AND IN THE PROPORTION OF INFORMAL WORKERS, 2000 TO 2009
(Percentage points)



Source: Roxana Maurizio, "Labour formalization and declining inequality in Argentina and Brazil in 2000s: a dynamic approach", ILO Research Paper, No. 9, Geneva, International Labour Organization (ILO), February 2014.

Despite these very strong data for the period up to 2009, the relationship between the formalization of employment and the dynamics of earnings distribution is complex. To establish the causal link between declines in inequality like those observed in the region over the last decade, as documented by ECLAC, and the simultaneous increase in the formal employment share of total non-agricultural employment, as analysed by ILO, a number of additional variables need to be known. The link depends on the relative positions of formal and informal workers in the earnings distribution at a starting point (taking the characteristics of the workers leading the transition to formality as the benchmark) as compared to the position workers come to occupy in the earnings distribution at an end point.

Thus, increasing formalization of employment could have a positive effect on the earnings distribution if informal workers

in the formal sector or workers from the informal sector who became formal earned more than they did initially⁴ and these increases were greater for those in low-earnings groups (such as the first quintile) than for those in high-earnings groups (such as the fifth quintile). Only then would the gap in the overall earnings distribution narrow. Any other scenario would have an ambiguous effect on the overall earnings distribution, since even in a situation where formal employment and the earnings of those entering it increased, the outcome would depend on the starting and end positions in the earnings distribution of the workers who became formal.

Panel data would be required to analyse this direct impact of formalization on earnings, and these are not available for this study. Instead, the links between employment formalization and changes in inequality in the most recent period will now be explored by examining the evolution of formal and informal employment and changes in the distribution of earnings on the basis of information generated from household surveys⁵ and processed for the analysis of nine countries in the region: Argentina, Brazil, Colombia, Ecuador, Mexico, Panama, Paraguay, Peru and the Plurinational State of Bolivia.

This information can be used to analyse the characteristics of total employment, formal employment and informal employment in the years 2009 and 2013,⁶ taking the most recent ILO definitions so that the information is comparable between the countries considered. To this end, the requisite cross-referencing was carried out to ascertain the composition of employment (total, formal and informal) by occupation, years of education and sex.

As regards earnings, the analysis was based on those reported in the household surveys, with the information being organized by quintiles. To measure changes in the distribution of earnings, reference is made first to the ratio between quintile V and quintile I, which is the multiple between average earnings in the top quintile and average earnings in the bottom quintile, and then to the earnings gaps between groups of workers with different education levels, and between women and men.

2. Aggregate results for employment formalization and the distribution of earnings

Taking the whole group of countries for which information was available, the main findings regarding employment formalization and changes in the distribution of earnings between the years considered are presented in table II.1.

In the first place, this was a period of net job creation, with a rise of 7.9%. Formal employment grew most dynamically, with a weighted average increase across the countries of 12.7%. Although informal employment also grew, it did so at a substantially lower rate of just 2.6%, so that its share of total employment fell from 48.9% in 2009 to 46.6% in 2013.

The distribution of earnings also developed positively in the period, both in the aggregate for all those in work and for the formal and informal worker groups separately. In fact, the value of the indicator used fell by 0.62 percentage points between

the years considered, suggesting that the trend in the years prior to the last financial crisis was maintained. The same holds true, albeit to differing degrees, for the distribution of earnings between formal and informal workers, with inequality declining by 0.40 and 1.08 percentage points, respectively. Relative inequality among informal workers was greater, even though it declined more in the period.

⁴ This is just one possible outcome of a formalization process, as it could well happen that earnings were unaffected even though the worker obtained a formal contract and the social protection associated with this new status.

⁵ Processed by the ILO Labour Analysis and Information System in Latin America and the Caribbean (SIALC).

⁶ The latest information available was for 2011 in the Plurinational State of Bolivia and 2012 in Brazil.

Table II.1

LATIN AMERICA (NINE COUNTRIES)^a: TOTAL, FORMAL AND INFORMAL EMPLOYMENT AND DISTRIBUTION OF EARNINGS, 2009 AND 2013
(Absolute numbers, percentages, percentage points and multiples)

Variable ^b	2009	2013	Change ^c
Total employment	146 110 735	157 507 263	7.8%
Formal employment	74 659 070	84 168 007	12.7%
Share of total employment	51.1%	53.4%	2.3 percentage points
Informal employment	71 984 127	73 862 089	2.6%
Share of total employment	48.9%	46.6%	-2.3 percentage points
Distribution of total earnings	8.63	8.01	-0.62 percentage points
Distribution of formal earnings	7.56	7.16	-0.40 percentage points
Distribution of informal earnings	13.16	12.08	-1.08 percentage points

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the International Labour Organization (ILO) Labour Analysis and Information System in Latin America and the Caribbean (SIALC).

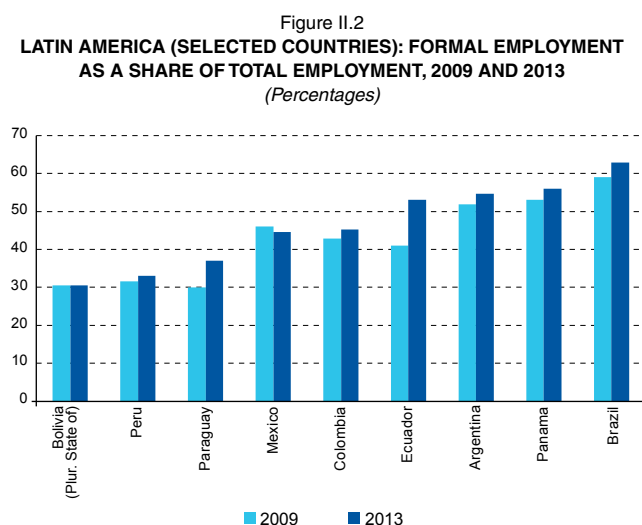
^a Argentina, Brazil, Colombia, Ecuador, Mexico, Panama, Paraguay, Peru and the Plurinational State of Bolivia.

^b The ILO definition is used to classify formal and informal employment, with the values for the respective earnings distributions being calculated as the weighted sum of the ratios between quintile V and quintile I available for each of the countries considered.

^c Changes in employment levels are given as percentages, while changes in employment shares and distribution are expressed in percentage points.

3. Changes in formalization and the distribution of earnings by country

The increase in the rate of formal employment in the Latin American economies considered is illustrated in greater detail in figure II.2, which ranks the countries in ascending order of formal employment as a share of total employment on the 2013 data. The share of formal employment increased in all the countries except Mexico, where it fell from 46.1% in 2009 to 44.6% in 2013. The countries with the greatest increases in formal employment were Ecuador (12.2 percentage points) and Paraguay (7.0 percentage points).

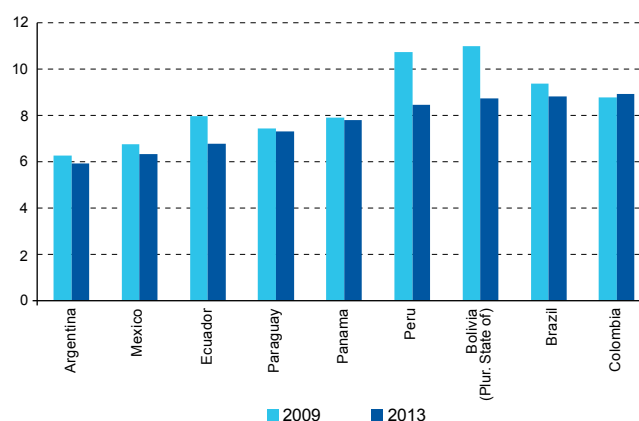


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the International Labour Organization (ILO) Labour Analysis and Information System in Latin America and the Caribbean (SIALC).

Figure II.3 presents changes in the ratio between quintile V and quintile I, used to report on the degree of inequality in the distribution of earnings in the countries considered. The countries have been ranked in ascending order of inequality by the value of the ratio between quintile V and quintile I in the

latest year with information available, the highest ratios being in Colombia, Brazil and the Plurinational State of Bolivia. The findings represent a change from 2009, when the highest earnings inequality index values were observed in Peru and the Plurinational State of Bolivia.

Figure II.3
LATIN AMERICA (SELECTED COUNTRIES): EARNINGS DISTRIBUTION BY RATIO BETWEEN QUINTILE V AND QUINTILE I, BY COUNTRY, 2009 AND 2013



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the International Labour Organization (ILO) Labour Analysis and Information System in Latin America and the Caribbean (SIALC).

It is worth emphasizing that it was precisely in these last two countries that earnings inequality declined most in 2013, as it fell by 2.27 percentage points in Peru and 2.26 percentage points in the Plurinational State of Bolivia. Developments were also positive in all the other economies considered except Colombia, where inequality increased by 0.13 percentage points.

Earnings inequality is partly determined by the earnings gap between workers with different levels of education, and between men and women. Table II.2 shows how these gaps moved during

the period under study. The data show that the differences between the workers with the fewest and most years of education (0 to 6 years and 13 years and over) diminished in seven of the nine countries analysed, increasing only in Ecuador and Panama, while the gap between men and women narrowed in six countries (albeit only very slightly in some cases) and increased in Colombia,

Panama and the Plurinational State of Bolivia. For workers with intermediate levels of education, on the other hand, no clear trend emerges. In both the group with 7 to 9 years of education and the group with 10 to 12 years, the gaps widened in Ecuador, Panama, Paraguay and the Plurinational State of Bolivia but narrowed in Argentina, Brazil, Colombia, Mexico and Peru.

Table II.2
LATIN AMERICA (SELECTED COUNTRIES): EARNINGS GAPS BY YEARS OF EDUCATION AND BY SEX, 2009 AND 2013^a
(Percentages)

Country	Average earnings by years of education relative to average earnings with 13 years' education and over						Women's average earnings relative to men's	
	0-6 years		7-9 years		10-12 years		2009	2013
	2009	2013	2009	2013	2009	2013		
Argentina	44.3	48.0	54.3	59.5	70.3	73.7	75.3	75.4
Bolivia (Plurinational State of)	65.2	68.9	81.5	77.1	80.2	77.8	68.7	67.9
Brazil	24.6	27.6	29.5	31.5	39.5	41.0	65.8	68.8
Colombia	28.3	29.4	32.0	34.0	40.5	41.7	74.8	74.5
Ecuador	40.9	38.7	45.0	42.3	58.1	54.4	72.2	74.7
Mexico	37.8	40.1	44.8	47.3	56.5	57.3	71.2	71.7
Panama	27.4	25.9	39.1	38.8	53.0	50.9	88.3	85.7
Paraguay	45.1	47.4	52.9	48.3	65.4	61.5	70.6	71.8
Peru	35.9	40.8	47.6	51.7	54.7	62.1	61.8	63.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the International Labour Organization (ILO) Labour Analysis and Information System in Latin America and the Caribbean (SIALC).

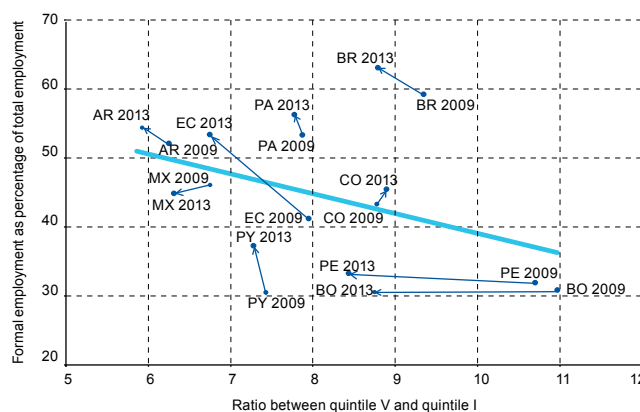
^a Red shading of cells indicates an increase in the earnings gap.

Lastly, by integrating changes in the formal employment share and earnings inequality, it is possible to establish a negative relationship (albeit one with a high level of dispersion) between formality and inequality, which means that for the years analysed, higher earnings inequality is associated with a larger share of informal employment, as illustrated in figure II.4. This relationship became more pronounced between 2009 and 2013.

These changes varied greatly between the countries studied, however. Thus, the largest declines in the ratio between quintile 5 and quintile 1 were in Ecuador, Peru and the Plurinational State of Bolivia. Formal employment as a share of total employment also increased most in Ecuador. In Argentina and Brazil, greater progress was made in reducing earnings inequality than informal employment, while in Panama and Paraguay the opposite was true.

Mexico, lastly, stands apart from the trends indicated, since informal employment increased as a share of total employment even as earnings inequality diminished, while inequality increased in Colombia even though the share of formal employment rose.

Figure II.4
LATIN AMERICA (SELECTED COUNTRIES): CHANGES IN FORMAL EMPLOYMENT AND EARNINGS INEQUALITY, 2009 TO 2013
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the International Labour Organization (ILO) Labour Analysis and Information System in Latin America and the Caribbean (SIALC).

4. Changes in earnings and employment

Changes in employment between 2009 and 2013 will now be analysed by occupational category, years of education and sex. In all cases, formal and informal workers will be distinguished and the contribution of each group to the overall change will be identified.

Table II.3 presents information that can be used to characterize the employment formalization process observed in the period and to identify the specific contributions of each occupational category to the change in total, formal and informal employment for the whole group of countries.

Table II.3
**LATIN AMERICA (NINE COUNTRIES)^a: CHANGES IN TOTAL, FORMAL AND INFORMAL EMPLOYMENT,
 BY OCCUPATIONAL CATEGORY, 2009 TO 2013**
(Absolute numbers and percentages)

Category	Total			Formal			Informal		
	Absolute change	Percentage change	Percentage contribution	Absolute change	Percentage change	Percentage contribution	Absolute change	Percentage change	Percentage contribution
Total	11 396 528	7.8		9 508 937	12.7		1 887 591	2.6	
Wage employees	9 593 109	10.3	84.2	8 688 487	13.8	91.4	904 622	3.0	47.9
Employers	-281 158	-4.2	-2.5	-33 783	-0.8	-0.4	-247 376	-9.6	-13.1
Own-account	2 580 504	7.4	22.6	862 074	16.6	9.1	1 718 430	5.8	91.0
Domestic	-495 926	-4.4	-4.4	-7 842	-0.3	-0.1	-488 085	-5.4	-25.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the International Labour Organization (ILO) Labour Analysis and Information System in Latin America and the Caribbean (SIALC).

^a Argentina, Brazil, Colombia, Ecuador, Mexico, Panama, Paraguay, Peru and the Plurinational State of Bolivia.

The information presented is sufficient to show that employment formalization was driven by wage employment, which accounted for 84.2% of the rise in total employment. It was also the largest occupational category, representing 65% of the total. Own-account employment also grew, albeit more slowly, while the employers and domestic service workers categories declined.

At the same time, this wage employment-driven formalization process accounted for 91.4% of the increase in formal employment, meaning that the rise in formal wage employment represented 76.2% of total employment growth over the period. In the informal sector, on the other hand, the greatest increase (5.8%) was in own-account working, representing 91.0% of the growth in informal jobs. Again, the rise in informal wage employment was

greater than the total for this group, but was partly offset by reductions in the employers and domestic workers categories.

In the second place, if changes in employment are considered in relation to the number of years of education of the workforce, as shown in table II.4, it transpires that while the largest percentage increases occurred in the segment with the most years of education, the largest contribution was made by the group with between 10 and 12 years of education, i.e., those with more or less complete formal secondary education, who accounted for the majority of workers in the countries studied. Next came the group with the most years of education, while for the group with no more than 6 years of education there was a decline. With these trends, the employment structure reflected demographic change in the region, where education levels have been rising.

Table II.4
**LATIN AMERICA (NINE COUNTRIES)^a: CHANGES IN TOTAL, FORMAL AND INFORMAL EMPLOYMENT,
 BY YEARS OF EDUCATION, 2009 TO 2013**
(Absolute numbers and percentages)

	Total ^b			Formal			Informal		
	Absolute change	Percentage change	Percentage contribution	Absolute change	Percentage change	Percentage contribution	Absolute change	Percentage change	Percentage contribution
Total	11 360 576	7.8		9 508 937	12.7		1 851 639	2.6	
Up to 6	-2 189 580	-5.6	-19.3	-398 182	-3.3	-4.2	-1 791 399	-6.6	-96.7
7 to 9	2 141 746	7.5	18.9	1 227 245	10.2	12.9	914 501	5.6	49.4
10 to 12	6 367 511	13.4	56.0	4 580 198	16.3	48.2	1 787 313	9.1	96.5
13 and over	5 147 537	17.0	45.3	4 101 569	18.4	43.1	1 045 968	13.2	56.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the International Labour Organization (ILO) Labour Analysis and Information System in Latin America and the Caribbean (SIALC).

^a Argentina, Brazil, Colombia, Ecuador, Mexico, Panama, Paraguay, Peru and the Plurinational State of Bolivia.

^b Totals differ because the number of years' education of a substantial proportion of workers is unknown.

These trends are also observed in the formal and informal subgroups. The segment with more or less complete formal secondary education contributed most to the rise in employment in both cases and, just as in the case of total employment, it was the group with the most years of education that had the highest growth rate in the years studied.

Considering too that, as already mentioned, the evolution of employment by educational group is strongly determined in

the aggregate by demographic trends, it is important to compare formal and informal job creation for the different educational groups when analysing the differentiated dynamics of rising formal employment. When growth rates for formal and informal employment are contrasted, it is found that formal employment grew 1.8 times as much as informal employment in the groups with 7 to 9 and 10 to 12 years' education, while the ratio was only 1.4 for the most highly educated group. In the group with

the fewest years of education, furthermore, informal employment fell by more than formal employment. Consequently, while levels of formality clearly remain higher in the most educated group, the rise in formalization significantly favoured people with low or intermediate levels of education across the group of countries in the period of analysis, something that can be assumed to have had a positive effect in reducing inequality.

Lastly, table II.5 reveals the greater dynamism of women's employment within the total and their increased contribution to new job creation. It is also clear that this tendency held particularly strongly for new formal jobs, with the female contribution being significantly greater for these than for informal jobs. Conversely, male employment was a greater driver of new informal jobs than formal ones.

Table II.5
LATIN AMERICA (NINE COUNTRIES): CHANGES IN TOTAL, FORMAL AND INFORMAL EMPLOYMENT, BY SEX, 2009 TO 2013
(Absolute numbers and percentages)

	Total			Formal			Informal		
	Absolute change	Percentage change	Percentage contribution	Absolute change	Percentage change	Percentage contribution	Absolute change	Percentage change	Percentage contribution
Total	11 396 528	7.8		9 508 937	12.7		1 887 591	2.6	
Male	6 145 689	7.5	53.9	5 021 673	11.5	52.8	1 124 016	2.9	59.5
Female	5 250 839	8.2	46.1	4 487 263	14.5	47.2	763 576	2.3	40.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the International Labour Organization (ILO) Labour Analysis and Information System in Latin America and the Caribbean (SIALC).

5. The impact of formalization on earnings gaps between workers with different levels of education and between men and women

To analyse the possible impact of employment formalization on the reduction of inequality between groups of workers with different levels of education, and between women and men, a decomposition exercise was conducted. As mentioned earlier, formalization helps to reduce the inequality gap if it is more extensive in lower-earnings groups than in higher-earnings groups, and vice versa, so that an overall rise in formality does not necessarily imply a positive distributive impact, just as the absence of formalization does not necessarily imply a negative distributive impact.

Table II.6 identifies the contribution of employment formalization to the evolution of earnings gaps between 2009 and 2013. The positive values in the table indicate that formalization helped to narrow the gap because it was more extensive in the lower-earnings group than in the higher-earnings reference group. Conversely, negative values indicate that formalization was more extensive in the higher-earnings group, resulting in a wider gap.

Table II.6
LATIN AMERICA (SELECTED COUNTRIES): CONTRIBUTION OF EMPLOYMENT FORMALIZATION TO CHANGES IN EARNINGS GAPS, BY YEARS OF EDUCATION AND SEX, 2009 TO 2013 ^a
(Percentage points)

Country	By years of education (relative to the 13 years and over group)			By sex (women relative to men)
	0-6 years	7-9 years	10-12 years	Female
Bolivia (Plurinational State of)	-0.36	-1.34	-1.87	-1.51
Brazil	0.18	0.39	0.29	1.77
Colombia	0.56	0.23	0.05	-1.24
Ecuador	0.02	0.46	1.05	2.87
Mexico	-0.10	0.12	-0.08	-1.85
Panama	0.39	0.60	0.42	3.20
Paraguay	1.27	-0.52	1.16	2.03
Peru	0.48	-0.36	1.45	-0.96

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the International Labour Organization (ILO) Labour Analysis and Information System in Latin America and the Caribbean (SIALC).

^a Positive values indicate that the effect of formalization was to narrow the earnings gap, while negative values indicate that it had the effect of widening this gap.

The table shows that the impact of formalization helped to reduce earnings gaps in 17 of the 24 cases (three educational groups in eight countries), both where these gaps narrowed overall and where they widened.⁷ The exceptions are all three

educational groups in the Plurinational State of Bolivia, the 0 to 6 and 10 to 12 groups in Mexico and the 7 to 9 group in Paraguay and Peru, where changes in formal employment rates contributed to a widening of earnings gaps relative to the 13 years and over group. In these cases, formality in the reference group (workers with 13 years of education and over) increased by more (in

⁷ See table II.2 again for the cases where gaps widened and narrowed.

Paraguay and Peru) or decreased by less (in Mexico). In the Plurinational State of Bolivia, formality increased in the highest educational group and decreased in the others.

Whereas formalization usually had the effect of reducing earnings gaps between groups of workers with different levels of education, the impact on gaps between men and women was uneven. Thus, formalization trends in Brazil, Ecuador, Panama and Paraguay had the effect of narrowing earnings differences between men and women, since formal employment rose by more among the latter than among men. In Brazil, formalization accounted for over half the reduction in the gap, while in Ecuador and Paraguay it appeared to be responsible for over 100% of the reduction in earnings gaps, meaning that other factors had a negative distributive impact. In Panama, while formalization

contributed to a narrowing of the earnings gap between men and women, other factors more than offset this, so that the gap widened.

In another four countries, formalization had the effect of widening earnings gaps. In the Plurinational State of Bolivia and Colombia (where this gap widened only very slightly), changes in the proportion of formal jobs accounted for the increase in the earnings gap between men and women, in the first case because formality increased among men while it declined among women, and in the second because formalization was more extensive among men than women. Formalization trends in Mexico and Peru were adverse but offset by a reduction in differences caused by other factors, so that the earnings gap between men and women narrowed in both.

C. Conclusions

In the last decade, the countries of the Latin America region have shown positive results in the operation of their labour markets, with significant advances in new job creation and an increasing share of formal employment. The evidence available indicates that this formalization of employment has not only improved labour market participation but has also led to a large reduction in earnings inequality.

Indeed, when information on nine countries in the region for the period from 2009 to 2013 is analysed, it transpires that the trends of earlier years towards greater formalization and reduced earnings inequality continued. Increased formality, resulting

both from the creation of new jobs and from the formalization of informal jobs, has particularly benefited wage earners, workers with intermediate levels of education and women.

Lastly, when the factors typically accounting for inequalities in the distribution of earnings are analysed, the conclusion is that formalization of employment helped to narrow gaps between less and more educated workers, since in the great majority of the cases analysed the group with fewer years of education formalized more quickly than the group with more years, while formalization had a mixed impact on the evolution of earnings gaps between women and men.

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Annex

Current indicators

Table A.1
LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT, 2003 TO FIRST HALF OF 2014
(Average annual rates)

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2013	2014
												First half ^a	
Latin America													
Argentina ^b	17.3	13.6	11.6	10.2	8.5	7.9	8.7	7.7	7.2	7.2	7.1	7.6	7.3
Bolivia (Plurinational State of) ^c	9.2	6.2	8.2	8.0	7.7	6.7	7.9	6.5 ^d	...	...	...	...	...
Brazil ^e	12.3	11.5	9.8	10.0	9.3	7.9	8.1	6.7	6.0	5.5	5.4	5.7	4.9
Chile ^f	9.5	10.0	9.2	7.8	7.1	7.8	9.7	8.2	7.1	6.4	5.9	6.2	6.5
Colombia ^g	16.6	15.3	13.9	12.9	11.4	11.5	13.0	12.4	11.5	11.2	10.6	11.6	10.7
Costa Rica ^h	6.7	6.7	6.9	6.0	4.8	4.8	8.5	7.1	7.7	7.8	8.3	9.9	9.4
Cuba ⁱ	2.3	1.9	1.9	1.9	1.8	1.6	1.7	2.5	3.2	3.5	3.4	...	...
Dominican Republic ^j	7.3	6.1	6.4	5.5	5.0	4.7	5.3	5.0	5.8	6.5	7.0	7.0 ^j	6.8 ^j
Ecuador ^k	11.5	9.7	8.5	8.1	7.3	6.9	8.5	7.6	6.0	4.9	4.7	4.8	5.7
El Salvador ^l	6.2	6.5	7.3	5.7	5.8	5.5	7.1	6.8	6.6	6.2	5.6	...	...
Guatemala ^m	5.2	4.4	...	...	...	...	...	4.8	3.1	4.0	3.8	...	...
Honduras ^m	7.4	8.0	6.1	4.6	3.9	4.2	4.9 ⁿ	6.4 ⁿ	6.8 ⁿ	5.6 ⁿ	6.0 ⁿ	...	...
Mexico ^o	4.6	5.3	4.7	4.6	4.8	4.9	6.6	6.4	5.9	5.8	5.7	5.9	5.9
Nicaragua ^m	10.2	8.6	7.0	7.0	6.9	8.0	10.5	9.7	...	...	...	...	...
Panama ^p	15.9	14.1	12.1	10.4	7.8	6.5	7.9	7.7	5.4	4.8	4.7	5.1 ^q	5.0 ^q
Paraguay ^r	11.2	10.0	7.6	8.9	7.2	7.4	8.2	7.0	6.5	6.1	5.9	8.2	8.8
Peru ^s	9.3	9.4	9.6	8.5	8.5	8.4	8.4	7.9	7.7	6.8	5.9	6.1	6.3
Uruguay ^m	16.9	13.1	12.2	11.3	9.8	8.3	8.2	7.5	6.6	6.7	6.7	7.0	7.1
Venezuela (Bolivarian Republic of) ^t	18.0	15.3	12.3	10.0	8.4	7.3	7.9	8.7	8.3	8.1	7.8	8.1	7.8
The Caribbean													
Bahamas ^u	10.8	10.2	10.2	7.7	7.9	8.7	14.2	...	15.9	14.0	15.8	16.2 ⁿ	14.3 ⁿ
Barbados ^t	11.0	9.6	9.1	8.7	7.4	8.1	10.0	10.8	11.2	11.6	11.6	...	...
Belize ^l	12.9	11.6	11.0	9.4	8.5	8.2	13.1	12.5	...	15.3	13.2	12.1 ^j	11.1 ^j
Jamaica ^l	10.9	11.4	11.2	10.3	9.8	10.6	11.4	12.4	12.6	13.9	15.2	15.4 ^u	13.5 ^u
Trinidad and Tobago ^l	10.5	8.3	8.0	6.2	5.5	4.6	5.3	5.9	5.1	5.0	3.6 ^v	...	...
Latin America and the Caribbean ^w	11.1	10.3	9.0	8.6	7.9	7.3	8.1	7.3	6.7	6.4	6.2 ^x	6.6 ^y	6.2 ^y

Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from countries' household surveys.

^a The figures for the first half of 2014 are preliminary.

^b Gradual incorporation up to 31 urban areas in the third quarter of 2006.

^c Urban areas. Data from 2004 based on the survey carried out between November 2003 and October 2004. New measurement from 2009; data not comparable with previous years.

^d First half-year.

^e Six metropolitan areas.

^f National total. New measurement from 2010; data not comparable with previous years.

^g Thirteen metropolitan areas. Includes hidden unemployment.

^h National urban figures from July of each year. New measurement from 2009; data not comparable with previous years. The semi-annual data are from a different survey and are not comparable with the annual data.

ⁱ National total.

^j Data refer to April.

^k National urban figures. The data for 2003 refer to December. From 2004, average for four quarters. Includes hidden unemployment.

^l National urban figures. From 2007, the age of the working-age population was raised from 10 years to 16 years and over. Includes hidden unemployment.

^m National urban figures.

ⁿ Data refer to May.

^o Thirty-two urban areas.

^p National urban figures. Includes hidden unemployment.

^q Data refer to March.

^r National urban figures. The data for the first half of 2013 and of 2014 correspond to Asunción and urban areas of the Central Department.

^s Metropolitan Lima.

^t National total. Includes hidden unemployment.

^u January-April.

^v Average for March, June and September.

^w Weighted average. Data adjusted for the exclusion of hidden unemployment in Colombia, Ecuador and Panama. Does not include Guatemala.

^x Preliminary data.

^y This figure represents a smaller number of countries and is therefore not comparable with the annual figures.

Table A.2
LATIN AMERICA AND THE CARIBBEAN: URBAN PARTICIPATION RATES, 2003 TO FIRST HALF OF 2014
(Average annual rates)

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2013 First half ^a	2014
Latin America													
Argentina ^b	60.3	60.2	59.9	60.3	59.5	58.8	59.3	58.9	59.5	59.3	58.9	59.0	58.3
Bolivia (Plurinational State of) ^c	...	58.6	55.7	58.7	57.1	...	56.9	57.3 ^d	...	...	...	...	...
Brazil ^e	57.1	57.2	56.6	56.9	56.9	57.0	56.7	57.1	57.1	57.3	57.1	57.1	56.0
Chile ^f	54.4	55.0	55.6	54.8	54.9	56.0	55.9	58.5	59.8	59.5	59.6	59.6	59.9
Colombia ^g	65.0	63.6	63.3	62.0	61.8	62.6	64.6	65.7	66.7	67.6	67.4	67.2	67.3
Costa Rica ^h	56.8	56.3	58.2	58.2	58.5	58.6	62.3	60.7	62.6	62.3	61.5	63.1	64.0
Cuba ⁱ	70.9	71.0	72.1	72.1	73.7	74.7	75.4	74.9	76.1	74.2	...	...	...
Dominican Republic ^j	48.5	48.9	49.0	49.7	49.9	50.1	48.4	49.6	51.0	51.4	51.3	51.0 ^j	52.6 ^j
Ecuador ^k	58.9	59.1	59.5	59.1	61.3	60.1	58.9	56.9	55.2	55.9	54.8	55.3	54.3
El Salvador ^l	55.4	53.9	54.3	53.9	63.6	64.1	64.3	64.4	63.7	64.6	65.1	...	...
Guatemala ^m	61.6	58.4	...	...	...	...	...	...	61.0	65.5	62.1	...	...
Honduras ^m	53.5	52.7	50.3	52.1	51.7	52.7	53.1 ⁿ	53.7 ⁿ	52.5 ⁿ	51.2 ⁿ	54.3 ⁿ	...	...
Mexico ^o	58.3	58.9	59.5	60.7	60.7	60.4	60.2	60.1	60.2	60.9	60.6	60.4	59.8
Nicaragua ^m	53.0	52.6	53.7	52.8	50.5	53.8	52.1	...	...	...	...	...	...
Panama ^p	63.5	64.2	63.7	62.8	62.6	64.4	64.4	64.0	63.2	63.6	64.1	63.1 ^q	64.5 ^q
Paraguay ^r	59.2	62.4	60.4	57.9	59.6	61.5	62.3	60.1	60.0	63.8	62.1	64.3	65.2
Peru ^s	67.4	68.0	67.1	67.5	68.9	68.1	68.4	70.0	70.0	69.1	68.9	68.9	68.8
Uruguay ^m	58.1	58.5	58.5	60.8	62.9	62.8	63.3	63.5	65.0	64.0	63.6	63.7	65.0
Venezuela (Bolivarian Republic of) ^t	69.1	68.5	66.2	65.5	64.9	64.9	65.1	64.5	64.4	63.9	64.3	63.7	64.8
The Caribbean													
Bahamas ^t	76.5	75.7	...	...	...	...	73.4	...	72.3	74.6	73.2	72.7 ⁿ	73.1 ⁿ
Barbados ^t	69.2	69.4	69.6	67.9	67.8	67.6	67.0	66.6	67.6	66.2	66.7	...	...
Belize ^t	60.0	60.3	59.4	57.6	61.2	59.2	...	...	...	65.8	64.5 ^j	...	...
Jamaica ^t	64.4	64.5	64.2	64.7	64.9	65.5	63.5	62.4	62.3	61.9	63.0	63.1 ^j	62.9 ^u
Trinidad and Tobago ^t	61.6	63.0	63.7	63.9	63.5	63.5	62.7	62.1	61.3	61.8	61.3 ^v	...	...
Latin America and the Caribbean^w	59.4	59.5	59.3	59.5	59.7	59.7	59.8	60.1	60.3	60.5	60.3^x	59.9^y	59.3^y

Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from countries' household surveys.

^a The figures for the first half of 2014 are preliminary.

^b Gradual incorporation up to 31 urban areas in the third quarter of 2006.

^c Urban areas. Data from 2004 based on the survey carried out between November 2003 and October 2004. New measurement from 2009; data not comparable with previous years.

^d First half-year.

^e Six metropolitan areas.

^f National total. New measurement from 2010; data not comparable with previous years.

^g Thirteen metropolitan areas. Includes hidden unemployment.

^h National urban figures from July of each year. New measurement from 2009; data not comparable with previous years. The semi-annual data are from a different survey and are not comparable with the annual data.

ⁱ National total.

^j Data refer to April.

^k National urban figures. The data for 2003 refer to December. From 2004, average for four quarters. Includes hidden unemployment.

^l National urban figures. From 2007, the age of the working-age population was raised from 10 years to 16 years and over. Includes hidden unemployment.

^m National urban figures.

ⁿ Data refer to May.

^o Thirty-two urban areas.

^p National urban figures. Includes hidden unemployment.

^q Data refer to March.

^r National urban figures. The data for the first half of 2013 and of 2014 correspond to Asunción and urban areas of the Central Department.

^s Metropolitan Lima.

^t National total. Includes hidden unemployment.

^u January-April.

^v Average for March, June and September.

^w Weighted average. Data adjusted for the exclusion of hidden unemployment in Colombia, Ecuador and Panama. Does not include Guatemala.

^x Preliminary data.

^y This figure represents a smaller number of countries and is therefore not comparable with the annual figures.

Table A.3
LATIN AMERICA AND THE CARIBBEAN: URBAN EMPLOYMENT RATES, 2003 TO FIRST HALF OF 2014
(Average annual rates)

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2013 First half ^a	2014
Latin America													
Argentina ^b	49.9	52.1	53.0	54.1	54.5	54.2	54.2	54.4	55.2	55.0	54.7	54.5	54.0
Bolivia (Plurinational State of) ^c	...	55.0	51.2	54.0	52.7	...	52.4	53.6 ^d	...	...	...	...	...
Brazil ^e	50.1	50.6	51.0	51.2	51.6	52.5	52.1	53.2	53.7	54.2	54.0	53.9	53.2
Chile ^f	49.3	49.5	50.4	50.5	51.0	51.7	50.5	53.7	55.5	55.7	56.0	55.9	56.0
Colombia ^g	54.2	53.8	54.5	54.0	54.8	55.3	56.2	57.6	59.1	60.1	60.3	59.5	60.1
Costa Rica ^h	53.0	52.5	54.2	54.7	55.7	55.7	57.0	56.4	57.8	57.4	56.5	56.8	58.0
Cuba ⁱ	69.2	69.7	70.7	70.7	72.4	73.6	74.2	73.0	73.6	71.6	...	...	...
Dominican Republic ^j	45.2	46.0	45.9	46.9	47.4	47.7	45.8	47.1	48.0	48.2	47.7	47.4 ^j	49.0 ^j
Ecuador ^k	48.6	53.4	54.4	54.3	56.8	56.0	53.9	52.5	51.9	53.2	52.2	52.6	51.2
El Salvador ^l	52.0	50.4	50.3	50.8	59.9	60.6	59.7	60.0	59.5	60.6	61.5	...	...
Guatemala ^m	58.4	55.8	...	...	...	...	...	...	59.0	62.8	59.5	...	...
Honduras ^m	49.5	48.5	47.2	49.7	49.7	50.5	50.5 ⁿ	50.3 ⁿ	48.9 ⁿ	48.3 ⁿ	51.1 ⁿ	...	...
Mexico ^o	55.6	55.8	56.7	57.9	57.8	57.5	56.2	56.2	56.7	57.4	57.1	56.8	56.2
Nicaragua ^m	47.6	48.0	49.9	49.1	47.1	49.5	46.6	...	...	...	...	...	...
Panama ^p	53.4	55.1	56.0	56.3	57.7	60.2	59.3	59.1	59.8	60.6	61.1	59.8 ^q	61.2 ^q
Paraguay ^r	52.5	56.1	55.8	52.7	55.3	57.0	57.1	55.9	56.1	59.9	58.4	59.0	59.5
Peru ^s	61.2	61.6	60.7	61.8	63.0	62.4	62.7	64.5	64.5	64.4	64.8	64.7	64.4
Uruguay ^m	48.3	50.9	51.4	53.9	56.7	57.6	58.4	58.8	60.7	59.6	59.5	59.2	60.4
Venezuela (Bolivarian Republic of) ⁱ	56.7	58.0	58.0	58.9	59.4	60.2	60.0	58.9	59.0	58.7	59.3	58.5	59.8
The Caribbean													
Bahamas ⁱ	69.7	68.0	...	...	...	...	63.0	...	62.4	64.2	61.6	60.9 ⁿ	62.6 ⁿ
Barbados ^j	61.6	62.7	63.2	61.9	62.8	62.1	60.3	59.4	60.0	58.5	58.9	...	...
Belize ⁱ	52.3	53.3	52.8	52.2	56.0	54.3	...	...	...	55.8	56.7 ^j	...	...
Jamaica ⁱ	57.1	57.0	57.0	58.0	58.6	58.5	56.3	54.7	54.4	53.3	53.4	53.4 ⁱ	54.4 ⁱ
Trinidad and Tobago ⁱ	55.2	57.8	58.6	59.9	59.9	60.6	59.4	58.4	58.2	58.8	59.1 ^u	...	...
Latin America and the Caribbean^v	52.8	53.4	54.0	54.5	55.1	55.4	55.0	55.7	56.2	56.6	56.5^w	56.0^x	55.7^x

Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from countries' household surveys.

^a The figures for the first half of 2014 are preliminary.

^b Gradual incorporation up to 31 urban areas in the third quarter of 2006.

^c Urban areas. Data from 2004 based on the survey carried out between November 2003 and October 2004. New measurement from 2009; data not comparable with previous years.

^d First half-year.

^e Six metropolitan areas.

^f National total. New measurement from 2010; data not comparable with previous years.

^g Thirteen metropolitan areas.

^h National urban figures from July of each year. New measurement from 2009; data not comparable with previous years. The semi-annual data are from a different survey and are not comparable with the annual data.

ⁱ National total.

^j Data refer to April.

^k National urban figures. The data for 2003 refer to December. From 2004, average for four quarters.

^l National urban figures. From 2007, the age of the working-age population was raised from 10 years to 16 years and over.

^m National urban figures.

ⁿ Data refer to May.

^o Thirty-two urban areas.

^p National urban figures. Data refer to August.

^q Data refer to March.

^r National urban figures. The data for the first half of 2013 and of 2014 correspond to Asunción and urban areas of the Central Department.

^s Metropolitan Lima.

^t January-April.

^u Average for March, June and September.

^v Weighted average. Does not include Guatemala, Nicaragua or the Plurinational State of Bolivia.

^w Preliminary figures.

^x This (preliminary) figure represents a smaller number of countries and is therefore not comparable with the annual figures.

Table A.4
**LATIN AMERICA AND THE CARIBBEAN (15 COUNTRIES): PARTICIPATION, EMPLOYMENT AND OPEN URBAN
 UNEMPLOYMENT RATES BY SEX, FIRST HALF OF 2013 AND 2014 ^a**
 (Percentages)

Country	Unemployment rate						Participation rate						Employment rate					
	Total		Men		Women		Total		Men		Women		Total		Men		Women	
	First half of 2013	First half of 2014	First half of 2013	First half of 2014	First half of 2013	First half of 2014	First half of 2013	First half of 2014	First half of 2013	First half of 2014	First half of 2013	First half of 2014	First half of 2013	First half of 2014	First half of 2013	First half of 2014	First half of 2013	First half of 2014
Argentina (31 urban agglomerations)	7.6	7.3	6.6	6.5	9.0	8.6	59.0	58.3	72.3	71.2	47.1	46.5	54.5	54.0	67.5	66.7	42.9	42.5
Bahamas ^b	16.2	14.3	16.1	13.5	16.3	15.3	72.7	73.1	76.1	77.4	69.8	69.1	60.9	62.6	63.8	67.0	58.4	58.5
Brazil (six metropolitan areas)	5.7	4.9	4.7	4.0	6.9	6.0	57.2	56.0	66.3	65.3	49.4	48.0	53.9	53.2	63.2	62.7	46.0	45.2
Chile	6.2	6.5	5.4	6.1	7.3	6.9	59.6	59.9	71.9	71.9	47.7	48.2	55.9	56.0	68.0	67.5	44.2	44.9
Colombia (13 cities)																		
Broad measurement ^c	11.6	10.7	9.9	8.8	13.4	12.7	67.2	67.3	75.1	75.5	60.1	60.0	59.5	60.1	67.7	68.8	52.1	52.3
Open unemployment	10.9	10.1	9.5	8.5	12.5	11.8												
Costa Rica	10.0	9.4	8.6	7.9	12.3	11.7	62.1	62.9	75.5	76.3	48.4	49.4	55.9	57.0	69.0	70.3	42.5	43.6
Dominican Republic ^d																		
Broad measurement ^c	15.0	14.9	9.9	9.3	22.7	23.3	55.7	57.7	67.6	68.9	44.0	46.8	47.4	49.0	60.9	62.5	34.0	35.6
Open unemployment	7.0	6.8	5.0	5.1	10.4	9.6												
Ecuador																		
Broad measurement ^c	4.8	5.7	4.4	5.1	5.3	6.5	55.3	54.3	67.4	66.5	44.2	42.9	52.6	51.2	64.5	63.1	41.9	40.1
Open unemployment	4.1	4.7	3.9	4.3	4.5	5.3												
Jamaica ^e																		
Broad measurement ^c	15.4	13.5	11.3	10.3	20.2	17.4	63.1	62.9	70.0	70.2	56.5	55.9	53.4	54.4	62.0	63.0	45.1	46.1
Open unemployment	9.8	9.2	7.7	7.3	12.5	11.6												
Mexico (32 areas)	5.8	5.9	5.9	6.2	5.8	5.6	60.4	59.8	75.5	74.8	46.8	46.4	56.8	56.2	71.1	70.2	44.1	43.8
Panamá ^f																		
Broad measurement ^c	5.1	5.0	4.9	4.2	5.4	6.1	63.0	64.5	76.7	77.6	50.9	52.9	59.8	61.2	73.0	74.3	48.1	49.7
Open unemployment	3.7	3.7	3.4	3.0	4.2	4.6												
Paraguay (Asunción and urban areas of the Central Department)	8.2	8.8	7.4	6.6	9.2	11.6	64.3	65.2	72.2	74.9	56.8	56.1	59.0	59.5	66.9	70.0	51.5	49.6
Peru (Metropolitan Lima)	6.1	6.3	4.7	5.5	7.8	7.3	68.9	68.8	78.0	78.1	60.4	60.1	64.7	64.4	74.3	73.9	55.7	55.6
Uruguay	7.0	7.0	5.7	5.6	8.5	8.6	63.7	65.0	73.3	73.8	55.3	57.1	59.2	60.4	69.2	69.6	50.6	52.2
Venezuela (Bolivarian Republic of)	8.1	7.8	7.6	7.3	8.9	8.4	63.7	64.8	77.6	79.0	50.0	50.8	58.5	59.8	71.7	73.2	45.5	46.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO), on the basis of official information from the countries.

^a In the case of the Bahamas, the Bolivarian Republic of Venezuela, Chile, Costa Rica, the Dominican Republic and Jamaica the figure is the national total.

^b Data for the month of May in both years.

^c Includes hidden unemployment as part of the economically active population and unemployment.

^d Data correspond to the average for January to April in both years.

^e Data for the month of March in both years.

^f Data for the month of April in both years.

The performance of the labour markets in Latin America and the Caribbean in the first half of 2014 reflects the impact that slowing regional economic growth has had on job creation. Nevertheless, albeit with some differences between countries, the data do not on the whole point to any significant labour market imbalances. In particular, time-related underemployment has remained on a downward path and real wages have continued to climb modestly. Despite the drop in the regional employment rate, unemployment continues to decline, because the proportion of the working-age population participating in the labour market has fallen. This pattern is not, of course, sustainable in the long term.

Among the hallmarks of the labour market during the 2000s was a significant increase in formal employment in many countries, along with improvements in income distribution. These two processes have continued in the past few years, but less vigorously. On the basis of special tabulations of data from household surveys, the second part of this report explores the characteristics of employment formalization in recent years and shows how, in some cases, it has helped improve income distribution.