

Labor Market Segmentation and Job Quality in Colombia

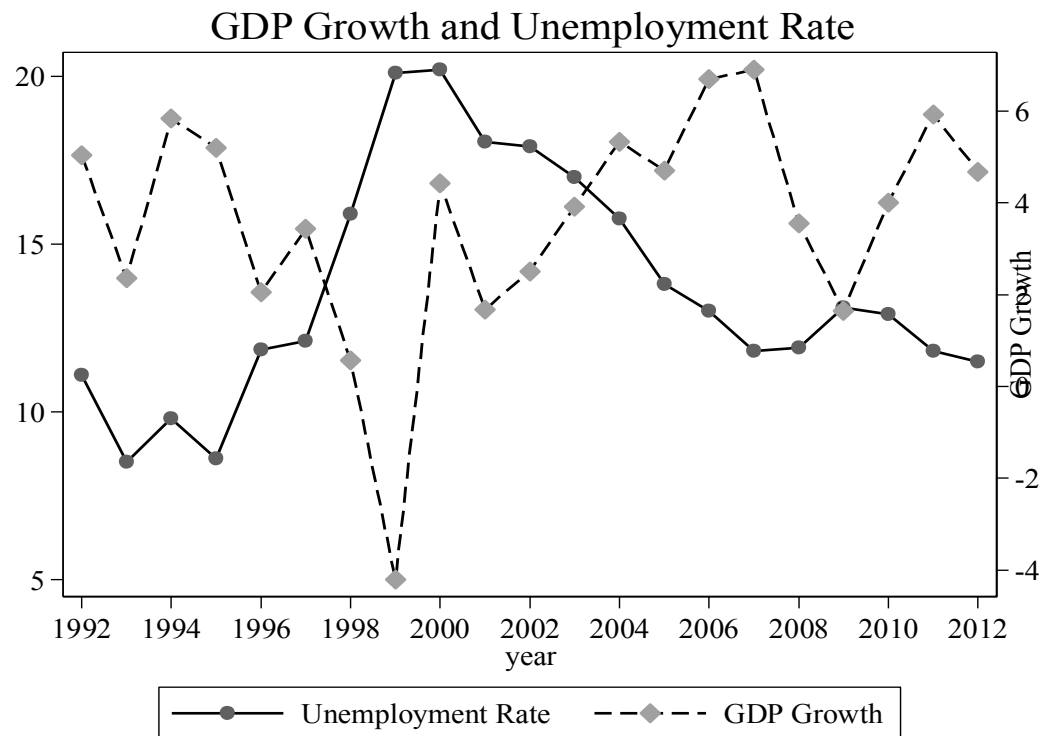
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Overview

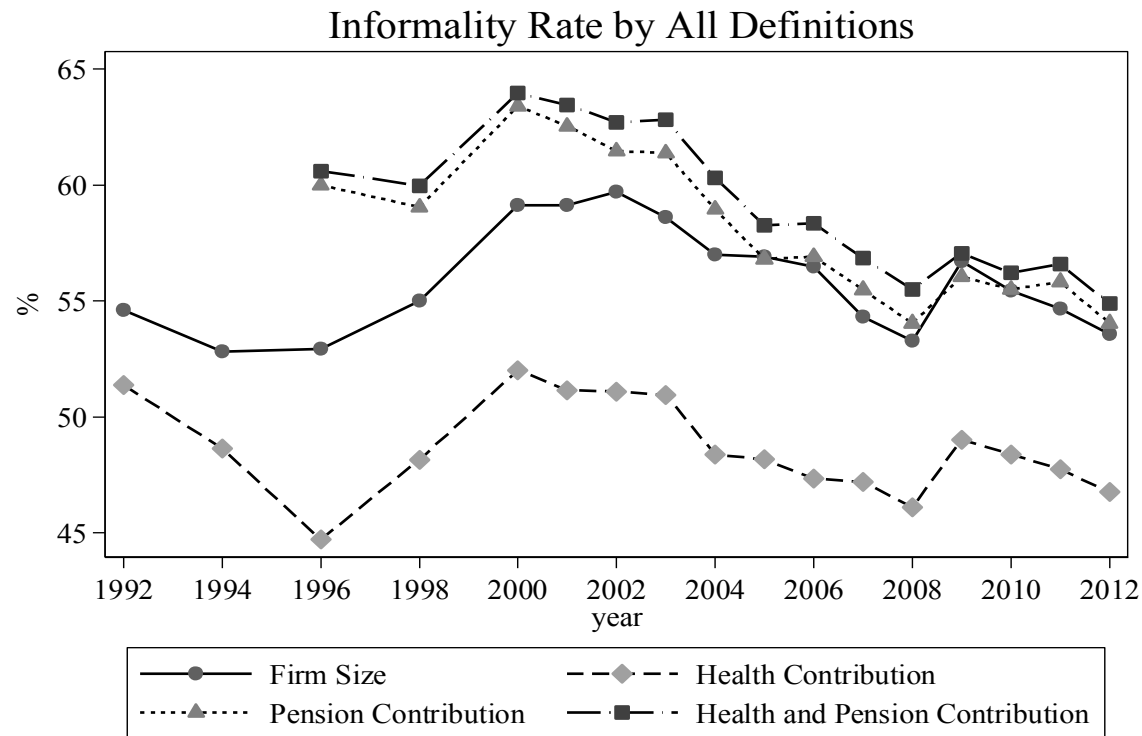
- The Colombian labor market is segmented into a formal and informal sectors
- Belonging to the informal sector is correlated with
 - Lack of social security protection (pensions)
 - Poor job quality (negative wage premium, no access to training, lower job satisfaction)
- Labor market reforms have increased non-labor costs; increasing minimum wage
 - Associated with increase in the size of the informal sector.
- Despite high and sustained GDP growth, the informal sector has not decreased substantially.

Economic cycle and labor market statistics



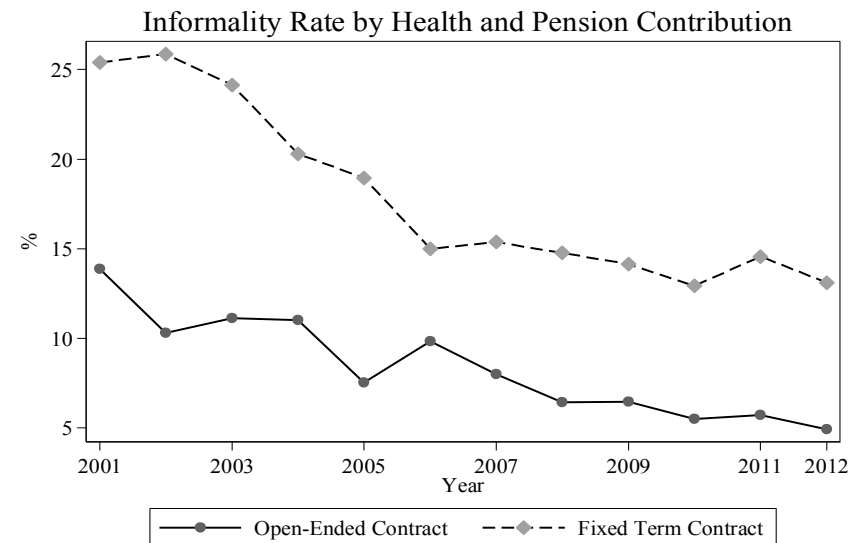
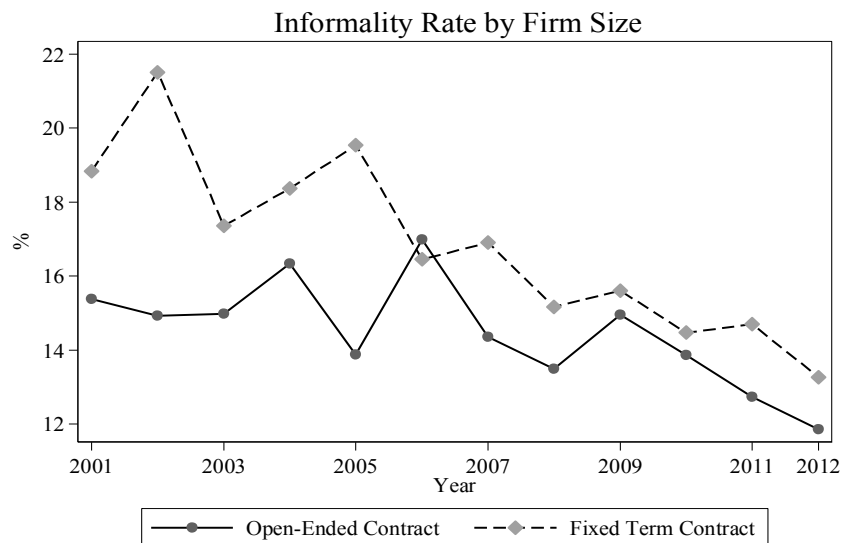
- Economic crisis in 1999-2000, but economy has not been hardly hit by current recession.
- High unemployment, around 10%; 2nd highest long run unemployment in region, 10.72% (Ball *et al*, 2012).
- Sizable gender differences.

The size of the informal sector



- Size of informal sector varies according to definition, but similar trends.
- Informality is higher among women, old/young workers, low skilled workers.

Contract Type and Informality



- We also have open-ended and fixed-term contracts (data since 2001).
 - 70% workers open-ended, 30% fixed term contract.
 - Type of contract is correlated with informality: workers with open-ended contracts have lower informality levels

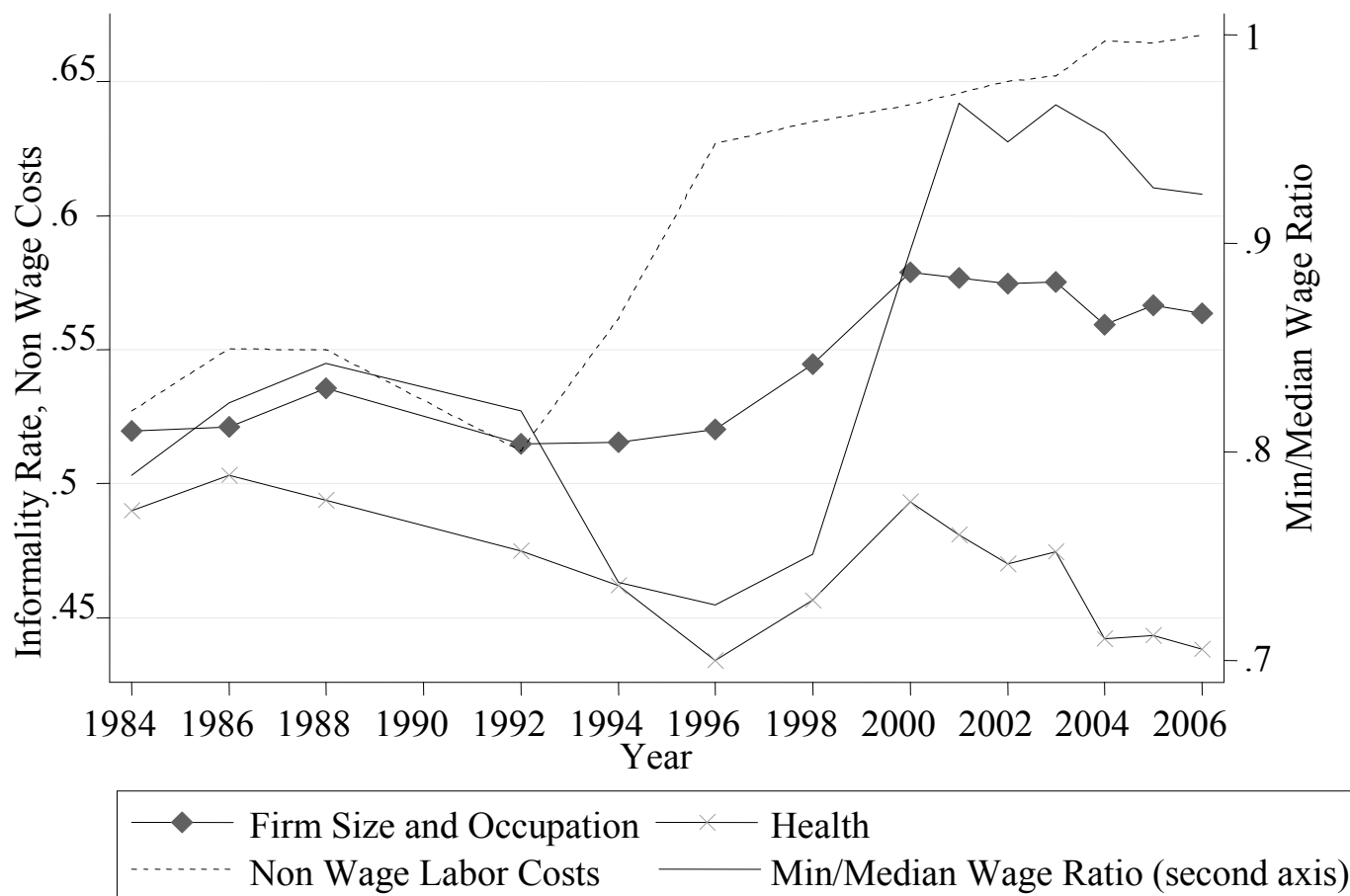
Transitions between sectors

- No panel data, use retrospective questions in multiple cross-sections.

Transitions Probabilities (Average from 1992-2006)		
From \ To	Formal	Informal
Formal	29.3%	16.17%
Informal	13.38%	41.27%
Source: Mondragón-Vélez <i>et al</i> (2010).		

- Persistence in both formal and informal sector, but higher persistence in informal sector.
- More transitions from formal to informal.

Informality and Labor Market Rigidities



Source: Mondragón-Vélez *et al* (2010).

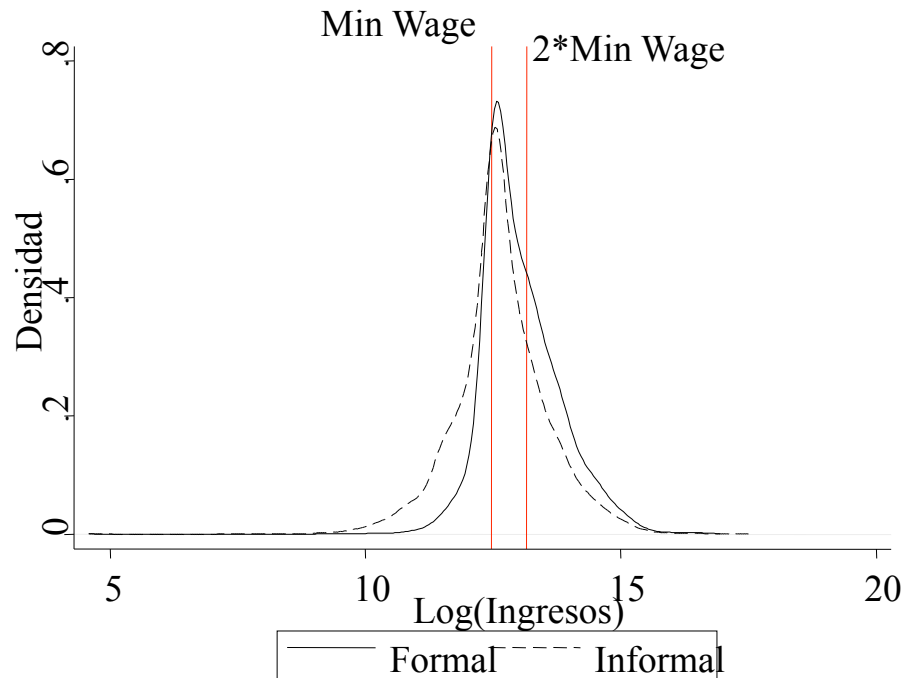
Non-wage costs (NWC)

NWC and WC	% of CMMW
Transport Subsidy (1-2 Min Wages)	20%
Health Contribution	12.5%
Pension Contribution	16%
Risk Administration	0.522%
Worker Welfare Programs - Payroll taxes	4%
Early Childhood Programs - Payroll taxes	3%
Job Training - Payroll contributions	2%
Compulsory Savings – Social benefits	8.33%
Interest Payments	1.119%
Bonus	8.33%
Vacations	4.17%
TOTAL NWC	79.97%

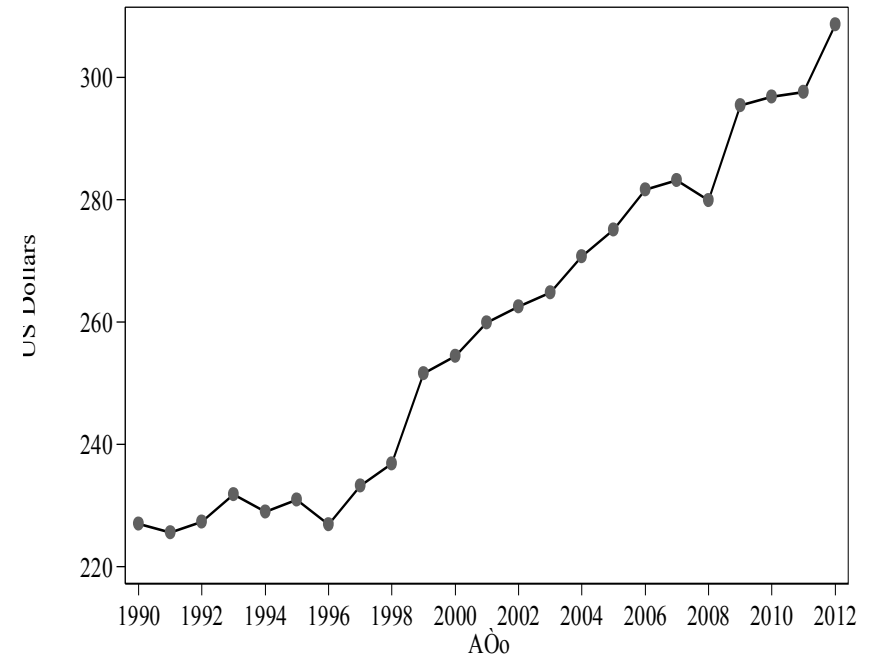
- Very high NWC; do not include firing costs.
- Have increased substantially in last decades.

Minimum Wage

Wage density by sector in 2000



Minimum Real Wage
Constant dollars of 2012



- Formal sector: 20% of workers earned less than 1 minimum wage and 44% earned between 1 and 2 minimum wages.
- Informal sector: 60% of workers earned less than 1 minimum wage and 30% earned between 1 and 2 minimum wages.

Job Satisfaction and Stability

- Informal workers are more likely to want to switch jobs.
- Informal gives flexibility: lower incompatibility between the job schedule and family responsibilities.
- Job stability: decreases with informality

Policy Recommendations

- Current levels of NWC and the minimum wage contribute to increase the size of the informal sector and to hinder mobility between sectors.
 - Tax reform changes the funding for important social programs, decreasing labor taxes and thus NWC.
 - The Formalization Law of 2010 was a first step.
- Design of health insurance (subsidized and contributive regimes) need to be changed.

References

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