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Paradoxical wage policy trends: the cases of Uruguay and Chile²

The quality and trends of the policymaking processes in Latin America have been under permanent debate. A rich literature has pointed out different factors that have influenced policymaking since the return to democracy in the 1980s. Particularly important objects of debate have been the political and ideological predominant positions, like the neoliberal (1980s-1990s) and pink (2000s-2010s) waves (Castañeda, 2006; Roberts, 2007; Levistky and Roberts, 2011; Kingstone, 2011). It has also been pointed out the influence of the economic trends that the region has faced, and the internal economic imbalances that produced crisis and adjustments (Ffrench-Davis, 2000; Diez and Franschet, 2012; Haggard and Kaufman, 2012). Other issues discussed are more politically structural, like the balance of power under presidential regimes, how the structure of policymaking is set up between Government and Parliament or under Unitarian/Federal regimes, and the structure of political participation and the composition (fragmented/majoritarian) of political coalitions in Government or Parliament (Stein et al., 2008; Aninat et al. 2008; Sehnbruch and Siavelis, 2014). Finally, the debate also highlighted the importance of different stakeholders (i.e. business elites) and their influence in Latin American policymaking (Cook, 2007; Schneider, 2008; Karcher and Schneider, 2012). The overlapping of these issues are key to understand how policies evolve. However, even

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though general economic, political and societal waves define a trend or direction, the differences in terms of magnitude and sustainability of policies among countries show there are idiosyncratic elements for explaining changes.

This has been the case for the discussion of social policies in the region. As several authors have observed, elements defined by political systems, predominant ideological ethos and historical processes –i.e. democratic transitions- influenced the policymaking arenas in Latin America for social policies (Castiglioni, 2005; Pribble, 2013). Pribble in particular highlights three important elements that shape the expansion of social policies: institutional legacies, electoral competition and party character. According to Pribble, these elements explain why the policymaking for reforming and extending education and social security policies in Latin American countries had different outcomes throughout their democratisation processes. Institutional legacies are linked to previous institutional frameworks that define the need of policy reform and the interactions with actors involved. Electoral competition expresses the importance of a parliamentary majority in order to advance with the original policy project or, in case of having a parliamentary minority, negotiate contents of policy reforms. Finally, the character of the coalition in power explains how strategic is the policy implementation and how coordinated are government agendas with their constituency.

The debate on the political elements that shape policy-making in the social policy sphere in Latin America is important because points out the relevance of several features that have been also present in broader discussions, such as the conditions of changes in Varieties of Capitalism (VoC). Part of the debate on VoC has been focused on the apparent inevitable transition from Coordinated Market Economies (CMEs) to Liberal Market Economies (LMEs)³ without any feasible reversion of this process

³ VoC literature distinguishes important relational and institutional differences among LMEs and CMEs. LMEs rely on markets and on a hierarchical firms' structure that shape economic actors relationships and coordination responses. In this context, labour markets have asymmetrical labour relations, characterised by employers' discretionary power and low levels of collective agreements. On the other hand, CMEs embody a nonmarket coordination scheme that relies on collaborative relationships. In CMEs the structure of power within firms is less vertical due to more institutionalized negotiations, allowing relatively higher levels of collective bargaining, skill formation investment, and employers' coordination.

(Crouch and Farrell, 2004; Ebbinghaus, 2005). However, as several authors have noted, critical junctures and political processes led by different actors could produce counterforces that trigger reversions in the opposite direction. As Bogliaccini (2012) observes, Uruguay under Frente Amplio's governments has been an example of an opposite trend to the convergence towards LMEs in Latin America.

Pribble's model provides a potential conceptual framework to understand the *conditions* for a potential reversion from LMEs towards CMEs via policy reforms. Institutional legacies define the elements that require a reform and the distribution of power among different actors. Electoral competition the opportunity, via Legislative majorities, to implement more or less successful reforms, considering the importance of having (or not) parliamentary majority. On the other hand, party character refers to two key issues of government coalitions: how they organize their agendas and how this agenda organization is mediated by their relationship with other actors involved in the policy-making process. On the basis of this conceptual model, we can hypothesise that the emergence of a political counterforce that aims to reverse LMEs to CMEs would require reforming institutional legacies—in this case, neoliberal- with a Legislative majority and a clear connection to their constituency agenda.

Pribble's theoretical discussion points out the importance of the political and institutional variables that affect the active use of social policies, a framework that could be extrapolated to the policy-making of wage policies as well. Wage policies—understood as the use of minimum wages and collective bargaining policies- in Latin America is an interesting area for applying these conceptual discussions. As it has been stated by different studies and publications (ILO, 2014; ECLAC, 2014), the region has experienced a clear trend: minimum wages have been increased consistently in the 2000s until mid-2010s. This active use of minimum wages was the regional norm even during the financial crisis of 2008-2009. However, this clear pattern contrasts with the relatively low use or extension of collective bargaining. This is due to two structural issues: a) even though regional formal employment has increased, informal employment is still important and represents almost half of total employment; and b) small and medium size companies concentrate the largest

amount of formal employment. Consequently, the space for extending the use and coverage of collective bargaining is still limited to medium/big size companies, a relatively small share of total employment in Latin America. Another constrain is the type of industrial relations institutions that were substantially reformed during the neoliberal wave in the 1980s and 1990s. These reforms decreased the political muscle of trade unions and increased the capacity of employers (private and public) to shape labour policies policy-making.

When evaluating these regional trends –active use of minimum wages, limited extension of collective bargaining- is important to consider the recent debate on the use of both policies. As Grimshaw and Bosh (2013) and Grimshaw et al. (2014) point out, the impact of wage policies should be considered in tandem, particularly the consequences of how connected or disconnected are minimum wages and collective bargaining. When both policies are appropriately imbricated, increases in minimum wages –that have an impact in poverty and income inequality of low-paid workers- have a spill over effect for higher income workers. Consequently, there are gains in terms of poverty and income inequality reductions for low and medium paid workers.

However, when minimum wages and collective bargaining policies are disconnected, the impact of wage policies decreases in at least one aspect: poverty reduction and/or income distribution improvements. An example of this limitation occurs when minimum wages are the policy that is actively used and collective bargaining is restricted. In this case, increases in minimum wages benefit low-paid workers but have no spill over effects along the rest of the wage scale because collective bargaining cannot transmit minimum wage increases to medium-wage workers. Consequently, increases in the minimum wage could help reducing poverty and improving income of low-paid workers but generating a higher proportion of workers gaining the minimum wage or less, with no major effects in increases in the median or average wages and with marginal improvements in income distribution. These consequences are crucial for the debates on income distribution in the labour market. Improvements in minimum wages are positive but insufficient. When not adequately connected to active collective bargaining policies, minimum wages increases are not replicated in higher wages and the ratio minimum wages/median wages (known as

the Kaitz index) tends to experience a raise. At the same time, income inequality tends to remain unchanged. When collective bargaining is low in coverage, there are no important redistributive effects in the medium part of the wage scale.

The cases of wage policies in Chile and Uruguay are clear examples of these debates. Throughout the democratisation process, Chile experienced a constant increase in minimum wages in real terms in the 1990s and 2000s. This active use of minimum wages was a motto for Concertacion⁴'s governments even during two recessive scenarios when external shocks (1999 and 2009) generated negative GDP growth rates. Conversely, Chile did not experience changes in its collective bargaining coverage all through the same period. The institutional legacy for wage policies arrived via Pinochet's Plan Laboral in 1980 that was maintained in its core during the democratisation process. Plan Laboral limited collective bargaining at company level, introducing other groups –different from trade unions- that could negotiate collective agreements. Pinochet's labour relations legacy also established a more rigid and bureaucratic system for wage negotiations. All these elements, during a dictatorial regime that persecuted trade unions, produced low levels of collective bargaining in the 1980s. However, during the democratisation process in the 1990s and 2000s, the collective bargaining coverage maintained similar levels to those observed during the dictatorship. After a brief peak at the beginning of the 1990s, collective bargaining decreased and stabilized at the 1980s levels.

The most important wage policy in Uruguay started in 1943 with Consejos de Salarios (Wage Councils), a collective bargaining instance institutionalised at economic sector level. Wage Councils expanded afterwards, including more sectors, but the political tensions at the end of the 1960s triggered the creation of a national minimum wage in 1969 as a way to limit Wage Councils and decrease trade unions' bargaining power. During the Uruguayan dictatorship (1973-1985) trade unions were banned, Wage Councils were deactivated and minimum wages followed a decreasing path in real terms. When democracy was reinstated in 1985, Wage Councils functioned again as an institutionalised bargaining mechanism that

⁴ The ruling centre-left coalition from 1990 to 2010.

empowered trade unions participation. Nevertheless, when Uruguay implemented neoliberal policies at the beginning of the 1990s, Wage Councils were completely deactivated. On the other hand, minimum wages continued their decreasing trend in the 1980s and 1990s, becoming a marginal wage policy that covered less than 3% of formal work force in 2004 (Furtado, 2006). This situation changed with the arrival of Frente Amplio⁵: wage policies were enforced and used actively. Wage Councils were reinstated with a new institutional framework that generated a mandatory call for wage negotiations every two years at all economic sectors in Uruguay. This policy approach generated a progressive expansion in the number of sectors that negotiated wages, including rural and domestic workers. Such active use of collective bargaining was replicated with minimum wages. Since December 2004, minimum wages experienced a constant increase that almost triplicated their level in real terms from 2005 to 2015 (ILO, 2015).

Wage policies recent debates from the industrial relations perspective have not included the dynamics of changes from one type of wage policy connection –as described by Grimshaw et al. (2014) - to other. In part, this is the result of a more permanent institutional framework that characterises the industrial relations in more developed economies. This is also an outcome that emerges from the VoC discussion in those countries, where changes are gradual and sketched as an irremediable transition from CMEs towards LMEs. In that sense, what happened in countries like Uruguay and Chile is interesting because these experiences show that there are political processes that can produce (or not) changes in terms of policy reforms related to the type of socioeconomic structure; and that these processes can trigger a reversion of the inevitable CMEs-to-LMEs transition (Uruguay) or reinforce the LMEs transformation (Chile). These examples also show other elements linked to the importance of how the type of democratic transition shaped the policymaking in Latin American countries, and how the relationship between governments and trade unions or business elite influence the policymaking of wage policies.

⁵ The ruling left coalition from 2005 to 2020.

In that regard, Pribble's model offers interesting possibilities for a better understanding of the different trajectories of wage policy-making in Chile and Uruguay. The influence of institutional legacies is clear in terms of the paradigm that guided wage policymaking debates: Wage Councils in Uruguay and Plan Laboral in Chile. These institutional legacies have shaped the debate on collective bargaining in both countries but with different patterns and origins. Whilst Wage Councils preceded the dictatorship in Uruguay, Plan Laboral was an artefact created by Pinochet's regime to shape labour relations under a democratic regime. As it has been discussed in the literature on democratic transitions (Linz and Stepan, 1996) Uruguay and Chile represented opposite paths in Latin American experiences: a disloyal transition where Pinochet's shadow was present in the institutional framework and policymaking -particularly with what was known as his "legado" (legacy) - in the latter; and a loyal transition that facilitated a rapid democratic reinstallation, in the former.

Therefore, what happened in both countries was shaped by a policy-making process that depended on the level of freedom that governments had to articulate their agendas and the urgency for implementing policy reforms. Thus, during the democratic transition Uruguay had periods of activation (1985-1991 and 2005-2017) or deactivation (1991-2005) of Wage Councils, and a clear trend of decreasing minimum wages until 2004 that was reverted that year. Both policies depended on the government's preferences and what was conceived as a policy need (particularly clear in 1985, 1991 and 2005⁶). In the Chilean case, the legacy for industrial relations did not experience major reforms considering the institutional infrastructure (Senadores designados), the power of business elites and the strength of the liberal ethos in part of Concertación's governments. Consequently, the institutional legacy in Chile was a perfect lock in practical and ideological terms. The active use of minimum wages was the residual outcome of the restrictions for reforming collective

⁶ Wage Councils were reactivated during the first Sanguinetti's (Partido Colorado) government (1985-1990) when democracy was reinstated. In 1991, during Lacalle's (Partido Nacional) government were deactivated as a measure to contain inflation. Wage Councils were reintroduced and reinforced during the first Vasquez's (Frente Amplio) government (2005-2010).

bargaining. It had perfect sense considering that minimum wages were a less influential policy for a better income distribution in the pay scale.

Party character is the second element in Pribble's theoretical framework that is useful for understanding wage policy-making. Pribble defines Concertacion as a centre-left "electoral-strategic" coalition, characterised by having a strategic view with a technocratic policy approach. Concertacion also dealt with all actors' agendas, trying to balance their demands. In that sense, even though Concertacion appeared as a voice for the demands of workers and trade unions persecuted during Pinochet's dictatorship, in reality it had to moderate their constituency demands in order to manage the democratic transition policy-making. Concertacion's governments were also affected by the demands of business elites and Pinochet's supporters that were ferocious defenders of what was called "his legacy": a neoliberal economic model that reflected a LME structure, with flexible-precarious labour markets and low taxes. As Fairfield (2015) points out, the economic importance (structural power) of well organised business elites and their close ties with the political system⁷ (instrumental power) impeded changes in the Chilean low-taxes system. This outcome was similar for the other business elites' policy aim: no important reforms on the collective bargaining structure.

On the other hand, Pribble defines Frente Amplio as a left-wing "constituency-coordinated" coalition, characterised by the importance of their constituency agenda in formulating and implementing social policies. The importance of this relationship in the case of wage policies in Uruguay was crucial, considering the historic links between Frente Amplio and the national trade union confederation, PIT-CNT. The political growth of Frente Amplio and PIT-CNT during the democratic transition are consubstantial and key to define the programmatic characteristic of Frente Amplio. In that sense, what was observed is a learning process that framed the structure of labour reforms that Frente Amplio implemented in its first term, particularly with the reimplementation of Wage Councils in 2005 and the creation

⁷ Particularly with right-wing parties but also operating with Concertacion.

of an institutional framework for supporting Wage Councils activities. These reforms were historic demands from PIT-CNT that shaped the contents and aims of Frente Amplio's governments. This link went beyond expectations considering that trade unions representatives were important part in Frente Amplio as members of Parliament and Government, especially in the Ministry of Labour. Therefore, Frente Amplio's commitment to PIT-CNT was not just programmatic: it was expressed in parliamentary and governmental participation.

The third element of Pribble's model that helps to understand the different paths of wage policies in Chile and Uruguay is the existence of a Parliamentary majority, or "electoral competition" in Pribble's terms. In the case of Chile, even though Concertacion won electoral majorities in the 1990s until mid-2000s, these victories did not imply a clear advantage in Parliament for facilitating policy reforms. The electoral system (known as "the binominal") benefited right-wing parties, allowing them to be overrepresented in both the Congress and the Senate. Despite it, Concertacion parties reached nominal majorities in the Congress. The problem was the Senate, due to the existence of Senadores Designados, a perverse political legacy that permitted 'Pinochetistas' to have a clear majority until this artefact was dismantled with the 2005 Constitutional reforms. The history of parliamentary defeats in the 1990s over the idea of legislating a collective bargaining reform show the difficulties that Concertacion had in order to open the debate on this matter. The sense of an adverse parliamentary environment also conditioned any deeper Concertacion's reform initiative in the 2000s.

As Pribble remarks, having a parliamentary majority in both chambers allowed Frente Amplio to implement its social policy reforms without negotiating the core of those reforms contents. This was also the case with labour policies in general and collective bargaining in particular. The programmatic relationship with PIT-CNT established a clear agenda of policy reforms that was accomplished particularly during the first Frente Amplio term (2005-2010). Having a parliamentary majority facilitated both the speed and success of collective bargaining policy implementation. It included the 2006 law and the extension of collective bargaining for other workers,

such as domestic workers⁸. In fact, the fast and successful implementation produced not just a redistribution of the policy influence from business elites to trade unions. It also implied an overturn from LMEs towards CMEs policies (Bogliaccini, 2012).

The discussion on wage policies in Chile and Uruguay offers a valuable framework for future research. It shows the possibilities that using the recent industrial relations perspective brings for the debate of public policies, particularly to enhance the wage policies policy-making discussions. It also offers an interesting object of study for Latin American wage policy-making. As it has been discussed throughout this article, the cases of wage policies implementation in Chile and Uruguay have similar explanatory narratives that other models -like Pribble's model to explain social policies expansion- use for understanding policymaking processes in other spheres. Even though the analysis has limitations in terms of number of countries, it highlights the importance of key elements for understanding the trajectories of policymaking in the region: institutional legacies, electoral competition and party character.

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⁸ With the Domestic workers' law in 2006.

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