

Making Reforms Happen in Latin America

Session I – Reforming Labor Markets

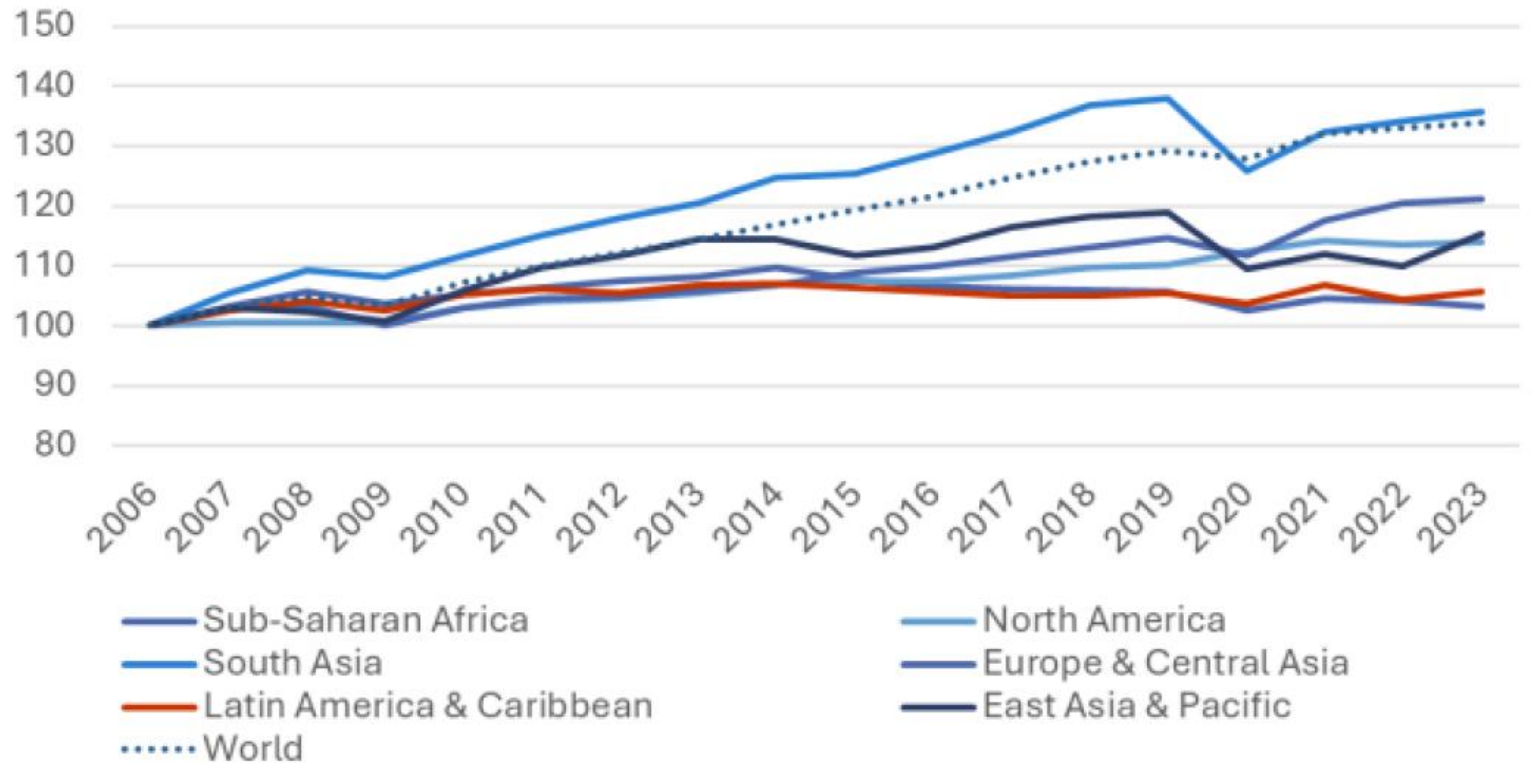
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Interamerican Development Bank**

Over the past 20+ years there **has been modest progress** in many key labor market indicators in LAC and the challenges remain the same

Evolution of output per worker

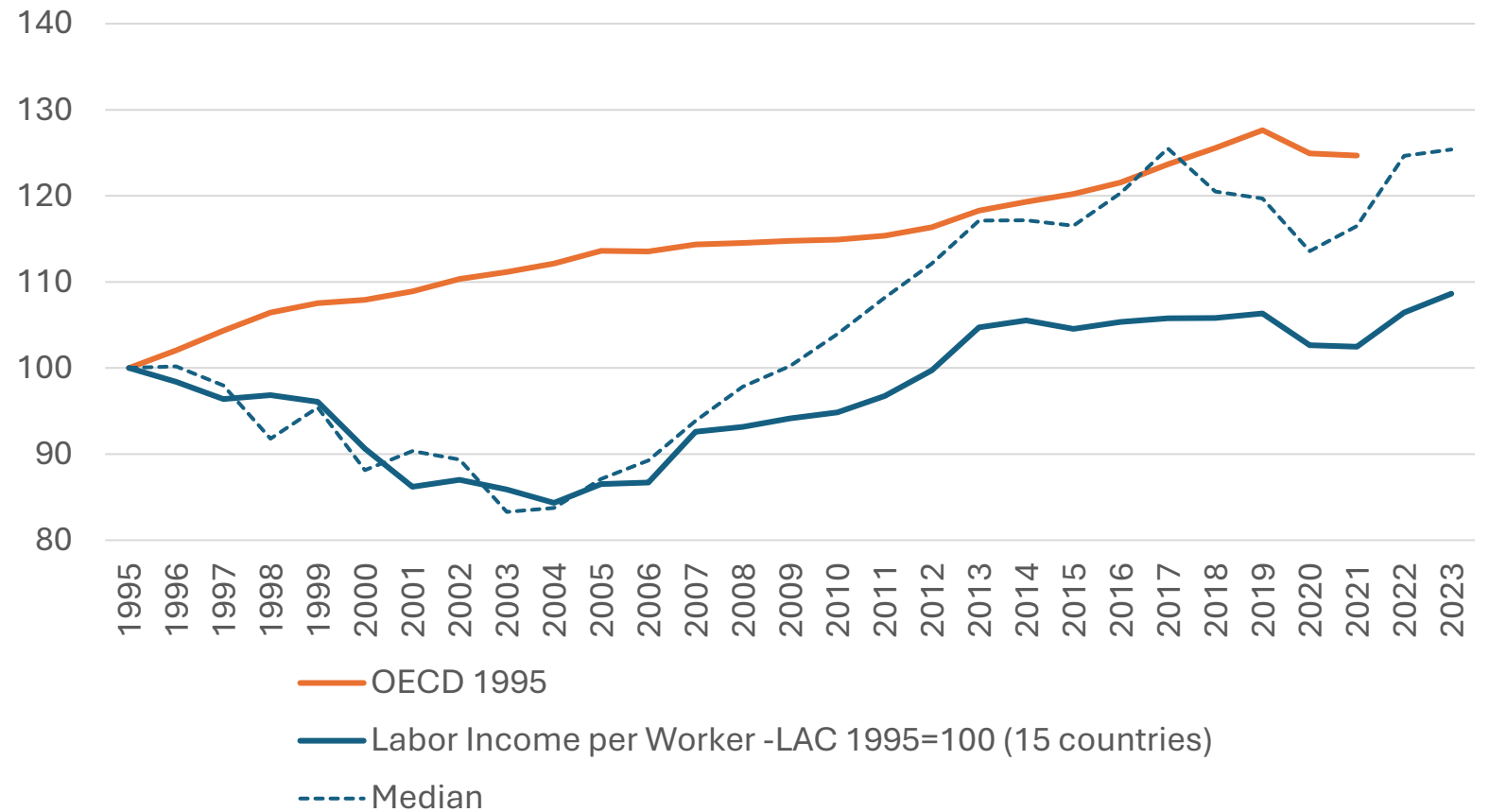
In the last 24 years
productivity has
barely moved,
with an average
growth of 0.4%



Source: ILO cited in Gonzalez et al (n.d)

Evolution of labor income per worker in 15 LAC , 1995-2023

After 30 years, labor income per worker has increased only modestly, failing to converge with OECD levels.

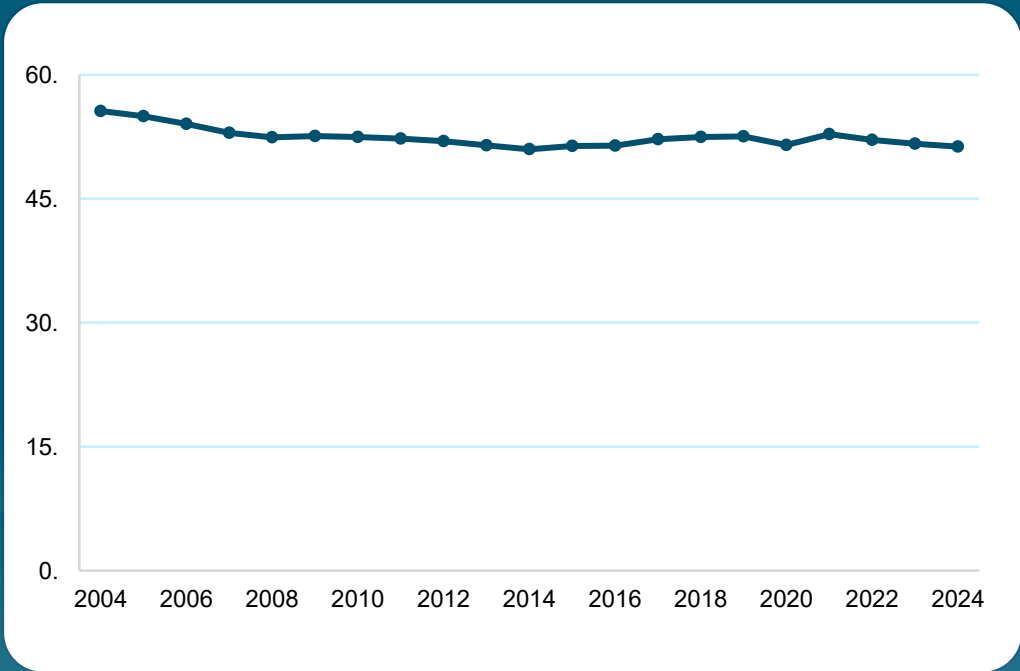


Source: Gonzalez et al (n.d)

After 20 years still around half of workers in LAC are informal, showing only a **modest reduction of 5pps**

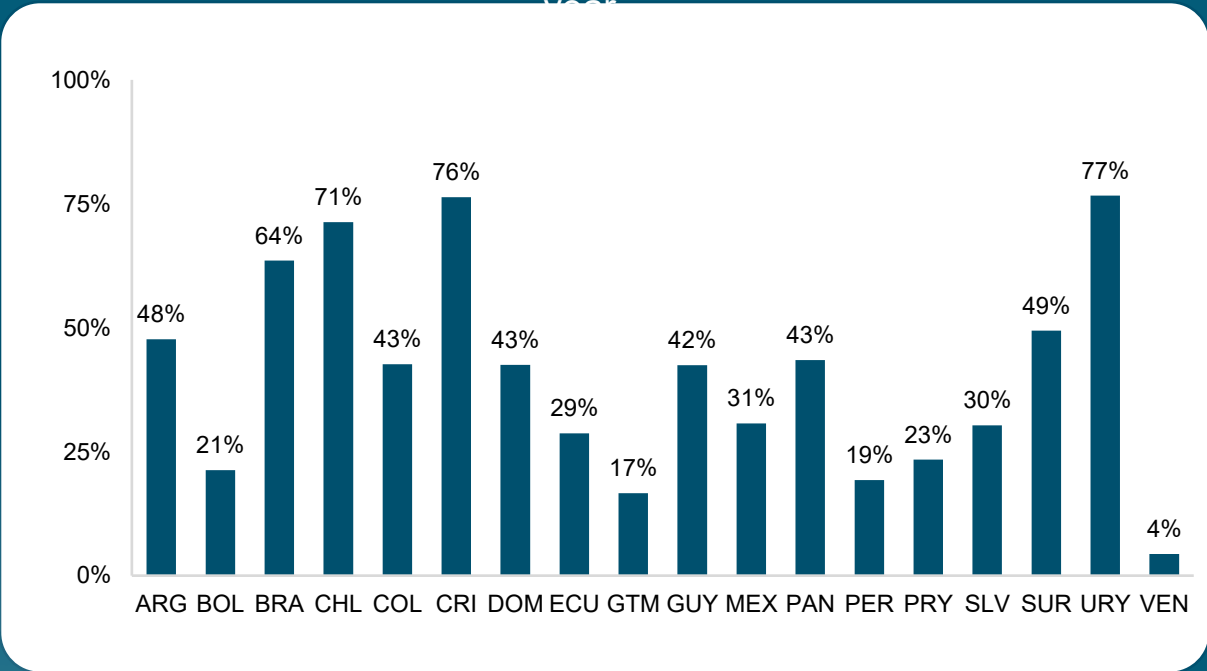
Informal rate in LAC

Proportion of informal employment in total employment (%)



Source: ILO (2024)

Formality rate. Percentage of employed workers contributing to social security with regards to employed population (%) – latest



Source: Labor Markets and Social Security Information System (SIMS) (2024)

High quality jobs in Latin America and the Caribbean are limited by:

- Low quality and misaligned worker skills
- Labor market frictions and information asymmetries
- Inadequately designed social protection schemes and labor regulations
- Monopsony power



Since the challenges remain largely the same, some reform proposals are familiar.

Yet, emerging evidence highlights new directions for reform.

1. Improving and expanding **Active Labor Market Policies**

Program Design

Intensive, individualized, and includes targeted hiring subsidies

Skills Recognition

Certifications reduce information asymmetries and signal competency

Results-Based Financing

Aligns provider incentives with employment outcomes

Integration

Combines ALMPs with passive policies (e.g. unemployment benefits)

Strengthen Public Employment Services (PES)

Centralizes delivery and coordination for sustainable programs

Firm Recruitment Support

Helps firms find qualified candidates and stimulates labor demand

Alignment with Labor Demand

Targets sectors and regions with growing demand to maximize impact

2. Delink social protection from the labor market

1



Healthcare financed with general taxes with universal access regardless of labor status.

2



Universal noncontributory pension that allows for lower contribution rates for low-wage workers.

3



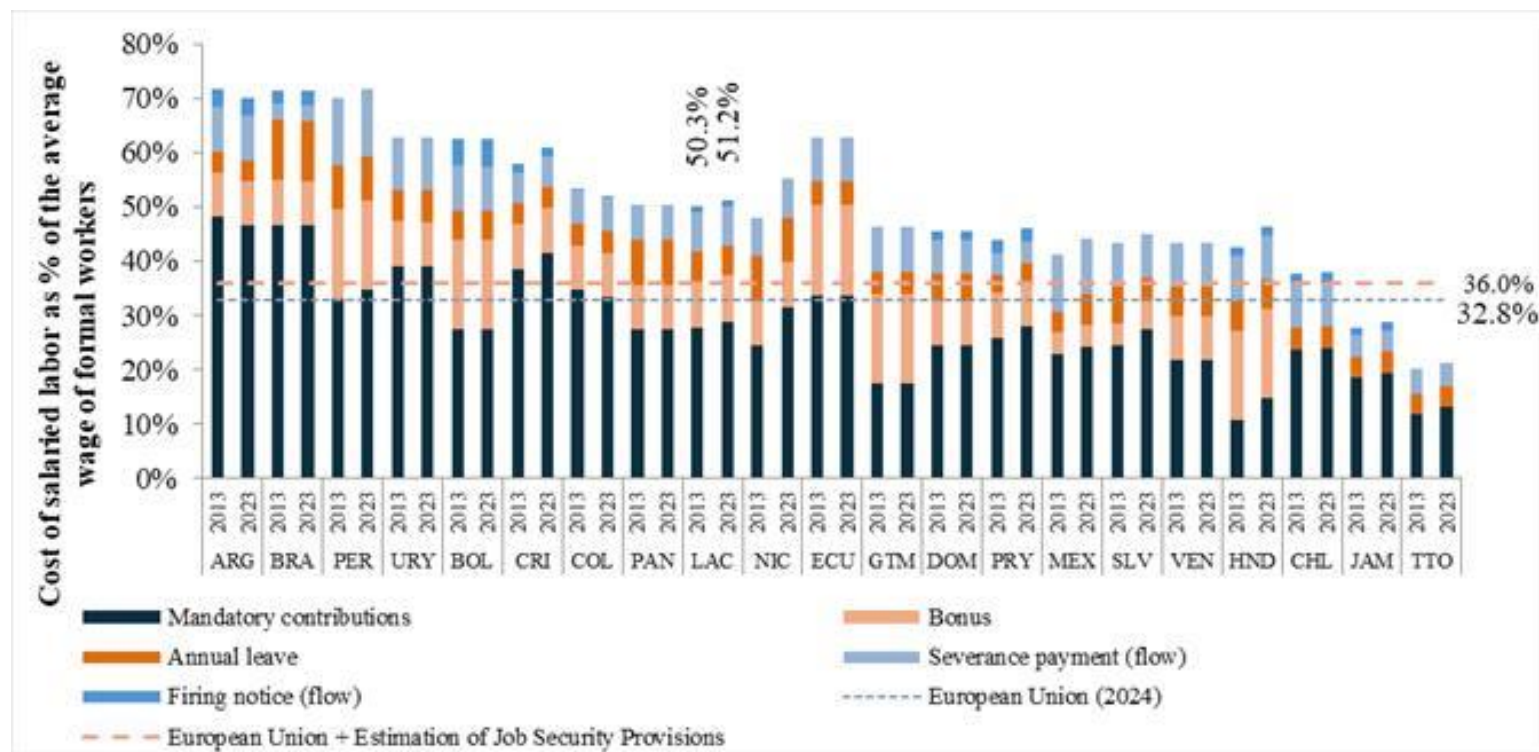
Transfer financing of family allowances and poverty-alleviation programs from payroll taxes to general taxes.

3. Reducing non-wage labor costs of firms

➔ Non-wage costs of formal salaried labor have increased from 50.3% of the wage in 2013 to 51.2% in 2023

➔ The region does not appear to be advancing on this agenda

➔ **We propose to lower costs that are essentially taxes on formal work**



Source: Alaimo, Altamirano and Minaya (2025) and Eurostat (EU- Estimates).

4. Strengthening the bargaining power of workers



Monopsony power justifies

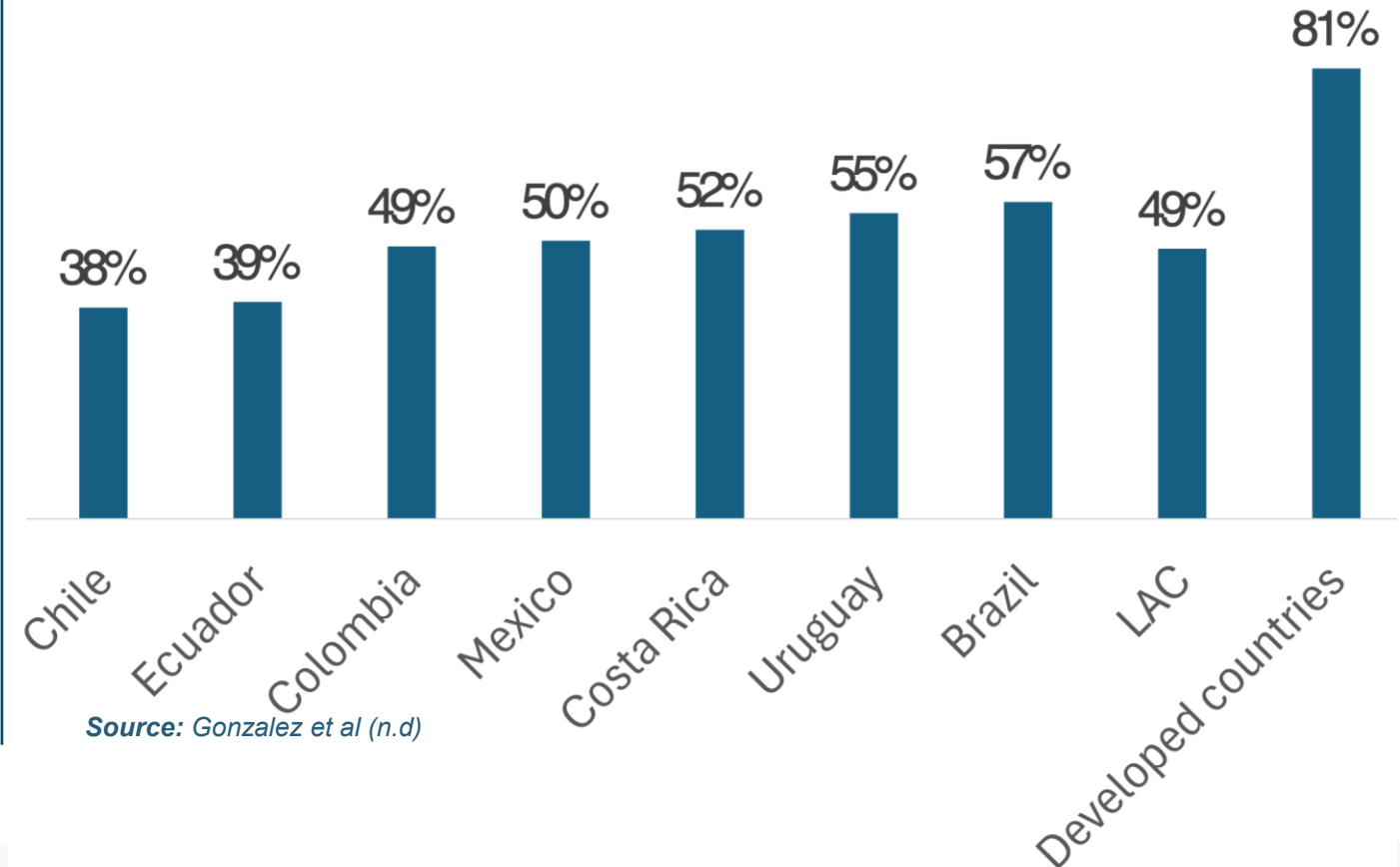
- Prudent use of minimum wage
- Collective bargaining
- Regulation of outsourcing



We support measures that improve wages and working conditions by mitigating monopsony power

- Increasing the share of surplus that received by workers
- But we also understand these policies have limits

Worker's wages as a percentage of their labor productivity



To be optimistic about the future, let's understand the errors of the past

- **Limited progress in labor** market outcomes despite decades of rhetoric on the importance of productivity and labor formality
- **Persistent policy and regulatory failures** continue to hinder the creation of high-quality jobs
- A **comprehensive approach** is needed that will likely involve
 1. **Improving and expanding Active Labor Market Policies** that mitigate information frictions and close skills gaps, promoting greater efficiency
 2. **Delinking social protection from the labor market**, expand coverage and reduce distortions
 3. **Reducing non-wage labor costs of firms**, especially those that do not finance tangible benefits valued by workers, which are the most distortionary
 4. **Strengthening the bargaining power of workers**, mitigating monopsony power, to improve workers' share of surplus

Thank you!

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