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INTRODUCTION TO SYMPOSIUM: THE LABOR MARKET IN LATIN AMERICA

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The papers included in this special issue of the Journal Económica are the result of a long period of gestation. I am glad to see that the final outcome contains substantial value added. The project is one of the activities undertaken by the Argentine Chapter of the Network of Inequality and Poverty of the Latin American and Caribbean Economic Association that I coordinate since 2002.

The Latin American and Caribbean Economic Association (LACEA) was founded in July 1992 in order to encourage greater professional interaction and foster increased dialogue among researchers and practitioners who focus their work on the economies of Latin America and the Caribbean. Since then, LACEA has expanded its activities in several directions. In 1998, under the leadership of Professor Nora Lustig, it created the Network on Inequality and Poverty (NIP).

The goal of the NIP is to advance the state of knowledge and expertise regarding the causes and consequences of poverty, inequality, and social exclusion, and the whole range of policies, institutions, and social structures that influence their dynamics, as well as the impact of public action. It endeavors to promote the creation and dissemination of high quality research applied to Latin America and the Caribbean. The Network is organized into fifteen national chapters, which operate with certain autonomy, and an Executive Committee that coordinates the Network and organizes common activities.

The NIP is interested in promoting research in the working of the labor market in Latin America. The editors of this Journal agree with this interest and in 2003 we jointly issued a call for prospective papers on the labor market in Latin America. The call was widely circulated and, as a result, we received 25 proposals outlining a research question and the methodology and datasets to be used in answering it. By the end of 2003 we selected 8 proposals and invited the authors to present their completed papers at the Fifth Annual

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Meting of the Argentine Chapter of the NIP to be held in November 2004 at Universidad de San Andres, Argentina. A few months before the conference, all the papers were subjected to a referee process following the standards of publication of the journal. Finally, only five of these papers were presented at the conference. One of these papers was not available to be included in the journal's special issue. Instead, a paper presented at the conference, but that did not originally formed part of publication project, was invited to participate and after its peer review process was also included in the present volume.

Fortunately, the five papers of this special issue do not require extraneous elucidation. The first paper, by Hugo Ñopo, addresses an important topic in labor economics: the gender gap. Even though women have made significant improvements in education and participation in the labor market in Latin America and the Caribbean during the last decades, there still are large gender differences in most outcomes. Overall, the participation of women in the labor market continues to be much lower than that of men and the gender wage gap remains quite large. Ñopo carefully studies the evolution of the distribution of the gender wage gap (i.e., the average difference of male and female wages) in Peru for the period 1986-2000. In order to do so, he develops a methodology for decomposing the wage gap based on matching techniques. His approach is as follows: First, divide the support of the distribution of observable variables by gender into the set of values that is in a common support of both distributions and the set of values that is only into the support of one of the two distributions. Thus, the distribution of observable variables is divided into three sets: the common support, the set of values only observed for males and the set of values only observed for females. Second, decompose the wage gap into the part that is explained by the fact that males and females have different density functions for the observable variables on the common support, the part that is explained by the fact that there are some combinations of female characteristics for which there are no comparable males and vice versa. Finally, there is a rest, which is attributed to differential pay and the existence of gender differences in unobservable characteristics rewarded by the market. Undoubtedly, this method adds flexibility in comparison to more traditional ones.

Using this method, Ñopo finds that approximately one out of four workers in Peru exhibit individual characteristics that are not comparable to workers of the opposite sex. Males who report observable characteristics that are unmatchable by females exhibit higher wages than the average worker, while females who report unmatchable observable characteristics exhibit lower wages than the average worker. The wage gap that subsists after matching males and females with the same observable individual characteristics (age, education, marital status, and migratory condition) is still large. Among comparable males and females the wage gap is approximately 28% of the female wages. Finally, applying this method over time, Ñopo finds a monotonic reduction of gender differences in monthly labor income.

The second paper by Horenstein and Olivieri study a novel issue in economics: income polarization. A population can be seen as a set of distinct groups that differ in the characteristics of their members. Thus, a group is “similar” to another one when their component members have similar features and “different” when their members have dissimilar characteristics. A society is polarized when, for a given joint distribution of characteristics, the population is clustered around a small number of distant points.

The paper by Horenstein and Olivieri is divided into two parts: theoretical and empirical. The first part provides a survey of the evolution of the concept of polarization. The second part presents the evolution of polarization in Argentina during the unstable period 1998-2002. Although the period studied appears as potentially too short to find changes in polarization, the authors find a significant increase in it. This occurred mainly through two channels: an increase in homogeneity within the group of low-income individuals and an increase in heterogeneity between this group and the rest.

The third and fourth papers are about the impacts of minimum wages. Recent academic empirical work has sparked a heated debate with two clear sides: those who find evidence of adverse employment effects -- in line with the standard theoretical prediction -- and those who fail to find such evidence. If firms do not respond to minimum wage increases by reducing production and employment, they might respond by raising prices. The paper by Lemos uses data from Brazil to explore whether firms “pass-through” the burden of the minimum wages to consumers by increasing prices. She adopts a modeling strategy very similar to the one widely used in International Finance to investigate “pass-through” questions. Specifically, she exploits within region variability in the fraction of workers earning the minimum wage to identify the effect of weighted nominal minimum wages on the prices paid by poor and rich consumer at the regional level. The results indicate that the minimum wage raises overall prices in Brazil. This is in line with evidence in the literature that suggests that employment effects are clustered around zero.

Nonetheless, although minimum wage increases affect all consumers, different consumers need not be affected in the same way. This paper shows that the poor are exposed to three times more inflation than the rich in the month that the minimum wage is increased, to twice the inflation after six months, but to roughly the same inflation after twelve months. A 10% increase in the minimum wage raises prices paid by the poor (rich) by 0.12% (0.04%) in the month of the increase, by 0.27% (0.16%) after six months, and by 0.17% (0.15%) after twelve months. Interestingly enough, this is in line with theory and with previous empirical results in the international literature, which reports overall price effects ranging from 0.20% to 0.40%.

The paper by Jaramillo addresses one of the most traditional questions about the impact of minimum wages: that on employment and wages. He follows two routes to answer this question using data for Peru. First, he estimates kernel density functions for monthly earnings distributions, focusing on key points in the recent evolution of minimum wages, starting in 1996. This provides some intuition on the role of the legal wage floor in the earnings distributions. Second, he uses quarterly individual level panel data to estimate effects of a minimum wage change on wages and the probability of remaining employed. Although this methodology is standard in the literature, it is prone to produce biased estimates because those individuals at the bottom of the distribution do not have a zero mean error term –as assumed- but one with a positive mean. They can only stay there or increase their earnings even if the minimum wage stays the same. Jaramillo confirms this in his dataset and attempts to correct for this problem in his preferred estimates.

The main results of this paper indicate that though the minimum wage plays a role in shaping the distribution of earnings, this role is stronger for formal workers. The analysis of the short run effects of the last minimum wage increase using quarterly panel data indicates that labor monthly earnings are affected only at the bottom of the distribution (0.25-0.60 of the minimum wage), made up mostly of informal workers. Meanwhile, for formal workers, earnings are affected only between the old and the new minima. Negative effects on the probability of retaining employed status are weak or non significant for informal wage earners below the minimum wage, but significant for formal workers 'trapped' between minima.

The last paper by Meza investigates the reasons behind the increase in wage inequality in Mexico during the 90s. Wage inequality has increased in most Latin American countries during the 90s, but it has also increased in many developed countries, with by far the biggest rise in wage dispersion taking place in the UK and the US. There is widespread agreement on the fact that in developed countries there has been a shift in demand away from unskilled labor in favor of skilled workers during the last two decades. Two competing explanations have been proposed to explain this shift in the relative demand for skilled labor: the impact of trade with low wage (developing) countries, and skill-biased technological change. A large amount of research has sought to evaluate both explanations, with the result that the latter is often thought to be more important in explaining the relative shift in labor demand.

After a fascinating descriptive analysis of wage inequality at the aggregate and regional level in Mexico, Meza attempts to find the demographic, industrial, and macroeconomic local factors that influenced local wage changes in Mexico between 1988 and 1999. The data used come from 16 different Mexican cities with different population and industrial structures, and with different economic cycles. Certainly, this is a very difficult question since many causes might be operating at the same time. Controlling by city and period fixed effects she finds that changes in the industrial composition of the labor force and unemployment are the variables that correlate with the changes in different measures of inequality.

Overall, this collection of articles reflects a vibrant research agenda that concentrates attention on the evolution of labor market outcomes in Latin America and the Caribbean. Many interesting findings were reported, illustrating how important and fruitful the research in this area can be. The hope is then that the articles in this volume inspire many more careful investigations on such a relevant subject.