

PART III



The Human Factor and Competitiveness



Summary

Workers bring their talents, skills, motivational levels, perceptions and fears to the workplace. Yet, most of the literature focuses narrowly on labor costs as the only aspect of labor that affects competitiveness. In fact, labor costs alone are not an important factor in determining cost-competitiveness—that is, the ability to produce at a cost below that of competitors. Nor do they contribute to competitiveness when it is used to mean productivity and economic growth. Rather, competitiveness reflects labor productivity, which in turn depends greatly on the range of human factors that affect how people work.

Why, then, is there such an emphasis on competitiveness based on labor costs? This view is based on the notion that Latin America, as a region, has a comparative advantage in producing goods and services with unskilled labor. Thus, to preserve cheap labor as the region's main source of wealth, wages and non-wage labor costs must be kept down.

This view has several conceptual errors. First, Latin America does *not* have a comparative advantage in unskilled labor. Indeed, a worldwide comparison finds that Latin America has an abundance of workers with primary education, and cannot compare with regions filled with truly unskilled labor—workers with no schooling at all. Nor, however, is Latin America at the level of countries that have made significant progress in schooling, such as the East Asian Tigers, where there is an abundance of workers with secondary or higher education. Therefore, the region lies somewhere in between, with a comparative advantage in workers who may be low skilled, but whose skill levels are nevertheless above those of workers in the poorest regions of the world.

The second conceptual mistake is that cost-competitiveness implies sustaining low wages. The ability

to sell to other countries in the world depends on productivity-adjusted labor costs, rather than on the labor costs themselves. This implies that as long as labor costs move together with productivity levels, there is not a real trade-off between achieving a high level of cost-competitiveness and increasing workers' welfare.

This does not suggest that productivity-adjusted labor costs are unimportant in determining the price of goods and services produced in the region. Escalations in labor costs above productivity due to statutory changes in minimum wages or the introduction of mandatory benefits, to cite just two examples, will result in higher unemployment rates and lower exports. In this area, there are some reasons for concern. In some Latin American countries, mandatory minimum wages are higher than productivity levels, and mandatory social security and job security benefits are not valued by workers at their cost, and therefore may be a source of unemployment and of low cost-competitiveness.

The real stumbling block in Latin America's quest for competitiveness, however, is the low productivity of its labor force. In a study of 47 countries including most developed countries, six Latin American countries and a sampling of countries in Asia and Africa, Argentina was ranked 29th in productivity per worker, Mexico 34th, Chile 36th, Brazil 38th, Colombia 40th, and Venezuela 42nd.¹ The reasons behind these low productivity levels include slow progress in education, the failure of training systems, poor labor relations, and the absence of compensation mechanisms for workers who stand to lose their jobs or job standing due to innovations.

¹ See International Institute for Management Development (2000).

There are various ways that public policy can foster productivity growth. Foremost is to bring education to the top of the agenda. This can be achieved through a mix of policies that reward poor families that keep their children in school and that improve the quality of education by distributing funds according to school performance. Better education will also foster more on-the-job training, but this will not be enough to raise the standards of a poorly educated workforce. Educating these workers requires making schooling available out-

side work schedules and giving subsidies to people who complete certain educational levels. The quality of training can also be improved through certification programs for providers and by giving subsidies to firms that train their workers. Finally, public policy can improve labor relations by facilitating dialogue between labor and management, promoting training for managers and employees, and advancing compensation mechanisms for workers who need them.