

OPEN ACCESS

ISSN 2280-4056

*E-Journal of  
International and Comparative*

# LABOUR STUDIES

Volume 12 No. 02/2023



**ADAPT**  
www.adapt.it  
**UNIVERSITY PRESS**

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**@ 2024 ADAPT University Press**

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Online Publication of the ADAPT Series  
Registration No. 1609, 11 November 2001, Court of Modena  
*www.adaptbulletin.eu*

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# The Working Poor in Latin America: Causes, Factors, Dynamics and the Provision of Income Guarantees

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**Abstract:** This paper explores the complex and dynamic causes that give rise to the working poor phenomenon in Latin America. The purpose is to analyse the underlying factors that contribute to the proliferation of this problem at a regional level and propose efficient policy measures to guarantee income and revert this phenomenon.

**Keywords:** *Latin America; Poverty; Working poor; Productivity gaps; Informality.*

## 1. Introduction: Purpose of this Paper

Over the last decades, there has been a global trend in the increase of poverty and different ways of inequality, which has been aggravated by the pandemic.<sup>1</sup> By the end of 2022, more than 700 million workers lived in moderate poverty and 214 million were extremely poor, i.e., having income of less than 1.90 United States dollars a day per individual in parity conditions of purchasing power.<sup>2</sup>

Most notably, in Latin America, 32.1% of the total region's population lives in poverty, and 13.1% is in extreme poverty, which equals 201 and 86 million people, respectively. These figures are even aggravated if people under 18 years old are taken into consideration: 45.4% are poor and 18.5% are extremely poor. Unfortunately, these data and figures are translated into a deeply disturbing reality: 21% of the Latin American

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<sup>1</sup> Vertical inequalities – among the rich and the poor – and horizontal inequalities among different groups of society.

<sup>2</sup> ILO, *World Employment and Social Outlook, Trends 2023*.

population (approximately 117.3 million people) and more than 50% of the Caribbean population (13.9 million people) cannot afford a healthy diet (Food and Agriculture Organization of the United Nations [FAO]).

From a dynamic perspective, work has been considered the main driver to escape from poverty and social exclusion.<sup>3</sup> In fact, poverty has been traditionally associated with the lack of income due to unemployment. However, the general idea that relates poverty to a situation of unemployment and inactivity has been under discussion. Particularly, given that working is the main source of subsistence/income, if not the only source for most of the global population. In fact, labour income accounts for an average of 80% of total income in the households of our region- it may be asserted that these inequalities arise from unequal access to work and the in-work poverty, i.e., poverty of people who have jobs.

For a significant part of the Latin American population, working for remuneration is no guarantee of a way out of poverty or extreme poverty, due to the conditions under which it is performed.<sup>4</sup>

This way, poverty is in great part a problem for working people in the region: a third part of the people who live in extreme or moderate poverty have jobs. The proliferation of different kinds of precarious jobs, the lack of full and productive employment, inadequate macroeconomic and tax policies, the lack of sustainable industrial policies and a structural ineffective transformation of economies, are multi-factor causes of poverty and inequality faced by the region.

Specifically, this paper intends to explore the complex and dynamic causes that give rise to the working poor phenomenon in Latin America<sup>5</sup>. Our purpose is to analyse and understand the underlying factors that contribute to the proliferation of this problem at a regional level and propose efficient policy measures to guarantee income to revert this phenomenon.

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<sup>3</sup> In addition to being the main driver for poverty eradication and for the creation, exacerbation or mitigation of inequality, work is a fundamental mechanism for building autonomy and identity, upholding dignity and expanding the scope of citizen action; it is also the main avenue for social and economic integration (ECLAC, 2010, 2012a and 2014)

<sup>4</sup> ABRAMO, CECCHINI MORALES, *Social programs, poverty eradication and labor inclusion Lessons from Latin America and the Caribbean* ECLAC.

<sup>5</sup> For this purpose, we will consider it to analyse the data obtained in the ILO Labour Estimates for the region and ECLAC. Ten countries of the region: Argentina, Bolivia, Brazil, Colombia, Costa Rica, Ecuador, Paraguay, Peru, Dominican Republic and Uruguay.



## 2. Concepts and Methodology

Even though studies about inequality and poverty have always considered occupational dynamics, the concept of working poor is relatively new. In agreement with Philippe Auvergnon<sup>6</sup>, we should point out that the term “working poor” is not a legal concept itself but refers to a social phenomenon characterized by people who despite working and receiving a salary, their lifestyle is below the poverty line.

It is certainly a hybrid concept that combines the analysis of the labour market with the study of poverty. This way, we are facing a phenomenon that may be analysed from several perspectives, given the combination of factors and elements ranging from the *labour environment*—low salaries, job quality, segmentation—, the *economy*, the distribution of wealth and the impact on the development-*social security*, the efficiency of social protection and tax redistribution instruments and, above all, *sociology*, poverty and social exclusion. The relevance of the study of this “new type of poverty” does not only consist of the quantitative increase in Occidental countries, but also, and in particular, the sociological expansion to segments that have historically been part of the middle-class sector, but that, either due to new sociological realities or because of the new dynamics of labour markets, fall into poverty or are at risk of falling into poverty and social exclusion.<sup>7</sup>

Who are considered the working poor for this paper? The poverty phenomenon is generally addressed from a two-fold analytical approach: an absolute and a relative one. From an absolute approach, poverty is defined as the impossibility of satisfying a series of basic needs related to material subsistence (i.e., lack of sufficient resources to live). From a relative approach, poor people are those who do not achieve an acceptable standard of living for the society where they live. This phenomenon may also be analysed from two points of view: a collective aspect and a family aspect, related to household income and individual income, which emphasizes the individual needs of the worker, in comparison to their income. From the collective/family perspective, a household is considered poor when total income is insufficient to cover a basket of goods and services to satisfy the basic food and non-food needs

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<sup>6</sup> AUVERGNON, P. “The working poor phenomenon: revealing functions and tendencies of social law” Rev. Latinoamericana de derecho social. [online].14, pp.43-78. ISSN 2448-7899

<sup>7</sup> CALVO GALLEGOS, F. *Trabajadores Pobres y Pobreza de los ocupados. Una primera aproximación*, TEMAS LABORALES Núm 134/2016. Pages 63-106.

of a household. They are active workers who live in poor households. From this perspective, it is considered that a worker who belongs to a poor household is poor, even though their work income is sufficient to satisfy their basic needs. From the individual analysis, poor workers are those active workers whose income is lower than a certain line. A worker may even be considered poor if their work income is below the individual poverty line, regardless of whether they belong to a poor household. In our case, we will use the methodology used by the Economic Commission for Latin America and the Caribbean (ECLAC) and the ILO. This way, we will take into consideration both the household characteristics of the working poor as their individual characteristics, the specific impact of poverty on different groups of workers, characterized by their personal attributes, and according to the composition of the households where they live. The working poor are all those active workers who live in a poor household, even if their income is sufficiently high to cover their own basic needs.

### 3. Poverty in the Region: Factors and Dynamics

The phenomenon of the working poor<sup>8</sup> is not entirely new in the region. In the 70s, The Regional Employment Program for Latin America and the Caribbean (PREALC) already raised concerns about this reality<sup>9</sup> which nowadays is even worse because of the constant increase of unemployment, underemployment, informality, the process of precarious labour conditions<sup>10</sup>, and the consequences of the pandemic and the impact of inflation.

As we have already explained, there are multiple factors, either of social, economic, family, individual, demographic or gender nature related to in-work poverty. By way of example, it has been pointed out that Latin America is associated with poverty both in general terms and in terms of work, in children and teenagers of less than 15 years old in their homes. The presence of minors at home reduces the possibility of escaping from

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<sup>8</sup> Working poor in USA, precarious, vulnerable, atypical, low salaries in France and Germany.

<sup>9</sup> PREALC, “*La política de empleo en América Latina: lecciones de la experiencia de PREALC*”, in *El Trimestre Económico*, vol. 41, No. 164(4), pages 917-936.

<sup>10</sup> MUÑIZ TERRA, L, “*Nuevos y viejos escenarios en el mundo laboral latinoamericano El mundo del trabajo en América Latina. Trabajo, empleo, calificaciones profesionales, relaciones de trabajo e identidades laborales*” compiled by Julio César Neffa; Enrique de la Garza Toledo; Leticia Muñoz Terra. - 1a ed. - Buenos Aires: Latin American Council of Social Sciences (CLACSO): CAICYT).



poverty and increases the possibility of falling into it. There are also several studies about in-work poverty and the association with causes or dynamics that influence its shaping about ethnicity, race, age, territory, disability, immigration status, gender, sexual orientation, etc. Specifically, without disregarding the influence and incidence of other well-known factors that will be analysed in this paper, there are factors and dynamics that are considered conclusive for the proliferation of the workers' problem in the region.

We will refer to: a) The characteristics of the production system and productivity gaps: structural heterogeneity given by the productive and technological gaps among predominant economic units and low labour productivity. b) The characteristics of the labour market: heterogeneity and segmentation of the occupational structure<sup>11</sup>, informality, underemployment and labour precarious conditions; c) Lack of education and basic employment qualifications, given the evident relation between the workers' educational level and poverty. d) Economic aspects such as the almost non-existent economy growth and high levels of inflation: Latin America is one of the regions that most struggles for long-term growth and that has the highest levels of inflation, which affects salary and, in particular, the food component of the market basket, as well as the most vulnerable middle-income social class.

- a) Characteristics of the productive system. Structural heterogeneity.  
Productive and technological gaps. Low labour productivity

The Latin American productive structure is characterized by having a structural heterogeneity<sup>12</sup> caused by the productive and technological asymmetries among companies, i.e., the coexistence of social classes with very different productivity. Some people suggest that this heterogeneity is a consequence of how the Latin American economy is inserted into the global market and its capacity to promote a change in technical change among different sectors and production areas.<sup>13</sup>

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<sup>11</sup> The hypothesis of labour market segmentation has been analyzed for several years and there are some papers on this regard (Reich, 2009 Segmented labor markets and labor mobility. Edward Elgar Publishing)

<sup>12</sup> A heterogeneous productive structure exists when there are sectors, areas or activities in which productivity is high or "normal", while in some others productivity is scanty, several times inferior to the first one."

<sup>13</sup> CAICYT- CONICET, *Trabajo y Sociedad. Sociología del trabajo- Estudios culturales- Narrativas sociológicas y literarias* NB - Núcleo Básico de Revistas Científicas Argentinas (Caicyt-Conicet) No 29, Invierno 2017, Santiago del Estero, Argentina ISSN 1514-6871-

The economic structure of the main Latin American countries is made up of a) a primitive sector, having productivity levels and income per habitant that merely allow subsistence; b) an intermediate sector, consisting of industries with productivity levels similar to the average productivity level of the national system; c) a modern social class, including exporters, which operates with productivity levels equal or higher than the average level of developed economies.

For instance, as opposed to what happened in the United States over the last thirty years, Latin America has not registered a structural change in the manufacturing sector. On the contrary, industries leading growth in the region have always been those which intensively work on natural resources, and this has caused a pure increase in productivity. Most developed countries have successfully modified their productive structure by moving towards technological sectors, changing the business model of their companies<sup>14</sup>. Since the 2008 crisis, the region has experienced an increase in the proportion of workers of low productivity sectors, which has also triggered a more uneven distribution of wages.

In addition, as opposed to central economies (USA, Canada, Japan, Germany, France, etc.) that, over the last decades have shown a trend towards homogenization, Latin America economies have enhanced heterogeneity, resulting from more and more sectors cutting off from the rest of the economy. Some authors explain that the development of the transnational (modern) sector is directly or indirectly boosted to the detriment of national sectors – middle and primitive – in the region, which gives rise to underemployment, unemployment and an unequal distribution of income<sup>15</sup>.

The information on the Latin American productive structure under analysis and the employment information evidence that the sectors where productivity grows take a very scarce portion of total employment. This means that few workers are benefiting from the increase in wages, and the remaining ones are still working in sectors where productivity and wages are low.

Low productivity and labour competitiveness: As most people subsist thanks to being part of the labour market, the grounds for this wrongful operation are the mechanisms that link production and employment

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<sup>14</sup> ECLAC Collection. *Time for equality: closing gaps, opening trails. Structural heterogeneity and productivity gaps: from fragmentation to convergence.*

<sup>15</sup> CHENA, P. *Heterogeneidad estructural y distribución del ingreso. El pasaje del estructuralismo latinoamericano al neo estructuralismo.* Revista ciencia y universidad (35), 6-30. En Memoria Académica.

dimensions. Productive employment has been defined as such employment yielding sufficient returns to labour to permit a worker and his/her dependents a level of consumption above the poverty line<sup>16</sup>. Labour productivity, which is generally expressed as the relation between the total value of goods and services produced in a country and labour supplies used in this production, is one of the most significant mechanisms to communicate growth of well-being. The relation between wages and productivity is an accurate key factor of the quality of life of working people, as well as the distribution of income between work and capital, also known as remuneration paid to factors of production.<sup>17</sup>

The ILO has already warned that, in the region, the product per worker is similar to the figure achieved in 1980<sup>18</sup>, which means the possibility of progress is the same as two decades ago, explaining the reasons why Latin American labour markets do not yield sufficient profits.

At a macroeconomic level, productivity is generated within the companies and it is where we may find several of their most important key factors, in particular, those related to the labour market. For this reason, another factor that affects the working poor phenomenon is driven by the characteristics of the predominant economic units in our region. What does this mean? It means that companies for which the working poor work are also “poor” companies: they carry out activities with quite low labour productivity, or related to family strategies of subsistence. Low productivity of informal and formal units is not merely a consequence of the workers’ basic qualifications (to which we will refer below), but also that such productive units are inefficient and barely profitable, either because of a low or inexistent use of capital, inadequate and obsolete technology, difficulties to access to supplies and competition with formal companies. Without innovation, there is no demand for training, and without a qualified workforce, it is hard to launch innovation processes

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<sup>16</sup> Vid. ILO, <https://www.ilo.org/global/topics/decent-work/lang-es/index.htm>

<sup>17</sup> GONZÁLEZ MATA, E. LÓPEZ CABRERA J. And. CABRAL TORRES, “*Relación entre productividad laboral y remuneraciones: un análisis de proximidad espacial a nivel estatal en la industria manufacturera en México, 2004, 2009, 2014 y 2019*”, serie Estudios y Perspectivas-Sede Subregional de la ECLAC en México, N° 197 (LC/TS.2022/44; LC/MEX/TS.2022/3), Ciudad de México, Economic Commission for Latin America and the Caribbean (ECLAC), 2022.

<sup>18</sup> It is usually considered that the productivity analysis is only interested in production agents. However, there is no international evidence about the conclusive role played by labour productivity in the creation of prosperity and development, in addition to its inverse relation with poverty in countries, measured through the most common approach, the real product index per worker.

that include all workers<sup>19</sup>. This way, it is evident that these productive units can only generate low income for those who work there, both for owners and their dependents. In our region, a worker produces a production level of around 10,500 US dollars per year, an amount that would be sufficient to afford an average monthly remuneration of a bit more than 430 dollars, assuming half of the production is directed to workforce and the other half to factors of production. Average remuneration in other developed countries or regions, such as the United States, Japan or Europe is much higher than in Latin America, especially because production is organized in such a manner that the outcome per worker exceeds 40,000 and even 50,000 dollars per year. For instance, in the US, almost 70% of production is directed to compensate the workforce.

- b) Characteristics of the labour market: occupational heterogeneity and segmentation. Informality, underemployment and labour precarious conditions

The lack of occupational homogeneity and the two-fold structure of the labour market is associated with the presence of two big sectors: primary and secondary sectors. There are different labour segments with job positions of different quality. The primary segment comprises the “good” jobs (high wages, stability, opportunity to progress, entertainment, etc.), whereas the secondary segment is made up of the “bad” jobs (low wages, instability, lack of opportunities to progress, etc.).

The presentation of the 2023 Labour Overview of Latin America and the Caribbean has recently evidenced that “*the most urgent labour problem for the region is the employment quality and the insufficient labour and total income yielded by workers and their families*”. In fact, the market is one of the main factors that impact on poverty levels of a country<sup>20</sup> and those factors are related to labour precarious conditions associated with informal employment.

The structural components developed by ECLAC concluded that the informal sector is a result of the pressure exercised by the surplus of workforce offers and the poor creation of job positions, particularly good

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<sup>19</sup> ILO (2004) Labour Overview Lima: ILO/Regional Office for Latin America and the Caribbean, 2004.

<sup>20</sup> BECCARIA, L., MAURIZIO, R., FERNÁNDEZ, A. L. Y MONSALVO, A. L. *Dynamics of Poverty, labor Market and Public Policies in Latin America. Poverty and Economic Policy Research Network*. PMMA Working Paper 2011-0.

ones. Therefore, the heterogeneity of the economic structure is translated into a situation of labour heterogeneity.<sup>21</sup>

This divided structure of the Latin American labour market and the lower levels of remuneration in comparison with more developed countries have always been traditionally associated with informality and labour precarious conditions. Given the incidence of this phenomenon, many people agree that informality is now a structural feature of the Latin American economy.<sup>22</sup>

53.1% of Latin American workers work under informal conditions<sup>23</sup>. This way, absolute poverty and relative inequality of labour income are associated with structurally unsatisfactory labour markets<sup>24</sup>, so there is a large gap in the region in the income distribution, in particular, the distribution of remuneration originating from the notable differentiation of occupational structure. It has also been pointed out that labour informality is also a “phenomenon of small companies”. In our region, most workers do not have social protection and have low wages, generally working for companies having less than five workers.

It is worth mentioning that the high levels of informality are a consequence of a great number of companies and individuals opting for being excluded from formal regimes<sup>25</sup>, which implies questioning the State and its capacity to enforce rules. Indeed, informality has been considered a cultural phenomenon. It has also been held that the informal sector in countries of the region is translated into exclusion and escape factors<sup>26</sup>. Regarding the first factor of exclusion, authors have stated that the workers or companies are pushed towards informality, due to the exclusion of basic and essential social benefits. Concerning the escape factor, it is considered that the workers or companies assess the cost-benefit ratio of the convenience of being part of the formal sector or not.

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<sup>21</sup> [https://www.ilo.org/santiago/publicaciones/reflexiones-trabajo/WCMS\\_729999/lang-es/index.htm](https://www.ilo.org/santiago/publicaciones/reflexiones-trabajo/WCMS_729999/lang-es/index.htm)

<sup>22</sup> BERTRANOU, F, CASANOVA L, JIMÉNEZ M. *Informality and employment quality in Argentina: Country case study on labour market segmentation* h f

<sup>23</sup> ESPEJO A. *Informalidad laboral en América Latina: propuesta metodológica para su identificación a nivel subnacional*. Documentos de Proyectos (LC/TS.2022/6), Santiago, Economic Commission for Latin America and the Caribbean .

<sup>24</sup> [https://www.ilo.org/global/publications/books/WCMS\\_507516/lang-es/index.htm](https://www.ilo.org/global/publications/books/WCMS_507516/lang-es/index.htm)

<sup>25</sup> Hirschman's notion of exit. <http://tecnicasavanzadas.sociales.uba.ar/wp-content/uploads/sites/156/2012/03/BM-2007-Informalidad.-Escape-y-exclusion.pdf>

<sup>26</sup> PERRY, G., O. ARIEAS, O. FAJNZYLBER, W. MALONEY, A. MASON Y J. SAAVEDRA CHANDUVI *Informalidad: escape y exclusión*. Washington D.C. 2007 World Bank.

Other more critical authors argue that the growth of the informal sector is mainly a consequence of the inefficiencies of social policies and the expansion of non-contributing social protection programs that would work as an incentive for workers to choose labour informality, by providing social benefits without the need to contribute to the social security system<sup>27</sup>. In other words, businessmen and workers, and citizens in general make an “analysis” of the cost-benefit ratio as to whether it is convenient to be included in formal regimes and, based on the socio-labour reality of the region, they evidently prefer not to do it.

On top of this, two fundamental aspects arising from informality should not be disregarded:

The first one is that, as the formal economy evolves, the informal economy also does, and what matters is the relation to which one grows with respect to the other. The ILO Labour Overviews for the region over the last decade accurately reveal that, when the unemployment rate slows down, the creation of new job positions arises first in the informal sector rather than in the formal sector of companies.

An example of what we have been saying is what happened during the second half of the year 2020, in the middle of the pandemic, that informal employment was exacerbated with greater force.<sup>28</sup> Once the pandemic was over in 2022, the modest recovery of labour markets was driven by informal occupations, which represented around 40 to 80% of job positions created in the region<sup>29</sup>. The ILO Labour Overviews for the region over the last decade reveal that when the employment rate drops, the creation of new job positions arises in the informal sector instead of the formal sector of companies. In addition, the informal sector expanded, especially among young people, given that the informal sector is the gateway to the labour market.

The second aspect is that *informality is the alternative to unemployment for the poor sector*<sup>30</sup>: the so-called informal economy or sector takes up plenty of workers that otherwise would not have the possibility of having a formal job, moving to the queue of the unemployed. In many of the countries of

<sup>27</sup> ESPEJO A. *Informalidad laboral en América Latina: propuesta metodológica para su identificación a nivel subnacional* Documentos de Proyectos (LC/TS.2022/6), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC).

<sup>28</sup> MAURIZIO, R. *Technical Note: Employment and informality in Latin America and the Caribbean: an insufficient and unequal recovery*.

<sup>29</sup> ILO, *Labour Overview Latin America and the Caribbean, 2022*.

<sup>30</sup> Vid. [https://www.ilo.org/santiago/publicaciones/reflexiones-trabajo/WCMS\\_729999/lang--es/index.htm](https://www.ilo.org/santiago/publicaciones/reflexiones-trabajo/WCMS_729999/lang--es/index.htm)

the region, working in the so-called informal economy is not a *choice*, but a way of living and escaping from the calamity of unemployment. As Beccaria and Maurizio remark, in a context of insufficient demand for employment, companies from the formal sector have “factual” facilities to hire wage earners without obeying labour rules, in addition to making working conditions even worse for job positions, which has direct consequence in the income and segmentation of the labour market. Informal wage earners represent 30% of the total urban employment of the region and half of the informal employment, ranging from 17% (Chile) to more than 40% (Bolivia, Ecuador, Guatemala, Mexico, Nicaragua, Paraguay and Peru).

In our region, there are more and more occupations, somehow associated with medium and big-sized companies of the formal sector that, even though they cannot be considered strictly informal, do not have the precarious conditions features or signs such as a certain period or part-time working schedules, zero-hour contracts or job positions related to platform economies. Even though these new forms of working are still limited in the region, they all have a degree of insecure income or remunerations lower than other workers with similar qualifications, which makes them more likely to fall into poverty or low-income situations<sup>31</sup>. Expressed differently, these new forms or systems of employment which cannot be standardized (economies of temporary occupations), cannot be differentiated from predominant precarious and informal forms of employment.

The other group comprising 53.1% of informal employment is made up of independent informal workers, which are calculated at around an average 23,1% of urban employment. Such number varies with figures ranging from less than 22% (in Argentina, Brazil, Chile and Uruguay) to more than 35% (in Bolivia, Colombia, Peru, Dominican Republic and the Bolivarian Republic of Venezuela). From the beginning of the 21<sup>st</sup> century, there has been a gradual increase in self-employment, which was higher than most of the countries of our region. The greatest numbers have been in Argentina, Colombia, Costa Rica, Peru and Venezuela.

Salary penalty, informality, underemployment and poverty: the relation between precarious jobs, informality and poverty is a long-time concept: 80% of poor workers work under informal conditions<sup>32</sup>. The Regional Director of the ILO has also remarked that, according to the ILO

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<sup>31</sup> *ILO Blog, Poverty, inequality and the “working poor” phenomenon.*

<sup>32</sup> MAURIZIO, R. *Jornadas de análisis de mercado de trabajo, políticas de formalización y transición justa (ILO-Chile Office)*



overviews, “*informal workers have around 3 and 4 times more probabilities of being poor than formal workers, and also explain that around 70 and 90 per cent of total employment poverty*”<sup>33</sup>. Informality entails a “*salary penalty*” that is reflected in lower labour income per hour for workers under these conditions, which ranges between 20 and 35% in countries with available data. This means that the less amount of labour income an informal worker earns with respect to other worker carrying out the same duties in the formal sector, how much it stops earning, is the amount this worker loses for being an informal worker in comparison to its formal counterpart.

Salary penalty associated with labour informality: If we only consider the aggregate informal workers, for instance, in Argentina, workers of the informal sector represent monthly incomes 65% lower than the ones received by employed people of the formal sector in the whole country.<sup>34</sup> During the pandemic, all countries of the region were affected by labour poverty, even though such countries with the highest levels of informality were greater affected, such as Colombia and Peru, which reached labour poverty levels of more than 60 and 40%<sup>35</sup> at the worst moment of the pandemic.

As pointed out by Poy, the heterogeneity of the economic-occupational structure reproduces a harsh pattern of socio-labour inequality, which has direct consequences on the family capacity for subsistence<sup>36</sup>. Informal non-wage earners represent most of the active workers, followed by informal wage earners. Informal non-wage earners represent the greatest part of the poor active workers, varying depending on the country. For instance, in Argentina, 2 of every 5 poor workers are informal non-wage earners. In Brazil, this figure represents half of them and in Paraguay, 3 of every 4 poor workers are informal non-wage earners.

Regarding informal wage earners, the proportion of labour poverty is around 22% in Brazil, 28% in Argentina, and 19% in Paraguay. Considering wage earners and informal non-wage earners, they represent 73% of labour poverty in Brazil, 68% in Argentina and 94% in Paraguay. Finally, we cannot ignore that there is a portion of formal workers living in poor households. In Argentina, 32% of poor workers are formal workers, in Brazil, 27%, and in Paraguay around 6%.

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<sup>33</sup> [https://www.ilo.org/americas/sala-de-prensa/WCMS\\_867505/lang-es/index.htm](https://www.ilo.org/americas/sala-de-prensa/WCMS_867505/lang-es/index.htm)

<sup>34</sup> [https://www.memoria.fabce.unlp.edu.ar/art\\_revistas/pr.6298/pr.6298.pdf](https://www.memoria.fabce.unlp.edu.ar/art_revistas/pr.6298/pr.6298.pdf)

<sup>35</sup> IBD “2023 Latin American and Caribbean Macroeconomic Report”, IBD.

<sup>36</sup> POY, S. Heterogeneidad laboral y procesos de empobrecimiento de los hogares en Argentina Problemas del Desarrollo. Revista Latinoamericana de Economía, vol. 51, núm.. 201, abril-junio 2020.

Underemployment: The last special labour overview published by the ILO reveals that the impact of poverty is even greater for part-time workers in relation to those who work full-time or who work more than 45 hours per week. In Argentina and Brazil, the probability of living in poverty is even higher when part-time employment is involuntary. The lack of sufficiently long working schedules arising from low wages has negative effects on the workers' capacity to gain enough income so as not to live in poverty.

Everything that has been explained and described shows that inequality in income cannot be explained without having an understanding of the quality and productivity of job positions among the different productive industries, which is projected in also very unequal earnings among workers, capital and work, and the heterogeneity of occupational and productive structure causes more poverty. It has been explained that the persistence of occupations linked to the micro-informal sector and the insufficient demand for employment of quality has caused "selective processes of poverty" that would affect households having a workforce assigned to such job positions.<sup>37</sup>

### c) Basic employment qualifications

Latin America is the region of the world with the highest educational gaps<sup>38</sup>, one of them is the quality and relevance of education, which causes high levels of income inequality.<sup>39</sup> Education and professional training are conclusive factors for labour income and its unequal distribution. There is a correlation between the educational level of workers and poverty. Even though there have been some advances over the last 20 years, especially in access to primary and secondary school education, there are still a lot of pending challenges.

These inequalities are associated with differences in the educational offer regarding: a) content and quality: there is a tendency for training only about basic skills: literacy skills and mathematics; b) infrastructure, the size of schools, building conditions; c) the faculty's education, and d) the results of learning acquired by students. The above proves the result of the P.I.S.A. (*Programme for International Student Assessment* of the Organization for Economic Co-operation and Development, OECD).

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<sup>37</sup> POY. S. Op. Cit f

<sup>38</sup> UNESCO-ECLAC, (2021) *Education in the time of COVID-19*.

<sup>39</sup> ILO, *The future of vocational training in Latin America and the Caribbean: overview and strengthening guidelines*.

The average grade of Asiatic countries is more than 20% higher than countries of Latin America and the Caribbean.<sup>40</sup>

This way, the level of the Latin American workforce skills is still low in comparison to developed countries. In most of the countries of the region, the population with basic skills is still predominant in the adult population. Only Argentina, Chile and Panama have levels similar to the average of the OECD. The low level of skills and capabilities entails problems of employability and productivity: companies require skills and capabilities that human resources do not have. Productivity in Latin America is 0.76% about the average total productivity of the United States. This means that using the same amount of resources (workforce and capital), the production of our region would be approximately 25% lower than in the United States.<sup>41</sup> It is a vicious circle, workers with limited training are those who are mostly employed in low-productivity facilities. These characteristics are also present in those who work in the formal sector but under precarious conditions. Ultimately, the greatest inequality in the developing world would arise from the greatest differentiation in the job offers in terms of productivity, which is also based exclusively on human resources.

Poverty associated with such low remuneration is not only the result of informality and labour precarious conditions but also of low levels of workers' qualification of the region. By way of example, we can quote the cases of Argentina, Brazil and Paraguay. In 2021, the portion of poor workers with basic education was around 30.5% in Argentina, 21.3% in Brazil and 29.3% in Paraguay, whereas the impact of poverty on workers with complete higher education was 8.4% in Argentina, 2% in Brazil and 4.3% in Paraguay<sup>42</sup>.

d) Almost non-existent growth of the Economy in the long term. Impact of inflation.

Even though Latin America is in the process of recovering its economy after the pandemic, it is one of the world regions that is having more difficulties growing in the long term. The ECLAC has estimated Latin

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<sup>40</sup> <https://unesdoc.unesco.org/ark:/48223/pf0000374615>

<sup>41</sup> CRESPI G., FERNÁNDEZ ARIAS, STEIN E., IBD, *Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation*.

<sup>42</sup> ILO *Labour Overview Latin America and the Caribbean 2022*.

America's economic growth at a rate of 2.7% per year<sup>43</sup>, which means 16 countries of the region, that is to say, half of the countries, by the end of 2022 had not recovered the GDP level they had before the pandemic. Figures for the third two quarters of 2023 confirmed the economy slowing down, which evidences that the regional GDP has been at a standstill for more than 5 quarters. By 2023, an average GDP of only 1.7% is expected, and by 2024, a slight increase of the growth rate of 1.5%.

It has also been said that “Latin America and the Caribbean’s low growth may be aggravated by the negative effects of an intensification of climate shocks, if the investments that countries need in climate change adaptation and mitigation are not made.”<sup>44</sup> If this slow level of growth is kept, the regional economy would take more than 30 years to double its size, which means that the Latin Americans’ standard of living (product per habitant) could just double in more than 100 years at this rate<sup>45</sup>.

As a consequence, this low growth of economic activity entails a slowdown of employment growth, estimated at 1.9% in 2023 and 1.1% in 2024. With respect to employment quality, given that workers are hired in less productive industries that are related to poverty and social vulnerability, which in turn has a direct impact on income. In 2019, the percentage of people living with less than USD 5 was 28% and 16% with USD 3.1 per day.

As we have pointed out, the pandemic aggravated the tendencies towards this worsening: in 2020, in spite of the policies taken to hold back the pandemic effects, social indicators were also aggravated, 34% of Latin Americans lived with less than USD 5 per day, and the figure raised to 20% for those who earned less than USD 3.1. The Gini coefficient reflected the highest rating of the decade: 0.52 in 2020. In 2023, around 18% of the population lives with less than USD 3.1 per day. As we have stated, the poverty levels of the region have exceeded the levels from one decade ago<sup>46</sup>.

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<sup>43</sup> Vid. ECLAC *Economic Survey of Latin America and the Caribbean 2022: Trends and challenges of investing for a sustainable and inclusive recovery*

<sup>44</sup> Vid. <https://www.cepal.org/es/comunicados/economias-america-latina-caribe-mantendran-bajos-niveles-crecimiento-2023-2024>

<sup>45</sup> That would be the case if the population growth rate is low, which does not happen because of the demographic boom experienced in the region.

<sup>46</sup> IBD (2023) *Latin American and the Caribbean Macroeconomic Report, coordinated by Arturo Galindo, Victoria Nuñez. Preparing the Macroeconomic Terrain for Renewed Growth.*

It is also observed that, in many Latin American countries, economic growth does not necessarily encourage the creation of new quality jobs and, consequently, does not allow improving the people's well-being. This phenomenon has been called the paradox of growth without well-being (Easterling paradox) (ILO 2004)<sup>47</sup>. Above all, at the beginning of this century, there has been macroeconomic growth in most Latin American economies that was not translated into greater well-being for their populations, which proves that something is not working. The ILO and ECLAC already affirmed that regional poverty is mostly linked to the trajectory of the outcome per worker rather than the production itself. In other words, the Easterling paradox observed in the region over the last decades is related to the fact that the outcome per worker has not sufficiently recovered after the drop experienced over the 80s. It should be understood that economic growth (population growth) does not necessarily reduce poverty. The outcome growth is merely a required condition to reduce poverty. The evolution of the outcome per worker is most closely related to poverty.

**Inflation:** Inflation is a regressive tax that undoubtedly has a negative effect on poverty and the operation of the labour market. A consistent increase in prices, mainly food and energy, gives room to more poverty, given that inflation reduces available income and real wages when nominal wages grow at a slower rate than prices. When inflation increases, even though nominal income remains steady, the purchasing power for goods and services is shrunk.

Since 2019, it has been seen that there has been more and more poverty, and that increase is strictly associated with price rises in the consumer price and energy prices indexes (the food inflation rate has increased 30% from February 2020 and the consumer price index increased 18%, so the poorest households were the ones mostly affected because they depend on a greater extent of labour income, which were deeply harmed by inflation).

Also, since the second semester of 2020, due to several causes (the pandemic, the conflict between the Russian Federation and Ukraine, the monetary issuance to finance different aid programs, tax incentives and other external factors), inflation has gone up in all countries of the region, and it reached its highest peak since the 2008 financial crisis. The annual inflation rate for the average country of the region reached 9.6% in July

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<sup>47</sup> *Vid.* [ILO Labour Overview for Latin American and the Caribbean 2004](#).

2022, in comparison to 7.6% (values that have not been registered since 2002).

Likewise, income may decrease during an inflation crisis as a response to adjustments in the labour market. When there is less real income of households, people must work more hours to keep the same consumption level. This is how the inflation level has increased the labour and household poverty levels. Workers are working longer and longer work shifts to keep their consumption level.

Along this line of reasoning and the IBD estimates, inflation rates would trigger an increase in poverty by 2.4% and extreme poverty by 2.5% by 2023, which means taking almost 13.8 million and 14 million people to poverty and extreme poverty.

Even though it is extremely necessary to restrain inflation in the region, it also means taking risks, as certain tightening monetary policies to keep inflation steady may negatively affect labour markets in the short term because the economy is slowed down as an inevitable result of reducing expenses, which slow down the economy and probably also generate more unemployment. Recent factual evidence shows that income decreases for all workers given that in countries with a high informality level, a monetary tightening policy reduces income from informal workers to a greater extent than formal workers.

At the same time, it has been warned that the monetary shock generates a change from formality to informality. Even though income decreases for all formal and informal workers, workers placed in the lowest segment of informality suffer relatively more than their formal counterparts.<sup>48</sup>

#### 4. Challenges and Proposals

Over the last decades, there have been different attempts in the region to revert these phenomena and dynamics to speed up growth and reduce poverty. That being said, it should be considered that it is not possible to reduce poverty in the long term without decent work. To reduce the working poor phenomenon in the region, it is crucial to fight against informality, promote labour productivity, secure financial support and public investment, access to education and training for the development of new capabilities and skills and encourage professional technical education.

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<sup>48</sup> GOMES, D., IACHAN F., RUHE A, Y SANTOS CEZAR. (2023) “*Monetary Policy and Labor Markets in a Developing Economy.*” Inter-American Bank of Development, 2023 Washington, DC.

- Combating informality and promoting productivity:

For the purpose of eradicating the dynamics giving rise to the working poor phenomenon in the region, it is extremely urgent to revert to labour informality, which comprises old and new types of employment, related to the impact of technology that, as we have seen, are crucial elements of the matrix of low income and social inequality. There are simply no magic tricks to reduce informality, comprehensive and tailored strategies are needed, which have to be designed in accordance with companies' productivity levels, workers' qualifications, tax conditions and pre-existing rules<sup>49</sup>. The formalization process takes time and requires multiple and several interventions in several areas.<sup>50</sup>

It is essential to create adequate conditions, and reinforce people's capacity to afford a standard of living through quality jobs and, for that purpose, a "global approach" is necessary to put an end to the expansion of informality. Discussions should also involve authorities, companies and unions to design regimes that promote formal employment, encouraging incorporation into the formal system and fostering decent work, as a mechanism to overcome poverty.

The ILO Recommendation 204 about Transition from the Informal to the Formal Economy<sup>51</sup> recognizes that "*most people enter the informal economy not by choice*". It also establishes certain working rules for governments, called 12 "Guiding Principles" that may serve as a guideline for different policies that may be addressed for a transition from informality to formality. It also points out that the transition to formality requires designing coherent, integrated and tailored strategies, highlighting that the key elements for a transition should include macroeconomic policies that promote employment, enhance productivity and facilitate structural transformation processes; trade, industrial, tax, sector and infrastructure policies that promote employment, policies and institutes for the labour market, education and skills development policies and measures to

<sup>49</sup> CARDENAS M., FERNANDEZ C., RASTEL A, and ZAMORA D. *Consideraciones para el diseño de políticas fiscales para reducir la informalidad en América Latina y el Caribe*. IBD 2022.

<sup>50</sup> SALAZAR-XIRINACHS, J.M. AND. CHACALTANA J. *Informality in Latin America and the Caribbean: Why does it persist and how can it be addressed?* ILO Regional Office for Latin America and the Caribbean, based in Lima. Programme for the Promotion of Formalization in Latin America and the Caribbean, FORLAC.

<sup>51</sup> [https://www.ilo.org/wcmsp5/groups/public/-ed\\_norm/-relconf/documents/meetingdocument/wcms\\_379098.pdf](https://www.ilo.org/wcmsp5/groups/public/-ed_norm/-relconf/documents/meetingdocument/wcms_379098.pdf)



facilitate the school-to-work transition and from unemployment or inactivity to work. These policies are aligned with the 8<sup>th</sup> Sustainable Development Goal to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Another of the challenges to face the causes and factors that give rise to the working poor phenomenon is to progress to modify the characteristics of the productive matrix. Low productivity of a significant part of economic units hampers the generation of sufficient aggregate value for the development of formal employment. Besides, the expansion of labour informality in economic units of low productivity facilities that highly productive companies hire workers under informal conditions.<sup>52</sup>

In fact, the existence and persistence of productivity gaps in almost the entire productive system of the region explain the external restraint to economic growth and the relative lack of strategic sectors of highly complex technology, capable of more quickly disseminating the technical change to the entire productive system. To revert this reality, it is essential to design productive development policies that are focused on enhancing innovation and developing new companies in key industries, where it is essential to give more importance to knowledge-intensive sectors (Hirschman, 1958; Von Hippel, 1976, Lundvall, 1985, 1992)<sup>53</sup>.

Following Bourguignon, we will mention that the changes in the poverty rate are not only associated with changes in the average income, but also transformation of its distribution, so it is necessary to combine growth and distribution policies because the composition of the productive system is not neutral for the development process.

As it has already been suggested<sup>54</sup>, the industrial policy shall combine horizontal and sectorial actions, the first ones with the purpose of raising productivity levels of all the productive system, facilitating access to long-term financing, promoting investment in research, developing and innovation, granting subsidies to the workforce education and training and the second ones focused on the development of strategic activities capable of increasing the generation of currencies and promoting a productive framework with greatest inter-sector chains. By way of example, we can quote some initiatives carried out in Brazil, Ecuador, Mexico and Peru that had the purpose of developing value chains that linked informal sectors of those productive chains to formal ones,

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<sup>52</sup> [https://www.ilo.org/buenosaires/eventos-y-reuniones/WCMS\\_861136/lang-es/index.htm](https://www.ilo.org/buenosaires/eventos-y-reuniones/WCMS_861136/lang-es/index.htm)

<sup>53</sup> [https://www.argentina.gob.ar/sites/default/files/futuros\\_de\\_la\\_matriz\\_productiva\\_editado.pdf](https://www.argentina.gob.ar/sites/default/files/futuros_de_la_matriz_productiva_editado.pdf)

<sup>54</sup> ECLAC, 2021 Foro Universitario del Futuro, Abeles Villafañe, Robert, Coordinators, *El futuro de la matriz productiva argentina: consensos y nuevas perspectivas*.

subjecting public acquisitions to the formalization of jobs by supplier companies. At a microeconomic level, Mexico and Brazil have elaborated business development services, as well as the financing and dissemination of technologies aimed at improving management and increasing the company's productivity and competitiveness.

- Financial support and public investment

For all that, it is necessary to have financial support and public investment. It has been said that “*there is no industrial policy without a credit policy*”, given that supporting financial instruments are a necessary pillar for the technological and productive development. It is necessary to promote investment in infrastructure through public investment, given that the evidence shows that when investment in infrastructure is backed up with mechanisms to increase efficiency, there is a positive impact on the poorest' income (Cavalo Powell 2019)<sup>55</sup>. Financial support shall also be the means to foster policies that promote bonding and transferring technology between small and medium-sized companies, universities and institutes and the creation of education and training institutes to tend towards productivity and quality at work and innovation.

- Access to social protection and security

The extension of access and protection for social security are considered key factors for many countries of the region to reduce labour poverty. In effect, to revert the working poor phenomenon, strong social protection systems are needed, that are capable of giving a response based on solidarity principles that help to satisfy people's needs over their lifetime: through a basic level of protection (ILO 2019)<sup>56</sup> that is supplemented by contributing social insurance regimes.

It is also necessary to adopt protection systems for new labour models, which imply more precarious conditions and income, as the types of atypical employment, platform workers and self-employed workers.

Over the last two decades, countries of Latin America and the Caribbean have launched several social programs directed to overcome poverty, increasing the number of non-contributing social protection programs, among which we can refer to programs of transfers subject to income,

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<sup>55</sup> Vid, CAVALLO E. and POWELL A. *Building Opportunities for Growth in a Challenging World*, IBD, 2019.

<sup>56</sup> Vid. ILO *Work for a brighter future: Global Commission on the Future of Work*, 2019.

labour and productive inclusion programs and social pensions. We can also outline policies carried out in Argentina, Uruguay and Colombia (special taxpayer regimes) and Brazil (MEI), that were intended to expand the scope of working people who contribute to social security. These mechanisms and policies are directed to active workers in micro-companies (self-employed workers, regular or domestic service workers). However, as it has already been said, a case-by-case analysis shall be made taking into account the actual effectiveness. Some authors have stated that social policy may unintentionally generate incentives to informality and, consequently, aggravate labour poverty. This may be the case of conditional and non-conditional transfers for people under poverty and vulnerability conditions, given that many laws provide that monetary allowances are lost once a person gets a formal job providing sufficient income.

The negative effect in the case of monetary transfers has also been remarked, for instance, in Argentina, Colombia and Uruguay<sup>57</sup>. It has been said that it is a good policy to develop assistance programs for formal employment that reward those who are under formal systems, in comparison to many current social assistance programs that generally withdraw monetary transfers once the person gets a formal job.

Access to education for new capabilities and skills. Professional technical education. As it has already been said, there is a high poverty rate in the region associated with low levels of workers' qualifications. In fact, there is an evident link between schooling levels and poverty rate: the lowest educational level, the greatest tendency towards labour poverty. For this reason, it is vital to secure education and professional technical training policies. Policies shall also guarantee that there is a public and quality education offer, which is intended to provide lifelong learning, with more

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<sup>57</sup> Vid. CÁRDENAS, FERNÁNDEZ RASTELETTI, ZAMORA, *Consideraciones para el diseño de políticas fiscales para reducir la informalidad en América Latina y el Caribe*, Inter-American Bank of Development. The authors point out that the *Universal Allowance per Child* (Argentina) that provides monetary transfers to households with minor children, reduced formalization in 7.4 pp, among those who were part of the program in comparison to those who did not. In Uruguay, a program of conditional transfers led to reductions of around 6 pp in the formal workforce participation among all program beneficiaries and 8.7 pp among single mothers. They also remark that there are examples of negative effects related to non-contributing benefits in Colombia and Chile. *The subsidized health regime in Colombia raised the probability of informality in around 20 pp. Something similar happened in Chile with the 2008 social security reform, which improved the pension of people who have not saved enough. The reform reduced participation of workers older than 40 years in the formal labour market by 4.1% and the probability of becoming part of the formal regime of men and women older than 56 and 65, in 3.2 pp and 2.8 pp, respectively.*

flexible educational systems, with “entrances” and “exits” according to the different needs. So, one of the main critical aspects is to identify and characterize skills that have to promote educational programs and training programs in our region to overcome this reality.

To answer these questions, Latin American States have been questioning their educational and teaching guidelines in socio-political, institutional and pedagogical contexts. Skill-based teaching, which is pedagogical by nature, has to be arranged with a curricular organization based on institutional skills and an educational policy focused on the socio-political skills model<sup>58</sup>.

For this purpose, it is necessary to make solid public-private alliances between the educational and productive sectors to project the evolution of the labour demand in the long term and, accordingly, the answers of training and educational systems to these future perspectives. A positive example was the enrolment expansion in public universities and high-school professional training entities from 2002-2016 in Brazil that allowed public institutes of professional technical education to increase from 140 to 600, doubling enrolment rates from 558,000 in 2002 to more than a million in 2016.<sup>59</sup> In Brazil, we can mention the National Service of Industrial Education (SENAI), which is the biggest professional and technological education institute in Latin America. The SENAI convenes more than 2.3 million Brazilian workers per year. It is a state-owned entity that provides support to 28 industrial areas and the main program beneficiaries are workers, young people and adults from the industry and trade<sup>60</sup>. This type of training has allowed us to address vulnerabilities, such as reconversion (*upskilling and reskilling*) in a context of so much automatization of occupations and labour insertion of elderly people

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<sup>58</sup>OEI, (2020), *Insights about education in Ibero-America. Skills for the 21st century in Ibero America*.

<sup>59</sup> MERCADANTE, A., “Educação e capacitação técnica e profissional no Brasil”, *Documentos de Projetos* (LC/TS.2019/44). Santiago, Economic Commission for Latin America and the Caribbean (ECLAC).

<sup>60</sup> For the modernization of technical assistance and education in the industry, the SENAI hired the Fraunhofer IPK institute from Berlin, which transferred knowledge about teaching in planification and the creation of innovation centres. There are more than 130 projects contracted for the education of new skills and capabilities, which led to the restructuring of 28 training institutes. Some companies of the automobile industry of Brazil have been partners of the SENAI from the beginning to solve the demand for new skills by agreeing upon learning rules Vid. PELIZA, SARDEGNA, *Formación profesional y educación para nuevas competencias como política pública en América Latina*, ADAPT 2023.

(generally older than 45 years old)<sup>61</sup>. The teaching of skills, in particular, is key to achieving labour insertion of better quality, and for new generations to acquire skills and capabilities that will be required by the labour market in the future.

## 5. Conclusions

As it has been evidenced, some different factors and dynamics cause and impact the working poor phenomenon. Even though the factors remarked in this paper are mere indicators, we can have an overview of the noticeable vulnerability of Latin American workers. Labour poverty is translated into underdevelopment and it is a symptom of inefficient labour and management policies.

It also reflects the inefficient State as a well-being manager. The creation of decent work is still a great structural challenge for Latin America and the Caribbean. To revert this phenomenon, it should be taken into consideration that poverty cannot be reduced permanently without decent work. The 2020 Sustainable Development Agenda expresses an agreement upon the need to foster more inclusive societies, supportive of securing to “leave no one behind” in the path towards Development.

It has been said that 10,000 billion dollars are needed to eradicate extreme and moderate poverty by 2030 in the region. However, it would be naïve to consider that this goal may only be achieved with income transfers.<sup>62</sup>

The working poor phenomenon may not be battled if the economy does not generate room for investment and business development, so it is essential to create and strengthen competitive small and medium-sized companies given their capacity to rapidly generate jobs.<sup>63</sup> Policies to improve the operation of labour markets are also needed. The solution to this problem requires much more than available resources, social security policies and income substitution.

As we have already said, real social justice requires time and structural changes in society, so it is pivotal to apply a “global” approach, always considering that employment is the master key towards equality.

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<sup>61</sup> SMECK, OVIEDO AND FISZBEIN, *Dual Education in Latin America: Challenges and Opportunities. Inter-American Dialogue, 2020*.

<sup>62</sup> <https://www.un.org/sustainabledevelopment/es/poverty/>

<sup>63</sup> Open Department Plan Fénix, School of Economics, Universidad de Buenos Aires, <https://vocesenelfenix.economicas.uba.ar/boy-mas-que-nunca-es-necesario-formular-e-implementar-politicas-de-empleo-de-calidad/>

During his 1936 acceptance speech for presidential renomination, Franklin Roosevelt said: “Liberty requires opportunity to make a living - a living decent according to the standard of the time, a living which gives man not only enough to live by, but something to live for. True individual freedom cannot exist without economic security and independence. Necessitous men are not free men “Those words are as transcendental then, as they are today.

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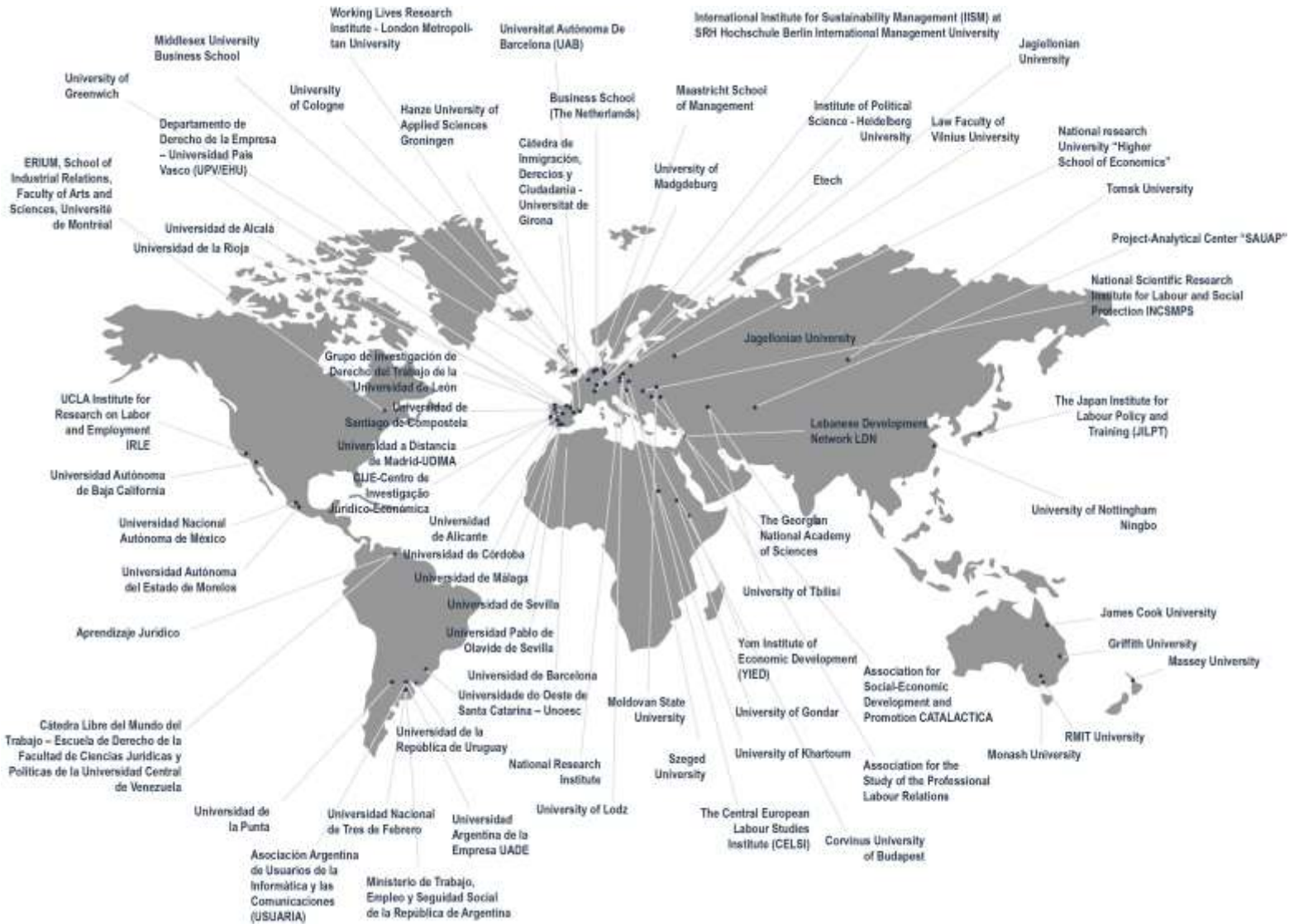
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