WAGE STRUCTURES IN LATIN AMERICA

by

Peter Gregory

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Center for Economic Research

Department of Economics

University of Minnesota

Minneapolis, Minnesota 55455

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Peter Gregory
University of Minnesota

A wage structure refers to the relationship existing among the rates of remuneration of different groups of wage and salary earners. Since there are obviously many ways in which groups of wage recipients can be defined, there are many, not one, wage structures.[1] For example, an occupational wage structure describes the relationship of wages paid for different occupational services. The interindustry wage structure defines the relationship of average earnings of workers classified according to the industry in which they are employed. Similarly, wage structures can be defined on the basis of economic sectors, firms within an industry, or regions. Finally, the structure of wages may also refer to the components of the wage bill, i.e., the basic wage, payments in kind, fringe benefits, social security charges, etc. Each of these dimensions of the wage structure holds considerable interest and importance for present and future members of the labor force, employers, and government officials concerned with the realization of national economic and social goals.

The significance of wage differentials (i.e., the relationship of wages in any particular structure) derives from the role that wages play in any economy. The wage represents the price of a specific kind of labor service and, as such, shares the function of other prices. Specifically, the wage

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1. In this paper the term "wage" is used to refer to the rate at which any kind of labor service is remunerated. Thus, it refers to both wages and salaries without regard for the frequency or mode of payment.

structure influences the allocation of labor resources among the various kinds and places of employment. For example, the difference in the earnings of engineers and school teachers may influence the choice of career of students entering the university. Wage differences among regions of a country will influence the direction and magnitude of internal migration as well as the location of certain kinds of productive activity. Differences in wages paid among firms or industries will influence the ease of recruitment and the quality of the recruits. Differences in the relative prices of different classes of labor may influence the choice of production techniques of managements seeking to minimize costs of production.

The wage structure and changes over time in wage relationships provide a wealth of information which is vital to the processes of manpower planning. Since wages paid reflect, in considerable measure, the relative abundance or scarcity of different kinds of labor, changes in the wage structure provide signals which may prove useful to the formulation of policy. For example, a rise in the wage paid to electricians relative to that paid to machinists in San Sebastian may signal a shortage of qualified electricians and indicate the desirability of expanding training programs for electricians or of facilitating the movement of electricians from other parts of the country. Conversely, the deterioration in the relative income position of particular skills could indicate the desirability of discouraging preparation for and entry into these occupations in favor of others.

Occupational and other wage differentials are not the only determinants of the allocation of labor resources, although over the long run, these can be expected to exert a major influence. One cannot overlook the force of custom and tradition in shaping the way in which potential labor force members respond to changes in the structure. For example, the traditional prestige accorded the liberal professions in Latin America is likely to continue to attract large numbers of aspirants to these professions even though their income position loses ground relative to other newer occupational fields such as engineering, business administration, and others. However, as the process of modernization and economic development increases the number and variety of employment opportunities, it is reasonable to expect that the influence of tradition will weaken in favor of purely market forces in the determination of occupational choice.

We cannot overlook the influence of institutions in shaping the various wage structures. Trade unions and their members make their own evaluation of the relative worth of various jobs and may seek to influence the wages assigned them. Similarly, the intervention of government in the labor market may influence wage relationships. The legislation of different minimum wages for blue- and white- collar workers ("obreros" and "empleados"), for example, may alter significantly the market-determined relationship between these two classes of labor which would otherwise exist. Not all institutional intervention, however, succeeds in achieving its intended purpose. In some cases, success in realizing one objective through the manipulation of wage rates may lead to adjustments by employers with effects which run counter to other objectives. In any event, the full impact of institutional intervention in the processes of wage determination can rarely be determined without an analysis of wage structures.

I. The General Configuration of Wage Structures in Developing Countries

What are the characteristics of wage structures in developing countries and how do these change in the course of economic development? Is it possible to identify patterns of wage differentials which are associated with various levels of development? In a very general way, there are some characteristics which seem to be common to countries at similar stages of development, but it is easy to exaggerate these. As wage data have become increasingly available, it is becoming clearer that there is more variety than might have been expected on *a priori* grounds.

Ordinarily, it can be expected that wage differentials of all types will be wide and may even widen during the early stages of accelerated development. Several reasons can be advanced for this. In the first place, economic development involves the growth of new kinds of economic activity and changing occupational requirements. Thus some skills will be in short supply, in spite of the existence of high general unemployment, and the wages for these skills will be bid up in order to attract them from other sectors to the newly emerging sectors of the economy or in order to induce more people to enter training in the occupations in short supply. If the expansion and modernization of the educational establishment has lagged, then shortages of many skills will be acute and occupational wage differentials will widen. Since the less dynamic character of the more traditional sectors of employment generally permits them to lag in the adjustment of their wage levels behind the changes in the newer sectors, interindustry differentials may widen as well. Geographic differentials also tend to widen due to imperfect mobility of productive resources in the face of widely differing rates of economic expansion among regions of a country. Eventually, however, as the national economy becomes more integrated, as mobility of all resources improves, as education and training facilities expand and improve, and as the forces of tradition weaken, differentials may be expected to narrow. Certainly, even casual observation will confirm the narrower dispersion of wages in the highly industrialized countries as compared to those at earlier stages of economic development. Furthermore, the historical experience of the presently industrialized countries supports an expectation of narrowing differentials as economies mature.

However valid these generalizations, it still remains true that there is considerable variance in the configuration of the wage structures of countries at similar stages of development. There seems to be no particular configuration that is a necessary condition for further development of economies at any stage of development. How the labor market will respond and the wage structure evolve in the face of changing labor requirements in a developing economy will depend on the host of economic, cultural, and institutional factors already mentioned.

This essay proposes to examine the configuration of wage structures in Latin America, to weigh the influence that various market and institutional forces exert on these structures, and to consider the economic efficiency and other possible consequences of the wage patterns which have emerged. The complete realization of this objective depends on the availability of wage and other related data in greater quantity, detail, and quality than currently exists in most Latin American countries. Unfortunately, the labor market is perhaps the most neglected of the major areas of the economies with respect to data collection. While the need for better data in this area has been increasingly recognized in recent years, it will be some time before the widespread deficiencies can be corrected. In the meantime, we will have to be content with observations and inferences which should be useful even though they cannot be considered definitive.

In the sections which follow, we will examine the structure or components of the wage bill, occupational wage relationships, interindustry wage structures, and regional and intersector differentials in that order.

II. Components of the Wage

A review of the wage-payment practices of Latin American employers confronts a critical initial problem -- a paucity of adequate information about the components of wage bills. Most published wage statistics present information only about basic cash wage earnings -- those payments to employees which are directly related to the number of hours worked or to the amount produced in the case of incentive systems of payment. If one could assume that all other components of remuneration are either very small or stand in the same relationship to the basic wage in all employments, then we would face no problem at all. The structure of basic wages would serve to describe adequately the relationship existing among total remunerations. But this is not the case. Complex systems of remuneration are common in Latin America. Furthermore, there are normally great differences among employers within industries, among industries, among different occupational groups, and among sectors. These differences may be due to differences in the scope of application of legal provisions defining the terms of employment or simply to differences in the fringe benefits conceded by employers voluntarily or through collective bargaining.

Latin American countries represent something of a departure from the historical experience of the presently industrialized countries in the timing of the emergence of complex wage systems. Whereas in the Western European countries and North America complex wage systems have been a relatively recent development, in Latin America, they have appeared at a relatively early stage of industrial development. Furthermore, in some of the countries, the proportion of the wage bill which is earmarked by law for fringe benefits and payroll taxes is considerably greater than that normally found currently in more highly industrialized countries elsewhere in the world. For example, in the United States, the cost of all fringe benefits and payroll taxes equals approximately a fourth of the basic wage (or 20 percent of the total wage bill) in the private nonagricultural sector.[2] In several Latin American countries, payroll taxes alone approximate or exceed this proportion, and if the cost of all legally prescribed fringe benefits and payroll taxes is considered, it far exceeds that of the sum of legally required plus privately arranged benefits in most developed countries.[3] In Brazil, the cost of legally required fringe benefits and payroll taxes amount to approximately 82 percent of the basic wage paid per hour worked in manufacturing.[4] Their cost in Chile is even greater. In El Salvador and Guatemala, their approximate cost is equal to 40 percent of the basic wage while in the rest of the Central American countries it ranges between 12 and 20 percent. Prior to the changes which became effective in 1967, the proportion in the manufacturing sector of Venezuela was on the order of 35 percent of the basic wage, while in Mexico

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2. E. Robert Livernash, "Wages and Benefits" in W. L. Ginsburg, E. R. Livernash, H. S. Parnes, and G. Strauss (eds.). A Review of Industrial Relations Research, Vol. 1. (Madison: Industrial Relations Research Association, 1970) pp. 120-23.

3. In part, the large size of the legally prescribed fringe benefits in Latin America as compared to other developed areas is the inclusion of benefits which, in more highly developed industrial countries are left for determination by the parties to the employment relationship themselves. For example, vacation and holiday pay are generally specified in the labor codes in Latin America rather than being left for determination by employers themselves or collective bargaining as is the case in the United States.

4. The proportions cited for the various Latin American countries are for various years of the decade of the sixties. It must be emphasized that these proportions, in some cases, are only approximations based on incomplete data, though they do provide an accurate notion of their general magnitudes.

it has been in the range of 25-30 percent.[5] To the extent that the legally prescribed benefits are supplemented by other benefits conceded by employers, the total value of fringe benefits and payroll taxes may well exceed the basic wage. The effect of the wage supplements which are conceded privately by employers is to increase the actual differences in wages paid among employers since there is generally a positive relationship between the level of basic wages paid and the value of fringe benefits. Thus a wage structure based on basic wages alone may tend to understate the size of existing differentials among firms or industries.

One important consequence of complexity is to obscure the concept of the wage. No single definition of the wage is appropriate for all purposes. If one is concerned with the total cost of a unit of labor services to an employer then, obviously, the appropriate concept of the wage should be all-inclusive; all payroll taxes and supplementary benefits associated with the basic wage would be relevant. On the other hand, if one is concerned with the incentive effects of wages on worker performance on the job, then only those components of the wage bill which vary directly with the quantity and quality of service provided may be relevant. Quite a different subset of components may be relevant to an analysis of labor mobility, or of the current material well-being of wage recipients.

Whether or not complex wage systems are advisable at a relatively early stage in the economic development of a nation is certainly open to question.

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5. The sources of these proportions are as follows: for Brazil, "Encargo Sociais do Empregador", Conjunctura Econômica XIX, No. 7, July 1965, pp. 49-55 and XX, No. 6, June 1966, pp. 57-63; Chile, P. Gregory, Industrial Wages in Chile (Ithaca: Cornell University Press, 1967) pp. 13-18; Central America, Oficina Internacional del Trabajo, Informe a los Gobiernos de Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua y Panama sobre el Costo de la Mano de Obra en la Industria (Geneva: 1966) p. 57; Venezuela, Chi-Yi Chen, Economía Social del Trabajo (Caracas: Instituto de Investigaciones Economicas, Universidad Católica Andrés Bello, 1969) pp. 197-200 and 387-92; Mexico, U. S. Department of State, Agency for International Development, Labor in Mexico (Washington: 1963), pp. 58, 76-9.

The provisions of the labor codes which gave rise to this complexity were clearly motivated by humanistic impulses. There was a desire to avoid the most obvious ills of the industrialization process as it had unfolded in nineteenth century Europe and North America by providing important parts of the working population with certain minimum income and working conditions. How well the structure which has evolved actually meets the original intended objectives of the labor codes or how consistent it is with other current social objectives is not at all clear. Indeed, the question is rarely raised -- perhaps because it is difficult to answer, perhaps because of the high political costs of questioning what have come to be considered part of the "fundamental rights of the working class". I cannot pretend to judge the desirability of any particular combination of components of the wage, for too much depends on the values and preferences of the parties involved in the employment relationship. On the other hand, it may be useful to offer some general observations about wages which may stimulate more thinking about the functions of the wage and the efficiency with which any particular wage system is likely to discharge those functions.

Let us first consider the wage from the point of view of the recipient. His total receipts provide the means for satisfying a wide range of material needs of his own and his family. Wage income in the form of cash provides the worker with a supply of generalized purchasing power which he can spend on various goods in those proportions which yield him the greatest amount of satisfaction or "utility". To the extent that parts of the wage bill are earmarked for particular purposes, the worker is deprived of generalized purchasing power. Whether his satisfaction is enhanced depends on whether he would have allocated the wage bill in an identical fashion if he were given the whole wage in the form of cash. For example, suppose an employer maintains a recreation center for the use of his employees at a cost equivalent to 10 pesos a week per worker. If workers would freely be willing to spend only 5 pesos a week on the services of such a center, then they would clearly be much better off being paid the 10 pesos in cash wages rather than have that amount allocated to the center by the employer. A similar kind of question can be raised with respect to payroll taxes to finance retirement pensions for workers at very low income levels. What would workers prefer, a certain increase in current income equivalent to the payroll tax or income of uncertain purchasing power at some point in the future? As a general observation, one might note that where incomes are very low, the immediate needs of individuals and families are so great that a strong preference is likely to be expressed for current income and consumption. The clearest evidence of this is the frequency with which poor people throughout the world incur heavy debt to finance current consumption. Historically, in the advanced industrial countries, it is noteworthy that the principal emphasis of the early trade unions lay on the cash wage rate rather than on fringe benefits. Not until real income levels had made a considerable advance did they turn to the pursuit of fringe benefits. Thus, one should at least raise the question of whether the compartmentalization of the wage is consistent with the maximization of the welfare of the recipients. It is interesting to note that in many of the Latin American countries, there has been a recognition of the superiority of the generalized purchasing power of cash wages in the legal stipulations which limit the proportion of the total wage that employers of agricultural labor may pay in kind.[6]

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6. There is no intention to imply that there are no purposes to which part of the wage bill could be allocated without a loss of welfare. Clearly, if there is some service which is highly valued by most workers, and in the purchase of which there are significant economies to be gained by the centralized provision of these services, then the welfare of workers may be enhanced by earmarking part of the wage for such a service. Medical services may fall into such a category.

One possible explanation for the absence of objections to the compartmentalization of the wage bill is a conviction, often voiced by trade unionists in Latin America, that fringe benefits are "extras" over and above the basic wage which could never have been realized in the form of a cash addition to the wage. That is, they feel that they do not typically face the option of choosing between a fringe or a cash equivalent. In fact, of course, it is not clear that fringes always, if ever, represent such a "bonus". For example, it is widely stated by students of wages in France that the adoption of family allowances led to a reduction of the basic wage and that increases in the allowance are gained at the expense of the wage. A general recognition of this led to a considerable conflict of interest within the working class between recipients of family allowances and nonrecipient wage earners who contend that the allowances are financed at their expense.[7]

The recent experience of Brazil may also be instructive in this regard.[8] As an anti-inflationary measure, the government in 1964 promulgated a policy designed to restrain the rate of increase in wages and salaries. A formula was defined which was intended to limit wage adjustments to the reestablishment of the average annual real wage level of the preceding twenty-four months plus an adjustment factor based on the predicted average rate of inflation over the succeeding twelve. Since the predicted rate of inflation for each succeeding twelve-month period was consistently underestimated, the formula imparted a downward bias to the level of real wages during the rapid inflation of 1964-67. It is not surprising that the formula became the subject of considerable

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7. J. Lecaillon and J. Marchal, "Wage-Structure and the Theory of the Distribution of Income: The French Pattern", in E. M. Hugh-Jones, ed., Wage-Structure in Theory and Practice (Amsterdam: North-Holland, 1966), pp. 80-1.

8. The discussion which follows is based on research undertaken by the author in Brazil in 1968. The research findings have not yet been published.

controversy in Brazil. The critics of the wage policy pointed to a decline in the real value of the newly promulgated minimum wage of about 30 percent from 1964 to 1967 while the average monthly purchasing power of the minimum in 1967 had dropped almost 19 percent below the 1964 level. The rate of decline in real average earnings in the principal manufacturing centers, São Paulo and Rio, was smaller, approximating 14 percent. Implied by these declines was a sharp deterioration in the income position of the working class and an attendant increase in economic hardship of a social group which was already sorely pressed. Thus, many Brazilians pressed for policy changes to redistribute income in favor of the wage earning class. The accuracy of the decline in real earnings and the purchasing power of the minimum wage is not open to dispute nor is there any disposition on the part of this writer to question the desirability of a more egalitarian distribution of income in Brazil. However the controversy illustrates the pitfalls in the use of only a limited concept of the wage in reaching conclusions and policy recommendations on wages. In this case, the relevance to the analysis of wage trends of the complex character of the wage bill was clearly overlooked.

It is necessary to go back a little beyond the year 1964 if the events of that and subsequent years are to be placed in proper perspective. The years 1959 through 1962 were years of economic expansion in Brazil, and it is not surprising that both money and real wages rose in the manufacturing sector. The following two years, however, provide something of a paradox. There was a sharp deterioration in the rate of growth of both the industrial sector and the economy as a whole. Indeed, the stagnation of output implied a failure by the economy to absorb even the natural increase in the labor force let alone the existing labor surplus. In spite of labor market conditions which would normally be considered as very unfavorable for wage earners, real wages rose sharply by 13 percent in 1963 and reached a peak slightly above this level in 1964. It is generally believed that the increases of 1963 were the result of the generous government support of the trade unions' pursuit of higher wages, evidently out of a belief that higher wages would lead to a desired expansion of aggregate demand. In addition, two measures were adopted, effective in 1963, which were intended to increase further the income receipts of the wage-earning class. The first of these was a "thirteenth-month salary" payable in December, the other, family allowances for children under the age of fifteen; the latter was financed by a payroll tax levied on employers. The coincidence of these measures with the sharp increase in basic wage earnings implied a substantial redistribution of income in favor of the covered wage-earning groups since the aggregate national output per capita declined in 1963 and increased only slightly in 1964. In the absence of rapid increases in productivity, the maintenance of the real levels of wage earners' income at the peak level achieved in early 1964 would have required either that all other income-receiving groups in the economy willingly accept reductions in their real incomes, a highly unlikely event to say the least, or a whole series of direct government measures to prevent offsetting increases in other factor and product prices. Apparently such measures were not contemplated by the government nor is it reasonable to expect that measures could have been devised which could hope to be effective for long. Thus, in the context of the Brazilian economy, the peak incomes realized by wage earners were simply not sustainable and do not provide a realistic basis on which to evaluate the subsequent events. A more defensible base year with which to compare the evolution of the income position of wage earners would appear to be 1962, the last year of an impressive period of rapid economic expansion.

In comparison with wage levels of that year, the levels of 1967 are less unfavorable. Real earnings show a drop of only about two percent. However, this decline does not provide an adequate measure of the real change in the income position of wage earners since it omits the receipts of the two benefits which became effective in 1963. Once these are added in, the average receipts of wage earners appear to have increased by 9 percent in real terms between 1962 and 1967 or by about 1.7 percent compounded annually, a rate which corresponds roughly to the rate of increase in productivity of the economy.

Thus, what appears to have happened is a shift from basic wages to fringe items in the wage bill. The process of inflation provided the vehicle for shrinking the real value of the basic wage until the new fringes could be accommodated without upsetting the traditional patterns of income distribution among the various economic groups.[9] The net effect of the inflation on the economic welfare of the wage-earning class (as represented by those in the industrial sector) thus could not be assessed fully by reference to basic wages to the exclusion of other components of the wage bill. While it is not a topic which falls within the scope of this essay, the Brazilian experience in this instance does raise interesting and critical questions about the extent to which public policy can effect changes in income distribution among the various economic groups simply by acting on components of the wage.

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9. In brief, the accommodation was achieved as follows. Employers faced with an increase in the price of labor, pass these increases on to consumers in the form of higher prices for finished goods. Consumers (whether they are other productive units or persons employed in sectors not affected by the legislated benefits) find their real incomes reduced by the price increases, and they, in turn, demand higher returns for their services, which then are reflected in higher prices for their outputs, etc. All prices rise as each social group seeks to protect its real income position. Money wages in the industrial sector lagged behind the increase in the cost of living until the new components of the wage bill had been absorbed. The policy of wage restraint adopted by the revolutionary government probably facilitated this process, though the decline in real wages had begun well before the policy became effective.

The possibility of altering by government action or collective bargaining the structure of components of the wage bill (as opposed to the total size of the bill) does raise some questions about the appropriateness of certain classes of components. If one of the functions of the wage is to provide an incentive for high levels of performance on the job, it is reasonable to expect that this function will be more likely to be realized the larger the proportion of the wage package that varies directly with the efficiency or quality of performance of workers. That is, if a large proportion of the wage is composed of fringe items which are distributed equally among all workers, the total realized income of individual workers will not be very responsive to differences in efficiency. Thus, workers may not be moved to perform at the highest level consistent with their abilities. Whether the fixed elements of the wage package have expanded so widely as to have notable disincentive effects in the majority of employments in Latin America cannot be determined categorically, though this writer is unaware of any evidence that they have. The principal fringe items are directly linked to the rate of payment realized on the job. Sunday, vacation and holiday pay and "thirteenth-month" bonuses are usually of this character. In contrast, the size of social benefits like family allowances and health services is unrelated to job performance while retirement pensions approach fixity where they yield only small variations over wide earnings ranges. The specific case of heads of households with large families employed at very low wages in societies which grant family allowances is probably the one where the components unrelated to performance are likely to loom largest relative to the on-job earnings. However, such workers are also likely to be sufficiently apprehensive about their alternative employment possibilities in labor-surplus economies to be motivated to perform sufficiently well to ensure continuing employment.[10] This is particularly so where social benefits are effectively available mainly to workers already employed in relatively high-wage sectors.

III. Occupational Wage Structures

Differences in earnings among various occupational groups generally tend to reflect relative scarcities of supply. Thus, it is commonly observed that the differential between skilled and unskilled workers' rates of earnings are large in countries in which the supply of educated individuals is small relative to the size of the total labor force. Economic development creates an expanding demand for many new as well as existing skills. Given the availability of only a limited number of qualified individuals, skilled wages are bid up, thus contributing to a widening of differentials particularly during the early stages of accelerated economic expansion. As long as the development process and the demand for educated or skilled workers outruns the expansion of the educational system or of other training institutions, differentials will continue to widen. Once the developing society undertakes a major expansion of opportunities for securing education and training, the rate of increase in the supply of labor with the qualifications necessary for performance of the high-wage occupations will eventually exceed the rate of expansion in demand, and differentials will tend to narrow. While the maintenance of wide differentials will be reinforced by social attitudes and status considerations associated with many high level occupations, over the long run, market factors tend to predominate. This, at least, has

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10. A striking example of a preponderance of fringe items in the workers' receipts is to be found in the extractive industries where employers typically provide a very wide range of services to all workers including housing. However, since basic wages as well as total remunerations in such employments are usually far above those in alternative employments, workers are subject to the same constraint mentioned above.

typically been the experience in those countries which are currently counted among the highly developed. For example, in the United States at the turn of the present century, skilled workers in the manufacturing and construction sectors typically earned twice as much as the unskilled. Currently skill differentials in the same sectors have narrowed to less than 40 percent, while in the industrialized countries of Western Europe they appear to be even narrower. On the other hand, in the Soviet Union as recently as the late 1950's, skilled wages varied between two and two and one-half times greater than the unskilled in manufacturing, construction, and public utilities.[11]

While the few available data for Latin America leave a great deal to be desired, it would appear that there are substantial differences in the size of occupation differentials among the various countries. In Brazil, Peru, and Venezuela, scattered data for manual labor in the industrial sector indicate skilled wage rates approximately double the unskilled. Reported data for Guatemala City suggest even wider differentials in manufacturing and construction. At the other extreme are differentials in Argentina which seem to range between 20 and 30 percent. Substantial narrowing occurred in Argentina as a result of policies pursued by the Peron government which favored the unskilled worker groups; since the middle 1950's there has been a slight widening of differentials. Currently, the occupational wage structure of Argentina bears greater similarity to those of France and Italy than it does to those of other Latin American countries. Chile, Colombia, and Mexico occupy an intermediate position with skilled wages exceeding the unskilled

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11. M. Yanowitch, "Trends in Soviet Occupational Wage Differentials", Industrial and Labor Relations Review, 13:2, January 1960, pp. 166-91.

by a margin of 50 to 75 percent.[12] Needless to say, these average differentials mask wide differences within countries among firms and industries. For example, one survey of wage rates in fifty Chilean manufacturing and mining firms reported a range of differentials of from one percent to 188 percent. These differences reflect only the structures of basic wage rates. To the extent that firms make fringe payments to workers which are unrelated to basic wages, skill differentials based on total remunerations are even narrower.[13]

The nature of wage differentials among broader occupational groups in Latin America is clouded by the absence of reliable and representative data. It is generally acknowledged that substantial differentials exist between the earnings of blue- and white-collar workers. Extensive data for the manufacturing sector in Chile and Brazil indicate that clerical workers' earnings averaged just twice those of manual workers during the early and late years of the 1960's respectively. In Colombia, Mexico and Venezuela, for the same groups in the early 1960's, the difference was greater, the ratio of clerical to manual earnings approaching two and one-half to one. In the Central American countries, the ratio ranges from two to three, with Panama and Guatemala at the lower end of the range, El Salvador

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12. Sources include: for Brazil, Peru, Colombia and Mexico, J. R. Eriksson, "Wage Structure and Economic Development in Selected Latin American Countries: A Comparative Analysis", unpublished Ph. D. dissertation, University of California, Berkeley, pp. 70-72; for Venezuela, Chi-Yi Chen, op. cit., p. 193; Guatemala, U. S. Department of Labor, Labor Law and Practice in Guatemala, B. L. S. Reports No. 223, 1962, p. 15; Argentina, Eriksson, op. cit., p. 73 and R. J. Alexander, Labor Relations in Argentina, Brazil, and Chile (New York: McGraw-Hill, 1962), p. 229; Chile, Gregory, op. cit., pp. 87-90.

13. One study of wage differentials in Latin America reported that, in firms where the formal wage structure had narrowed "markedly", it was not unusual to find various kinds of premiums paid to skilled workers. Eriksson, op. cit., pp. 121-132.

at the upper, and Costa Rica in an intermediate position.[14] There are data which suggest that the differential between blue- and white-collar workers is narrowing in at least two countries, Chile and Colombia over years for which data are available.[15] While an explanation of this tendency cannot be offered, it would appear that the narrowing has occurred too rapidly to be explained solely by reference to market forces; normally one would expect the market to produce narrowing differentials only slowly as the supply of educated persons expands substantially in relation to the employment opportunities available to them.

The appropriateness of any skill differential cannot be judged on an *a priori* basis. It can be determined only by reference to results. If wage differentials are largely the product of market forces, it can be assumed that they do represent on the one hand, the relative worth (at the margin) to employers of the various categories of employees and, on the other hand, the reward necessary to induce workers to fulfill the training and performance requirements associated with these same categories. Institutional forces may intervene in an attempt to alter the relationship among wages as given by the market. Legal minimum wage laws may raise unskilled wages relative to skilled. Trade unions with strong egalitarian preferences may seek to narrow skill differentials by bargaining for unskilled wage rates which exceed the market

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14. Sources include: Chile, Gregory, *op. cit*., pp. 91-94; Brazil, results of private industrial wage surveys made available to the author; Colombia, Oficina Internacional del Trabajo, *Informe al Gobierno de Colombia sobre la Politica a Seguir en la Retribucion del Trabajo* (Ginebra: 1963), p. 21; Venezuela, Chen, *op. cit*., p. 181; Mexico, *Labor in Mexico*, *op. cit*., p. 72; the Central American countries, Oficina Internacional del Trabajo, *Informe a los Gobiernos . . .*, *op. cit*., p. 15.

15. "Indice de Sueldos y Salarios", (Abril 1959 - Abril 1968), Banco Central de Chile, *Boletín Mensual*, Numeros 483-484, Mayo-Junio, 1968, p. 484; *Informe al Gobierno de Colombia . . .*, *op. cit*., p. 17 (1956-62).

supply price of unskilled labor. Success in narrowing differentials in this manner may not affect seriously the ability of employers to induce employees to accept on-the-job training and to move into skilled positions as long as the wages paid during and after training exceed the opportunity costs of such employees. On the other hand, a general narrowing of differentials may reduce the attractiveness of seeking full-time training in vocational school programs since the rate of return to the costs of securing such an education (including the cost of foregone income) could decline sharply.

A strong case can be made against a premature narrowing of occupational differentials largely on incentive grounds. A modern industrial society requires large numbers of persons with secondary education and/or technical training to fulfill the need for versatile, skilled manual workers capable of working without close supervision. In a cultural setting in which all manual labor is assigned a low social status, individuals with secondary education or its equivalent who qualify for white-collar employment are likely to have strong preferences for such employment rather than accept even the most skilled of manual occupations. An indication of the strength of this preference may be gleaned from a survey of attitudes of students in a technical school in Lima. Only 13 percent of the interviewed students indicated a preference for skilled manual over white-collar employment at the same rate of pay. Only 31 percent of the students stated they would voluntarily choose skilled manual work even if they were to be paid two and three-fourths times the legal minimum wage for white-collar work ("sueldo vital"). Thirty-six percent stated that under no circumstances would they choose to become manual workers. In other words, two-thirds of the students supposedly destined to occupy skilled jobs in Peruvian industry rejected the desirability of choosing a manual career or conditioned an acceptance on wage terms which are unlikely to be fulfilled.[16] While the maintenance of a substantial differential between unskilled and skilled wages by itself will not suffice to overcome centuries-long attitudes, it is unlikely that such attitudes can be overcome without a strong monetary incentive.

Public policy in some of the Latin American countries has, unfortunately, served to reinforce the traditional attitudes towards manual labor. The erection of legal distinctions between manual and non-manual employees, the establishment of separate and superior minimum wages and social security systems for the latter, all tend to strengthen potential labor force entrants' preference for white-collar employments however low their technical requirements may be. In societies at very early stages of development where educational systems are rudimentary and the demand for skilled labor is limited, the maintenance of these formal distinctions is unlikely to result in any significant distortion in the allocation of labor resources. The same cannot be said of a society in the process of modernization where the differences in the requirements between many manual and non-manual occupations narrow to insignificance or are often reversed.

A consequence of the creation of such legal distinctions may be to involve government in an unenviable role as arbiter of the claims for reclassification of various occupational groups. The experience of Chile is illustrative. There, the dissatisfaction of several skilled manual occupational groups with their relative position led them to petition Congress to reclassify them as "empleados" so that they might become eligible for the higher minimum wages and social benefits accorded the latter. In 1958, the Congress was persuaded

16. William F. Whyte, "Culture, Industrial Relations and Economic Development: The Case of Peru", Industrial and Labor Relations Review, 16:4, July 1963, pp. 586-89.

to reclassify the operators of excavating machinery ("operadores de palas y dragas electromecanicas") as "empleados". Several skilled machine shop occupations on the railroads sought a similar change which was granted in 1964 and extended to similar workers in the private sector as well.[17]

A legislative approach to the determination of the socio-economic status of particular occupational groups is hardly likely to prove satisfactory over the long run. There is no assurance that the resulting wage differentials will be optimal for the allocation of labor resources. The reclassification of only some groups of skilled workers may lead to distortions in wage differentials among the various skilled occupations, thus increasing the difficulty of recruiting quality labor for the excluded occupations. The precedent established in these cases may be expected to lead to additional requests for reclassification. Since the criteria for establishing eligibility for reclassification are bound to be vague, continued action on a piecemeal basis is more than likely to produce wage relationships which make little economic sense. At the level of the employing unit, fresh sources of controversy between workers and managements will emerge over the eligibility of individuals for reclassification since wide differences in quality and skill levels normally exist within any occupational group. A more rational course for government action to take may rather be the elimination of existing legal distinctions among classes of workers, the consolidation of the various social welfare schemes into a single system, and the encouragement of wage structures which will serve the best long-run interests of a developing society.

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17. Gregory, op. cit., p. 99.

IV. Interindustry Wage Structures

The interindustry wage structure refers to the relationship existing among the average wage levels of various industries. For this purpose, industry may be defined to include a wide range of activities drawn from various sectors or it may be limited to industry comparisons within the manufacturing sector. For most developing countries, the limited availability of wage data generally restricts the range of possible observations to the industrial sector, and our discussion here reflects this limitation. For our purposes, then, an industry will generally refer to a two-digit industry within the manufacturing sector.

At any moment of time, industry wage levels are likely to be heavily influenced by the skill mix of the labor force employed in each industry. The higher the proportion of skilled workers employed in an industry the higher one would expect the average level of wages to be. The wider occupational differentials are, therefore, the wider are interindustry differentials likely to be. Over time, changes in the relative position of industries in the structure will occur in response to changes in the technology of an industry which alters the proportion of skilled workers employed or to different rates of growth. Rapid expansion of a particular industry may be accompanied by a rise in wages faster than that in the rest of the sector as the former attempts to recruit a labor force which meets its requirements. Other factors that may influence the ranking of industries include the degree of protection enjoyed by industries from internal or external competition and the prevalence and strength of trade union organization.

There would appear to be some rather sharp contrasts in the character and behavior of wage relationships as between mature industrial countries and the industrializing economies of Latin America. For example, one can observe great similarities in the ranking of industries within the manufacturing sector in the industrially developed countries even if one includes both capitalist and socialist countries. Furthermore, wage structures tend to be stable in the ranking of industries, though gradual changes do occur over time in response to a rise or decline in industry fortunes. Reflecting the narrowing trend in occupational differentials, industry wage structures have also evidenced declining dispersion.

The Latin American industrial wage structures on the other hand, evidence fewer similarities either to those of the mature industrial countries or to those of each other. Some of the differences between the Latin American and the mature industrial countries can be explained by important differences in the composition of some industries and the resulting technological differences. For example, an integrated transportation equipment industry producing motor vehicles and aircraft is hardly comparable to one mainly devoted to assembly of imported automobile components. The sharp contrasts in the average level of skills employed in industries defined at the two-digit level should therefore provide an ample basis for disparate rankings. Similar considerations probably account for the differences in rankings among the Latin American countries themselves. In addition, differences in age and rate of expansion of particular industry groups are likely to contribute important influences in shaping the configuration of wage relationships where the manufacturing sector is still young.

It should surprise no one to find large differences in wage levels among industries in most of the countries of Latin America. This would follow from the wide occupational differentials which were discussed above. In addition, there are likely to be much greater technological disparities among industries in developing countries as compared to the developed. While some industries like petroleum refining and basic steel employ technologies virtually identical to those of the mature industrial countries, others, particularly in the consumer goods fields, may have substantial representation of firms employing highly labor-intensive technologies at very low levels of productivity. The precise spread in basic wage levels may be measured by the ratio of the highest average industry wage to the lowest. Chile, the Dominican Republic, Mexico, and Peru (Lima-Callao only) appear to have among the widest structures with ratios of at least three to one. Ratios for Brazil, Guatemala, Costa Rica, Venezuela, and Colombia range from 2.2 to almost 3 to one. The narrowest wage structures are those of Argentina and El Salvador where the ratios are approximately 1.9 and 1.6 to one respectively.[18] These compare with ratios of 1.8 to 1.6 to one for the United States and France. The inclusion of wage supplements to basic wages is likely to have the effect of increasing even further the dispersion observable in basic wages since high-wage industries are also most often those granting the most generous levels of fringes. Data for Chile suggest that the ratio based on total remuneration swells to 4.5 to one. To a certain extent, the comparison of only the two extreme industry wage levels tends to exaggerate the degree of dispersion, particularly when the highest-wage

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18. Sources include: Chile, Gregory, op. cit., p. 109; Dominican Republic Mexico, Peru, Guatemala, Costa Rica, El Salvador, Colombia, and Venezuela, Oficina Internacional de Trabajo, Anuario de Estadisticas del Trabajo 1969, pp. 550-65; Brazil, Funcacão IBGE - Instituto Brasileiro de Estatistica, Indústrias de Transformacão - 1967; Argentina, Eriksson, op. cit., p. 39.

industry stands far above all others as is sometimes the case with petroleum refining. However, even if a more general measure of wage dispersion, such as the coefficient of variation, is compared among countries, wage dispersion in most of the Latin industrial sectors is still considerably greater than in the mature industrial nations.

Industry wage relationships are hardly static. During the earlier stages of industrial development in particular one should expect changes in the ranking of industries to occur as well as changes in the size of differentials. Such changes will reflect appropriate responses to market supply forces of industries with differing rates of expansion or the entry of large new firms with radically different technologies into existing industries, e.g., the establishment of a large basic chemical plant in a chemical industry previously composed of pharmaceutical mixing and packaging firms. If labor market forces were the only ones influencing the interindustry wage structure, changes in differentials would be explained in very large part by these considerations. Interindustry wage structures would tend to be wide and to widen further during early periods of dynamic growth and then to contract as the sector matures and supplies of particular types of labor become increasingly elastic.

The trends in the structures of wages among industries of the manufacturing sector in Latin America are not entirely clear or consistent with one's expectations based on market criteria. In part, this may be the result of the quality or non-comparability of data over time, but it also may be due to the intervention of other nonmarket forces in the determination of wage levels. What studies have been made for different segments of the post-World War II period suggest that a considerable widening of the interindustry structures has occurred in Chile, Brazil, and Peru, perhaps a little widening in Colombia and Mèxico, and a narrowing in Argentina during the Peron era with considerable subsequent widening.

This writer has studied the evolution of the interindustry wage structures of Chile and Brazil for varying periods in the decade of the 1960's and has observed some striking similarities in the two countries. Both underwent considerable widening over the periods studied and in neither case was it possible to explain the change by reference solely to labor market forces. The Chilean structure was studied over the period 1957 to 1963. These were not years of dynamic growth of the industrial sector. In fact, employment in the sector showed very little change over the period. One might have reasonably expected the wage structure to reflect the absence of dynamic elements by preserving the configuration of the base year. This did not turn out to be the case. Rather, the Chilean wage structure proves to have been very volatile even within a shorter span within the period studied. For example, the ratio of basic wages in the highest wage industry to the lowest increased from 2.86 in 1960 to 3.25 in 1963. The degree of dispersion of hourly earnings as measured by the coefficient of variation, V, also increased sharply from 26.5 to 31.8 percent. (The coefficient of variation is defined as the ratio of the standard deviation to the mean of the distribution.) The widening of the structure in terms of total remuneration (basic wages plus fringe benefits but not including payroll taxes) was even more impressive, particularly if one goes back to 1957, a year in which an industrial census was taken. The ratio of the highest to the lowest earnings by industry rose continuously from 2.88 in 1957 to 3.24 in 1961 and 5.55 in 1963. The values of V for these same years were 31.6, 34.7 and 50.5 percent.[19]

Unfortunately, the wage series which were available for Chile were too short and the quality of other data insufficiently high to permit a rigorous analysis of factors which might explain the diverse trends in industry wage levels within the manufacturing sector. Nevertheless, an attempt was made using the best data available. If wages were a function of market forces one might reasonably expect a relationship to exist between rates of growth of industry employment or output and wages. In the Chilean case, regression analysis of rates of wage change on changes in employment and output yielded a statistically insignificant relationship. The independent variable which showed the most consistent significant association with wage changes was the rate of change in average productivity per worker. Theoretically, however, there is no reason to expect, on *a priori* grounds, a flow of productivity gains to wages. They could equally well be passed on to consumers in the form of lower prices or to owners in the form of higher profits. One would expect higher wages to be associated with increased productivity if at the same time, labor happened to be in short supply relative to the demand at current wage levels. This clearly was not the case in Chile. One might also hypothesize a relationship based on the absence of competition in both product and labor markets. It has often been thought that in industries characterized by monopoly elements in the product market and strong trade unions in the labor market, productivity gains accrue to

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19. Gregory, *op. cit*., pp. 60-61. The discussion of the Chilean data which follows is taken from the same source, pp. 61-76.

profits in the short run. These become apparent to trade unions which then seek and obtain wage increases, thus sharing the monopoly rents of the industry. An attempted test of this hypothesis, however, yielded no improvement over the results relating wages with productivity changes alone, though this could be due to the poor quality of our measures of monopoly and trade union strength among industries. In fact, the failure of the regression analysis to yield more than a very weak relationship between the rate of change in wages and trade unionism, either when the latter was treated alone or in conjunction with other variables, is at variance with our more casual observations which led us to expect a significant relationship particularly in monopolistic industries. Thus, our attempt to explain the short-run variations in the inter-industry wage structure in Chile by reference to market and institutional variables was less than satisfying. Hopefully, as longer series of improved data become available, further attempts can be made with greater success.

The study of the Brazilian industrial wage structure covered the years 1959-67. We have already commented on some of the developments of this period in our earlier discussion of wage components. It will be recalled that the early part of this period was characterized by rapid economic expansion and growth. Concomitants of this growth were wide disparities in the rates of wage change among industries and an increasing dispersion in average monthly earnings among the 21 industry groups for which data were available. The coefficient of variation rose from 17.5 percent in 1959 to 20.5 percent in 1962. Such an increase is not surprising, occurring as it did in the context of rapid growth. The expanding requirements of newer industries for classes of labor in scarce supply are likely to induce a faster rate of change in wages there than in older and perhaps more stable industries. Wages in the latter would tend to lag particularly if the prevailing technologies in the older industries require largely labor with relatively low levels of skill, the supply of which is plentiful.

The tendency toward increasing dispersion among industries within the manufacturing sector was arrested during the next two years of economic stagnation only to resume again after 1964. Since a rather rigid formula governing the adjustment of wages was defined in 1964 as part of the government policy of wage restraint, one might have expected wages in all industries to move at very similar rates, especially since the slow rate of expansion of the sector should not have given rise to bottlenecks in the recruitment of labor. Yet industry earnings data indicate that considerable disparities existed in rates of change. Whereas average real monthly earnings declined on the order of 14 percent between 1964 and 1967, the extreme values of the rate of change ranged from a small gain to a decline of 33 percent. Since the lower-wage industries tended to suffer the greatest relative losses in wages, the dispersion of real earnings increased substantially. The coefficient of variation rose from 20.5 percent in 1964 to 24.1 in 1967. As in the case of Chile, it is not possible to undertake a rigorous analysis of the characteristics of the industries with differing rates of wage change because adequate data for this purpose simply do not exist. One can only offer the more casual observation that workers in industries employing higher levels of skills and/or those with trade union organizations which must be counted among the strongest (metallurgy, machinery, transportation equipment, paper, chemicals, tobacco, and graphic arts) were among the more successful in increasing real earnings or in forestalling large declines.

Should these disparate rates of change in industry wage levels and an apparent absence of purely economic explanations be a cause for concern? Is there an ideal manner in which the industrial wage structure should evolve? I believe that a case can be made for the view that wages should reflect more faithfully conditions of supply and demand in labor markets and should change in response to market forces. Thus, wage increases which originate in response to labor shortages in the face of industrial expansion clearly should be viewed favorably. Such increases perform the necessary and useful functions of guiding the allocation of labor. It is more difficult to justify changes in response to institutional forces or other variables. For example, in the Chilean case we noted a direct relationship between the size of productivity and wage increases implying that wages rose faster in industries with rapid rates of increase in output per worker. To the extent that such output increases originate in increased effort by workers on the job, e.g., in response to the introduction of an incentive system of payment, increased earnings are clearly desirable and justifiable. Acceptance of the principle that wages in individual employments should increase at some rate proportional to the increase in productivity in that firm or industry when such increases in productivity are not directly traceable to the efforts of workers implies the acceptance of the possibility of increasing disparity in the income levels of workers with similar skills but employed in different industries within the manufacturing sector. Such differences and the income distribution they imply are likely to be difficult to square with elementary notions of justice. Indeed, if workers themselves are unwilling to accept rates of wage change which are simply the product of chance, i.e., the availability to them of employment in dynamic, increasingly efficient industries or in less technologically progressive industries, then the principle is not likely to be an effective guide for wage determination. Consider the reaction of workers in the less dynamic industries to large wage increases corresponding to high rates of productivity increases in other industries. Is it not reasonable to expect that such increases will create expectations of equal treatment on the part of the less favored groups and that eventually they will seek to gain it? To the extent that wages of the whole sector are geared to the increases in productivity in the most dynamic industries, the greater is the likelihood that wages will rise more rapidly than the <u>average</u> increase in productivity for the sector as a whole. Such wage increases imply rising prices of goods produced in industries where productivity increases are exceeded by the rate of change in wages.

Greater adherence to market criteria for determining appropriate levels of wages of the various industries does not imply constancy of either money or real wage levels. After all, changes in real wage levels are a function not only of money wages but also of the prices of wage goods. Thus, increases in productivity could lead to increases in real incomes through declines in the prices of finished goods. The distribution of productivity gains through lower prices rather than through higher factor rates of remuneration has several advantages to commend it. First, it would result in a broader and more equal sharing of the gains of productivity not only within the industrial labor force, but also over a wider segment of the consuming population since more goods would be brought within the buying range of more consumer groups. Second, lower prices have the additional virtue of bringing closer the day when Latin American manufactured goods may become competitive in world markets, thus contributing to the alleviation of chronic balance of payments difficulties and providing an additional source of impetus for the growth process. Finally, the slower rise in money wages that would be implied could also prove favorable for employment of labor, not only because of the increases in the quantities of goods demanded which would be associated with lower price levels, but also because the substitution of (imported) capital goods for labor would be discouraged. It is recognized, of course, that the actual translation of productivity increases into falling prices would require the maintenance of greater downward pressure on prices than currently exists in many product markets. Efforts would have to be directed to increasing the competitiveness of product markets. Where the small size of domestic markets precludes the existence of competing producers, one of the most effective ways of encouraging greater price flexibility would be to introduce greater flexibility in the administration of tariffs; diminishing rates of protection could clearly force producers to distribute productivity gains through price declines.

One should harbor no illusions about the ease with which the objectives of money wage restraint and downward price flexibility could be realized. Economic and political power to influence market structures or wages and prices is not likely to be given up by those who possess it without a struggle. On the other hand, it may be possible to moderate opposition to these objectives if the institutions and socio-economic groups directly affected can be made to feel compensated by an effective demonstration of concern for other interests they may have. For example, wage earners and their organizations might be persuaded to be less militant if governments move vigorously to expand educational opportunities or demonstrate a commitment to a more egalitarian income distribution by effective enforcement of a progressive tax system. Producers' opposition to reductions in the rate of protection might be neutralized if provision were also made for the expanded availability of technical services to the industrial sector and of aids to potential exporters.

V. Regional and Inter-Sector Differentials

Ideally, a discussion of regional and inter-sector differentials should be based on the wages of a particular kind of occupational class which is widely employed over sectors and regions of a country. Unfortunately, such data are very scarce for the Latin American economies. As a result, the discussion which follows is based on only fragmentary kinds of information extending over a decade or more.

Almost all the available data and more casual types of observations indicate that differences in wages not only exist, as among regions and sectors, but that they are also quite wide in many cases. Many of these differences may reflect differences in labor supply conditions and in the number of alternative employment opportunities open to workers. Thus, regions with a diversified economic structure which are also expanding, tend to be higher wage than those which are stagnant. Sectors which achieve high levels of productivity tend to pay higher wages than those with low levels. Some of the differences observable in money wages will reflect differences in the cost of living among various regions of a country so that the observable money wage differences may exaggerate the extent of real wage differences.

The existence of differences in labor market conditions and living costs among regions is often reflected in the legal minimum wages by province as established by the central government. For example, in Chile in 1968, the minimum wage for white-collar workers (sueldo vital) in the province of Concepcion was 58 percent higher than that in Arauco. In Brazil, the minimum wage promulgated for 1969 established a range of NC$98.40 to NC$156, a difference of 57 percent. The ratio of the highest to the lowest provincial minimum wage in Mexico was 4 for urban areas and 4.3 for rural in 1963, while the highest urban minimum was equal to five times that of the lowest rural rate. In Colombia, a more complex system of minimum wage determination exists which differentiates among regions, sectors, and size of enterprise. In 1969, this system yielded thirty minimum wage rates which range from a low of ten pesos a day in agriculture in low-wage regions to a high of 17.30 pesos in large manufacturing enterprises in the high-wage regions.[20] If it can be presumed that the legal minimum wages are the effective rate of remuneration for unskilled labor, then these differences may yield a measure of the actual differences existing in the wages of unskilled labor within the covered sectors. However, if the legal minimum wages do not apply to all unskilled labor or are not enforced with equal efficiency among sectors

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20. Sources include: Chile, Boletín Mensual, op. cit., p. 484 Brazil, Ministério do Trabalho e Previdencia Social, Salário-Minimo (1969), pp. 119-122; Colombia, International Labour Office, Towards Full Employment (Geneva: 1970), pp. 406-7; Mexico, Labor in Mexico, op. cit., pp. 68-9.

or regions, then the observed differences are likely to understate the actual range of wages.

Even if one restricts his observations to particular sectors, one will find considerable regional variation. Even in a sector such as agriculture which is plagued with large surplus supplies of labor, regional differentials may be found which correspond to climatic zones or to differences in the crops harvested, patterns of land tenure, and size of farm units.[21] Within manufacturing, one finds regional differences in average wage levels as great as 5 to 1 in countries like Brazil and Peru, 3 to 1 in Mexico, 2½ to 1 in Chile and 2 to 1 in Colombia and Argentina. Usually, the dominant industrial centers are the highest wage. For example, Buenos Aires industrial wages are some 15 percent above the average for the country as a whole while Rio de Janeiro and São Paulo lie 40 percent above the average. Lima's wage level appears to be some 34 percent higher than the average. Due to the greater dispersion of industrial activity in Colombia, the wage level in the manufacturing sectors of Antioquia and Cundinamarca are only 12 percent above the average.[22] It should be pointed out, however, that these differences among regions are not solely due to geographical location but also to the distribution of industries employing widely differing skill mixes.

The narrowing of regional and sectoral differentials is a long gradual process depending as it does on mobility of population, capital, and other resources. In spite of high rates of labor mobility

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21. For an illustrative case, see Alberto Valdés E., "Costos. Ingresos y Diferenciales de Salarios en Dos Provincias Agricolas", <u>Cuadernos de Economía</u>, No. 13, Dec., 1967, pp. 1-30.

22. Data on regional differentials within manufacturing were reported by Eriksson, <u>op. cit</u>., pp. 21-35.

among regions and sectors, especially rural-urban mobility, in many countries, there is little evidence in support of a general conclusion that differentials are narrowing. To be sure, there is some scattered information that suggests that some differentials are narrowing. For example, Eriksson holds that within the manufacturing sector, regional differentials have narrowed over the past 20 or 30 years as new industrial centers have sprung up. With respect to intersectoral differentials, there is less cause for optimism. True, the elimination of regional differences in agricultural minimum wages and their establishment at the same level as that of the urban minimum for manual labor in Chile in 1965 would undoubtedly have the effect of narrowing the urban-rural wage differential between workers in covered employments to the extent that the legal minimum was actually paid by rural employers. However, there is little reason to expect that other rural incomes would keep pace with such changes in legal minima. Indeed, if any negative employment effects follow the imposition or increase in rural minimum wages, the differential between the urban employed and the rural displaced workers could even widen. Casual impressions suggest that a widening in urban-rural income differentials (as opposed to wage differentials) have probably occurred in many parts of Latin America. There are substantial groups within the rural population which live at the margin of subsistence and which have been untouched by the development which has occurred in parts of their own countries. Even in Mexico, a country which has pioneered in land reform and industrialization in Latin America, declines in real income of significant groups of the rural population appear to have occurred even while urban incomes have been rising.[23] Given the rapid increase of population in the rural sectors, continuing mobility out of the agricultural sector will have to be combined with a diversification of rural employment opportunities, reforms in land tenure practices, and faster increases in the productivity of farm labor if lasting movement towards inter-sector equality of incomes is to be realized.

23. Sergio Reyes Osorio, "El Desarrollo Polarizado de la Agricultura Mexicana", Comercio Exterior, XIX, No. 3, Marzo 1969, p. 236.