LABOR, THE LEFT AND THE POLITICAL ECONOMY OF LABOR REGULATION IN LATIN AMERICA

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ABSTRACT

Federico Fuchs: Labor, the Left and the Political Economy of Labor Regulation in Latin America
(Under the direction of Evelyne Huber)

Do left parties pursue significantly different policies that other parties? More specifically, the question that arises is whether in the face of momentous transformations of both the political economies and the dynamic of political competitions in the region, ideological orientation and linkages to civil-society still play a significant role in driving partisan approaches to policy making and implementation. I tackle this question by analyzing the area of labor market regulation in Latin America since the mid-1980s.

The objectives of this paper are threefold. First, I will show that there is a distinctive approach of left parties towards regulatory policy in the area of labor law. However, although still oriented towards protecting workers from labor market risks, the impact of the regulatory changes has been relatively small if we consider the period between 1985 and 2009. Second, my analysis of the different areas comprising individual labor law will show in which areas and to what extent left-leaning parties have distinguished themselves. This analysis builds on previous literature on the subject, and expands it by an original analysis of cross-sectional time series data that covers the period 1985-2009. Finally, I present an exploratory analysis of cross-national variation in the patterns of labor regulation, integrating the findings from the examination of changes in individual level labor law with the changes in collective labor regulation.

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Finally, I wish to thank Tom Carsey, Guang Guo and Jessica Pearlman, who offered their feedback on the quantitative methods employed in the third section.

Despite receiving such good advice, I am certain that the reader will find more than one shortcoming in this work, for which I alone am completely responsible.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

1. INTRODUCTION

Do left parties pursue significantly different policies that other parties? This may seem as an obvious question, but by the early 2000s scholars studying Latin America were ready to decree the emergence of converge towards elitist party systems where class cleavages played only a small role in structuring the political arena (Roberts 2002). Moreover, recent literature has also announced the demise of the traditionally strong relation between left and labor-based parties, in favor of decentralized and relatively arms-length relation with a variety of popular sector organizations (Collier and Handlin 2009).

On the economic front, a number of processes have reshaped the face of Latin American economies since the late 1970s. The transition to democracy unleashed economic demands that had accumulated during the previous period of authoritarian rule. Early in the 1980s, the debt crisis heralded the exhaustion of inward-looking development models and opened the way for economic reform. Neoliberal policies sponsored by the Washington Consensus then led the way towards deeper integration of Latin American economies with world markets, albeit the paths towards economic liberalization where different in pace and degree throughout the region. Higher openness to world markets has had the consequence of increasing pressure for countries to adapt to international competition, and has bolstered the influence of international capital in local economies.

In this context, it seems natural to wonder whether there is still room for national policies and, particularly, for policies that vary according to parties' ideological orientations or political alliances. More specifically, the question that arises is whether in the face of momentous transformations of both the political economies and the dynamic of political competitions in the region, ideological orientation and linkages to civil-society still play a significant role in driving partisan approaches to policy making and implementation. I tackle this question by analyzing the area of labor market regulation in Latin America since the mid-1980s.

Indeed, as the thrust of neoliberal reforms waned in the early 2000s, and an increasing number of countries veered towards left-leaning parties, in what constituted a "left turn" in the politics of the region (Levitsky and Roberts 2011), a new literature spawned to assess the different dimensions of this left turn. One of the crucial dimensions that this new literature addressed was policy-making and output, particularly, the extent to which there is a distinctive set of policies that distinguishes these parties while in office. Studies in this area ranged from those that stressed the attitudes of these governments towards democratic politics (Levitsky and Roberts 2011; Weyland et al. 2010), to those that emphasized alternative approaches to macroeconomic policy (Kaufman 2011; Weyland 2011) or recent and historical paths in social policy (Huber and Stephens 2012; Pribble 2013).

Labor regulation is perhaps one of the areas about which we know less in the post-neoliberal period. This is peculiar given the history of the region in the 20th century, during which many countries developed a quite distinctive set of labor market institutions in the midst of the process of political incorporation of the working class and its aftermath. Where import substitution industrialization (ISI) went further, rigid labor markets and corporatist systems of representation where the usual partners of the inward-oriented development strategy. Thus, until the debt crisis of the early 1980s unleashed the period of economic liberalization, most political economies in the region were marked by the tension between left-leaning and labor-based[1] parties and their allies in the labor union movement, on one hand, and the political forces that represented elite and business interests, on the other. In this political rivalry, the state imposed regulations on the individual and collective aspects of labor regulation were often at the center of controversy, and the leftist entente consistently fostered more rigid regulation on labor markets and collective labor regulations that empowered labor unions (Collier and Collier 1991).

With the advent of market reforms, the parameters guiding the action of both parties and the civil society organizations representing the popular sectors were inevitably altered. The process of implementation of economic liberalization and its legacy changed the way in which parties related to popular sector organizations, and also dismantled the bulk of the institutional framework that had sustained ISI (Collier and Handlin 2009; Etchemendy 2011b; Murillo 2001). As a result, left-leaning parties reoriented their strategies towards the growing informal sector, and the economies of the region emerged more integrated to international markets and, therefore, more susceptible to the pressures of international competition.

Thus, the question about the capacity of parties to deliver policy to their organized and unorganized constituencies, perhaps more than ever, remains a relevant one. My objective in this paper will be to disentangle whether left leaning parties are still capable to deliver specific policy outputs to their constituencies in an environment in which both their relation to popular sector organization (formal and informal) has been transformed, and in

[1] The extent to which the left-right ideological spectrum is appropriate for understanding party cleavages in Latin America is indeed a matter of debate. I adopt here a broad understanding of the term “left” to encompass parties that consistently side with the interest of the popular sectors, as it is customary in studies of the region. I address this issue in more detail below when I discuss the coding employed in the quantitative analysis.

which the constraints from the international economy appear as a relatively new and permanent feature of the political landscape. To answer this question, I turn to labor regulation, one of the areas that was traditionally a realm of conflict in which leftist parties and labor unions strove to impose frameworks that protected individual workers from labor market risks, while empowering their organizations vis-à-vis employers, and concentrate my analysis on whether there are identifiable policy-making patterns that bind together leftist parties in Latin America.

The objectives of this paper are threefold. First, I will show that there is a distinctive approach of left parties towards regulatory policy in the area of labor law. However, a comparison with the findings of previous research on the subject will show that, although still oriented towards protecting workers from labor market risks, the impact of the regulatory changes has been relatively small if we consider the period between 1985 and 2009. Second, my analysis of the different areas comprising individual labor law will show in which areas left-leaning parties have distinguished themselves, and to what extent they have done so. Both of these sections build on previous literature on the subject, and expand it by an original analysis of cross-sectional time series data that covers the period 1985-2009. Finally, I present an exploratory analysis of cross-national variation in the patterns of labor regulation, integrating the findings from the examination of changes in individual level labor law with the changes in collective labor regulation. The qualitative analysis in this section seeks to address the period after market reforms, for which quantitative data is not fit for statistical analysis, since time series for individual labor law are too short and incomplete, and quantitative indicators of collective labor regulation are lacking.

The paper proceeds as follows: in the next section, I present the theoretical framework that informs my analysis. The following section presents my empirical strategy and findings. The first part of this section presents the analysis of cross-national time series data on labor regulation, while the second one presents a qualitative analysis of several areas of labor regulation by country, followed by an exploratory classification of different trajectories. Finally, I present my conclusions and discuss further research questions.

2. EXPLAINING LABOR REFORM

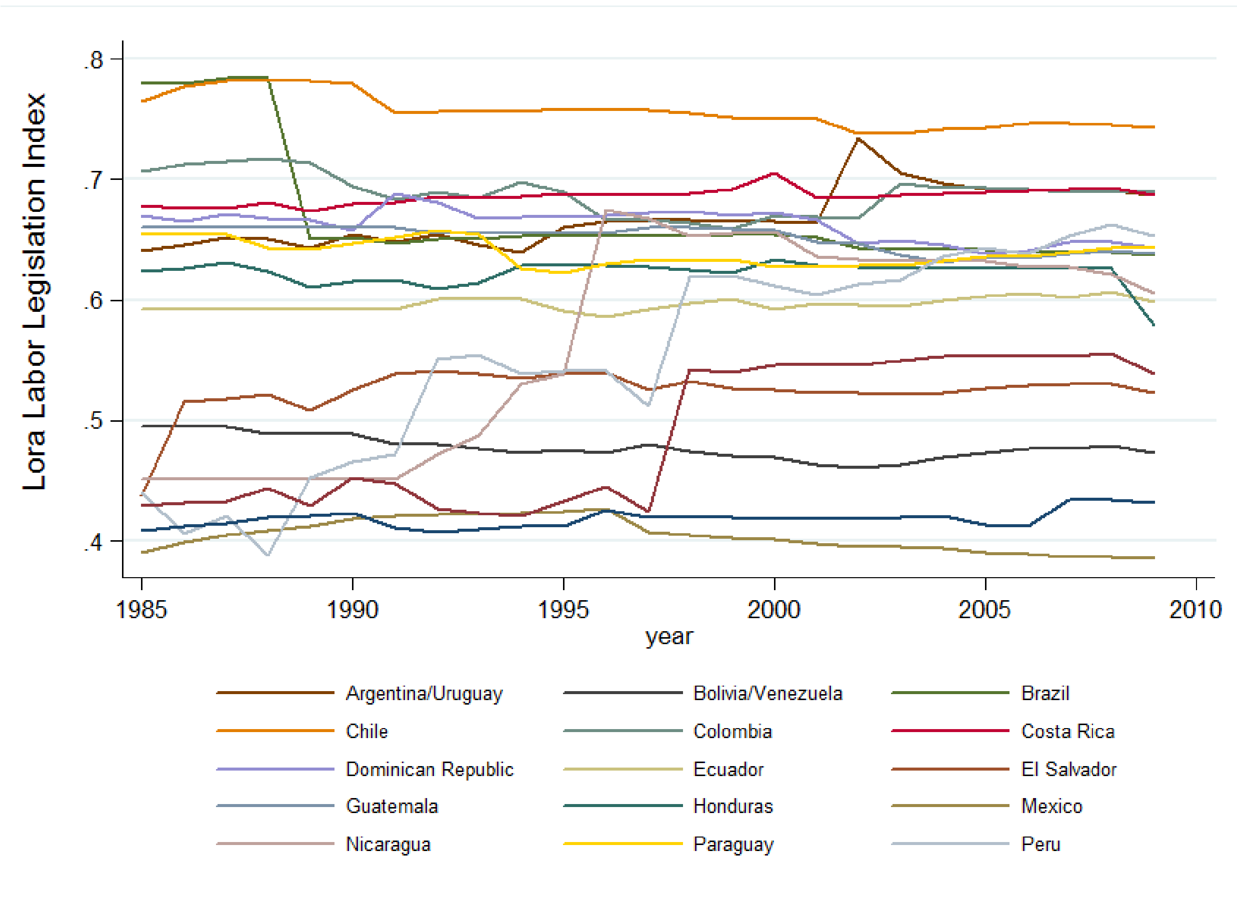
The issue of labor regulation should be of interest for political economy students in itself, especially in Latin America. For theoretical reasons, because it is an obviously major domain of power relations in capitalist economies, given that labor regulation structures conflict between government, employers and unions (Collier and Collier 1979; Cook 2007). Empirically, because even though labor regulation was one of the preferred targets of neoliberal reforms in Latin America, and an area of contention for posneoliberal governments (Cook 2007; Etchemendy 2011b; Levitsky and Roberts 2011; Murillo 2001), a cohesive and systematic explanation of long term trends that binds collective and individual labor regulation changes in post-authoritarian Latin America is still lacking.

Second, the study of labor regulation can contribute to the understanding of the interaction between changes in the international economy and the national political economies. As a large body of literature in international political economy has pointed out, the limits for national economic policies in a global economy are much more constraining than before the 1980s. Whereas macroeconomic policy now faces greater constraints, regulatory policy has emerged as an area where governments still retain the capacity to formulate national policies with a higher degree of autonomy (Frieden 1991). Later academic production, however, has shown that even in this area, transnational economic forces affect government policy (Mosley and Uno 2007). Thus, labor regulation is essentially a prerogative of national governments, but it is one that is inextricably related to countries' insertion in the international economy, which determines how commerce and international capital condition national regulatory policies. The issue of labor regulation can thus illuminate the interplay between domestic and international factors in the process of policy making.

In this paper, I concentrate on two dimensions of labor regulation. The first one is individual labor law. This dimension refers to the regulation of individual labor contracts and rights, and is mostly concerned with the degree of stability of workers in individual jobs, or its reverse, the degree of discretion allowed to employer to unilaterally decide on the initiation and termination of individual contracts. When the latter is greater, labor markets or labor regulation are said to be flexible; when the opposite is true, they are more rigid. Collective labor law refers to regulation affecting the collective organization of workers' interests in the labor market, and the collective exercise of their rights. This level then encompasses mostly the regulation of labor unions (and their counterparts, business organizations).

As Figure 1 shows, labor regulation is an area that has displayed significant variation in the region, partly across time, and certainly across countries. Most importantly, the paths taken by different spheres within labor regulation have been somewhat different. Thus, a particular feature of Latin American political economies in the transition from import substitution industrialization (ISI) to the open economy has been the divergence of the paths taken by collective and individual labor regulation. While the most corporatist frameworks in the first area have proven remarkably resilient (with a few notable exceptions), individual labor law has followed different and many times cyclical patterns. Although gradual evolution seems the most common pattern, some countries have experienced episodes of rapid reregulation and, most commonly, swift deregulation (i.e., increases in labor market flexibility). In most countries, some relatively rapid changes can be appreciated, mostly in the 1990s, when important aspects of the legislation were altered. Peru and Nicaragua stand out in this respect, since they sponsored radical change in the period of two decades, and went from having some of the more rigid labor markets to being among the most flexible in the region. Besides this, levels of labor market flexibility have been consistently different across countries.

Figure 1: Labor reform in 17 countries in Latin America



Building on previous research on the role of partisanship on labor reform, in this paper I will argue that, in spite of pressures arising from competition in international markets and the need to attract international capital, there is room for implementing different policies towards labor regulation. More specifically, I will argue that left-leaning parties consistently implement regulatory changes that favor organized labor by reducing labor market flexibility, thus creating more job stability for formal sector workers. The extent to which they can implement such regulatory policies in the context after market reforms, however, is limited by pressures arising from greater integration to international markets. Moreover, labor market regulation constitutes only one area in which such parties can address the demands of working-class constituencies. The other major realm in this respect is social policy, which I hypothesize to affect the extent to which left parties in government will engage in regulation of individual and collective labor law.

Indeed, previous research has found that partisanship and, to a lesser extent, union strength, matter for whether reform takes place, and for the direction of such reform during the period of economic liberalization and afterwards (Murillo, Ronconi, and Schrank 2011; Murillo 2005).

Both factors have been found to be important drivers of resistance to flexibilization or changes towards higher regulation (less flexibility). More generally, the strength of organized actors and political alliances between them and parties have been found to mediate between pressures for flexibilization and policy outcomes (Murillo 2001). The theoretical expectation that I derive from this literature then is that, even in the face of sustained pressures towards labor deregulation --that is, increased flexibility - that arise from international competition (I discuss this immediately below), there should be a negative relationship between flexibilization of individual labor law and, on one hand, union strength, and on the other, the presence of left-leaning parties in government. The rationale behind the negative relation between increased flexibility and union strength is straightforward: where unions are stronger they have more resources to fight attempts to increase the flexibility of labor regulation on individual contracts, which would imply granting more power to employers to decide discretionally over hiring and firing workers.

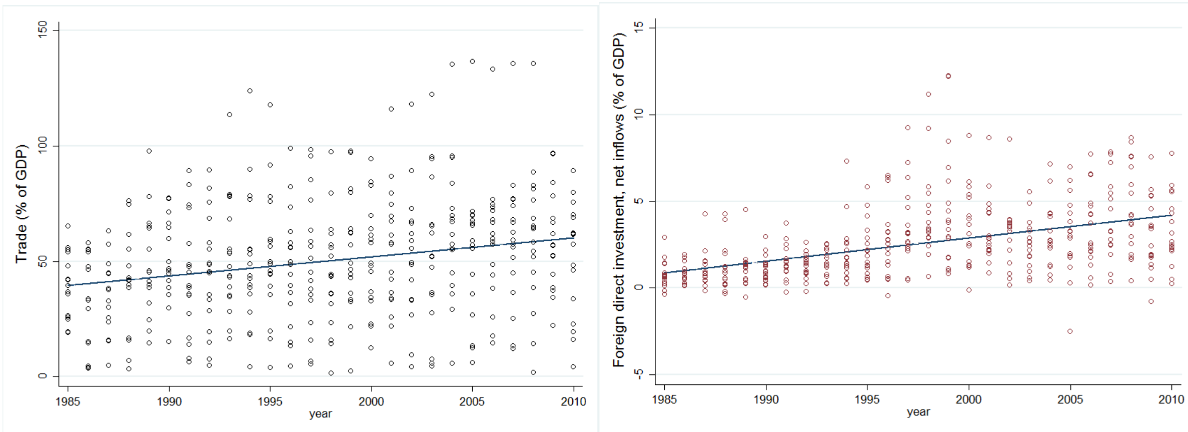
The presence of a left-leaning party in government should affect the degree of rigidity of labor markets because these parties attempt to capture the votes of working-class constituencies, and one way in which they attempt to do this is by providing tangible benefits to them: among other things, greater job protection and stability, that is, less flexible labor markets that benefit formal sector workers directly, and concessions to labor unions in the realm of collective labor law, which benefit workers indirectly by empowering their organizations. Although these factors (recurrence of government by left wing parties and labor union strength) tend to be related, both factors should have an independent impact in labor reform as well: left parties controlling government should have both the opportunity and the desire to implement reforms in the hypothesized direction, and strong unions should be able to push for their preferred policies even in the absence of an allied government.

My contribution to this growing literature is twofold. First, I will attempt to not only evaluate the direction of the influence that left parties have while in government, but also the degree of changes that they are able to deliver, a point I will develop immediately below. Second, as just mentioned, I incorporate in the analysis the influence of factors arising from a greater integration to labor markets, while controlling for alternative policies that these parties pursue in the area of social policy, and I attempt an exploratory analysis linking the development of labor market regulation in both the individual and the collective level (which I address in the following section). This approach should bridge the paths taken by existing literature, that has either encompassed a shorter time frame (Murillo 2005, Mosley 2011) or has not attempted to integrate the analysis of both dimensions taking into account (Murillo, Ronconi and Schrank 2011).

Unlike studies like Murillo, Ronconi and Schrank (2011), however, I do not address the influence of other factors such as regional and bilateral trade agreements, which have been shown to affect primarily enforcement of existing legislation, rather than changes in extant. On the other hand, I do attempt to account for the impact of factors related to the increasing integration and their effect. Indeed, a context of sustained pressure towards deregulating labor markets has been the norm in most recent post-authoritarian history in Latin America, where the dual process of transition to democracy and open economies unleashed the forces of globalization in the, until then, (mostly) sheltered economies. International political economy studies have found that the effects of extended exposure to the international economy are exercised in two main ways (Mosley and Uno 2007): an increase in trade, on one hand, and of foreign direct investment (FDI) flows, on the other. Figure 2 presents the evolution of both of these variables over time, showing a sustained increase since 1985. Both factors are related but different. Trade refers to the flow of commerce across borders. FDI, on the other hand, refers to cross-border investment in host countries, particularly long term investments made by foreign companies in host markets. The effect of trade is directly generated by the need to compete in international markets with countries that export the same goods and services. Such competitive pressures tend to a) force the reduction of production costs, of which labor, in Latin America at least, is a major component; and b) force employers to adapt production output to international demand, and thus the need to adjust their own demand of labor.

The effect of FDI is caused by the fact that multinational corporations (MNCs) settle in developing countries and establish productive facilities, therefore becoming stakeholders in the laws regulating labor markets in the host country. According to Mosley and Uno, the effect of MNCs in labor standards in general (but not necessarily flexibility) may be mixed, and depends on the type of investment and competitive edge that MNCs are looking for in the host country. In the matter of labor regulation, however, I believe there are good reasons to expect MNCs to favor flexible markets, and therefore consider FDI to be associated with greater pressures towards flexibilization of labor regulation. As the literature on varieties of capitalism has highlighted, employers, be they MNCs or local firms, will prefer rigid labor markets only when this is convenient for their production strategies, that is, when there is a high level of integration between those production strategies, labor markets, social security systems and the overall long term macroeconomic policy that is characteristic of the coordinated market economies of Western Europe (Hall and Soskice 2001b). Absent a high level of integration, I expect firms to prefer higher flexibility in labor markets, since they would otherwise be paying the cost of coordination, but they wouldn't get the benefits in return. As a result, I expect external pressures to drive individual labor legislation towards more flexibility, both as an effect of trade and of FDI.

Figure 2: Trade and FDI across 17 Latin American countries



A third and obvious set of factors that has been pointed as a cause of changes in labor regulation are macroeconomic conditions. In Latin America, studies of market reforms have provided abundant evidence on the links between the severity of the terminal crisis of ISI and the need for implementing neoliberal policies in the 1980s and 90s, certainly including labor market regulation (Etchemendy 2011 provides a good summary of this literature; Weyland 2002). More recently, studies of the new leftist governments that emerged in the aftermath of neoliberalism have pointed out to the commodity boom that encompassed most of the 2000s as a crucial factor allowing governments to “govern on the left” (Kaufman 2011; Oliveros, Murillo, and Vaishnav 2010). In both scenarios then, previous research has found a constraining effect of macroeconomic conditions in the options available for governments in terms of labor market regulation.

A final factor that I hypothesize to be causally related to levels of labor market flexibility is the amount and type of government spending on social security and welfare. There are several reasons for this. First, conceptually, social security and welfare and regulation can be considered to a certain extent as alternative ways to protect workers from the risks they face in the labor market. Thus, the risk of unemployment may be tackled by regulation that protects exiting jobs (making it difficult for employers to lay-off workers) or by social spending in the form of unemployment insurance. Other types of social spending, such as health and education, also comprise other ways in which parties, particularly those leaning to the left of the ideological spectrum, address the needs of those in the lower end of the income distribution. Education spending, for example, may be considered as a way of investing in human capital, similar to vocational training schemes (albeit with different expected results). However, not any increase in social spending must be understood in such a manner, since in some systems of social security with regressive natures, they may be channeled to middle and upper classes (Huber and Stephens 2012).

Indeed, this conceptualization of the relation between regulation over labor markets and social security and welfare provision constitutes the standard for research based on advanced industrial countries (Esping-Andersen 1990; Hall and Soskice 2001a; Huber and Stephens 2001) In Latin America, however, analyses have concentrated more on the absence of reform in what are considered too rigid labor markets (Lora and Pagés 1997; Lora 2012) or on the absence of positive complementarities between them and production strategies, leading to dysfunctional labor market institutions (Schneider and Karcher 2010; Schneider 2010). More recent contributions in the area of social policy and welfare provision in the region has indeed found that left-oriented parties have followed distinct strategies towards social spending and redistribution, but have not explored in depth the linkages between such strategies and the ways in which they have pursued labor market regulation (Huber and Stephens 2012, Pribble 2013). Murillo, Ronconi and Schrank (2011) have contributed recently in this direction, presenting a brief but compelling analysis that goes beyond flexibility to incorporate unemployment insurance and the investment in enforcement of existing regulations. As will be clearer in the next section, I only present here a very preliminary and basic test for this contention, since I am only able to control for very broad categories of social spending, and do not go deeper in the qualitative analysis of this factor.

3. EMPIRICAL STRATEGY

3.1 Cross-national time series quantitative analysis

This section presents an analysis of individual labor regulation in the period 1985-2009. The main objective of this analysis is to establish whether there is evidence of a significant impact of left-leaning parties and union strength on the long term patterns of individual labor regulation.

3.1.1 Data and measures

Dependent variable

To measure changes in individual labor regulation I use Lora's Labor Legislation Index, which measures the degree of flexibility of labor regulation affecting individual contracts. Specifically, it measures five aspects that affect flexibility of labor markets: the ease with which legislation allows employers to hire a new worker, the expected cost of firing a worker, the flexibility of working time (that is, in the length of a daily shift), the cost of social security contributions and other payroll taxes, and minimum wages. Each of the components is measured in a continuous or discrete scale, and then standardized in a scale of 0 to 1.[2] The standardization procedure for each of the components creates a relative measure of how far or close countries are from the country that registered the highest level of flexibility registered in

[2] See Lora 2012.

each area (which receives a value of 1). The composite index is then a simple average of those relative measures, and provides therefore a relative measure of how much countries move towards or away from the historically highest level of overall individual labor law flexibility in the region.

Essentially, the aggregate index is thus a measure of the degree of flexibility or rigidity of individual labor contracts allowed by extant legislation with respect to what is considered possible within the region. Lower values of this index imply more rigid labor regulation over individual contracts compared to the highest level of flexibility recorded, that is, a relatively lower discretionary power for employers to hire and fire workers, and therefore greater job stability in favor of individual workers.

Besides this methodological benefit, the index can be conceptually be interpreted as the product of laws and regulations produced by the government (as it was originally intended to be, see Lora 2012), since it focuses only on legislation, and not in other determinants of flexibility/rigidity. Changes over time in this variable are thus indicators of the direction in which successive reforms have taken the level of labor market flexibility: towards the highest in the region or away from it. This is indeed my outcome of interest, expressed in relation to the historical values experienced in the region, and thus the index should provide a good measure for it.

Observations for the variable that reflects the Lora labor legislation index, *labor reform*, are coded for the period of 1985-2009 for 19 countries for Latin America and the Caribbean.[3]

[3] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, México, Nicaragua, Paraguay, Peru, Trinidad y Tobago, Uruguay and Venezuela.

When it comes to labor standards and regulations, the degree of enforcement is always a concern. Powerful actors in the political economy have invested interests in the application or sidelining of existing regulation, and indeed the literature analyzing institutional change has found that changes in the enforcement of rules can be of relevance for institutional outcomes (Mahoney and Thelen 2009; Streeck and Thelen 2005). Recent studies in labor regulation enforcement in Latin America seem to corroborate such an important role for enforcement. My concern in this paper, however, is not so much to determine what causes countries to experience different levels of actual flexibility, but what drives governments to implement changes in existing regulations.[4]

I depart here from the approach of previous research in the subject (Murillo, Ronconi and Schrank 2011, Murillo 2005), which uses qualitative data to assess the direction of change in major reforms in legislation, a strategy that only considers instances of significant overhaul of labor legislation as reforms. The proposed codification of the dependent variable should then allow me to assess whether the explanatory variables in my model are correlated with any type of change in the level of rigidity imposed by law, and should also provide information on the magnitude of those changes.

<u>Left-wing parties</u>

I use Murillo, Oliveros and Vaishnav's (2010) codification of left wing parties in Latin America, which is constructed on the basis of Coppedge's (1997) widely used categorization of parties according to their ideology. As a robustness check, I controlled for any discrepancies

[4] Even so, Burgess shows that there is a roughly proportional relation between levels of de jure and de facto flexibility in labor markets in the region, although there is more variation in the latter. Given this relation, my estimation of changes in the formal regulations over labor markets should address the changes in the actual degree of flexibility, but it will not cover all the factors determining the effective degree of flexibilization.

between the coding done in Murillo, Oliveros and Vaishnav and that made by Huber, Stephens, Mustillo and Pribble in their Latin America and the Caribbean Political dataset (Huber et al. 2012). Based on these data, I construct a binary variable, left party, which takes the value of 1 when the party in the presidency is coded as left or center-left, and 0 otherwise.

This classification has the advantage of categorizing parties and governments not based on the policies they pursue, but on their express ideological adherence before the period in which they hold office (as it is intended by the sources on which my own coding is made). This allows me to avoid the danger of endogeneity between this independent and the dependent variables, since the policies pursued by the parties in government are not one of the criteria informing their codification along the ideological spectrum. Ideology itself is an elusive concept, especially when applied to organizations that evolve over time, and even more so in the case of Latin America. This is particularly problematic when working with the traditional populist or labor-based parties in the region, which have historically had varying ideological commitments. Both Murillo, Oliveros and Vaishnav's and Huber, Mustillo and Stephen's classifications have built in these historical nuances, and change the classification of parties only when there is widespread agreement on the ideological orientation that a party has sustained over time.

The variable coded according to this guideline includes all presidential terms in 18 Latin American countries, starting from the latest transition to democracy with 468 observations as early as 1973 and as late as 2008. The positive side of this unbalanced panel is that it allows to control for regime type, since countries only appear in the sample once they hold free and regular elections.[5]

Regarding the relationship between government by left wing parties and labor regulation, my expectation derived from the theory presented above is that the first should be correlated with lower levels of flexibility in the latter, since their attempts to gain the allegiance of working-class constituencies (be they organized I labor unions or as members of the electorate) should refrain left parties in government to implement reforms that damage the former's interests. Given that previous research has shown that this is to be expected even during periods of sweeping market liberalization, this should hold even in the face of other external pressures to adopt reforms towards more flexible labor markets, which is the case for the post-reform 2000s in Latin America. This relationship should be stronger for countries that experience longer spells of left governments. Thus, I use the cumulative record of left government since the advent of democracy as my indicator of the weight of the left on the levels of labor market flexibility. For every country-year observation, this cumulative measure is defined as the sum of years in which the country has been governed by a left-of-center party since democratization, including the current year.

In terms of the expected effect on the labor flexibility index that I employ, I expect that countries with longer records of left government will have moved further away from their highest possible levels of regulation-imposed labor market flexibility.

[5] There are some drawbacks to this strategy as well, given that there are certain countries that have had interludes where the minimum level of respect for democratic liberties has not been met. This is particularly the case for the Presidency of Alberto Fujimori in Peru and the presidency of Hugo Chávez after 2005, if we use the widely cited Polity IV scores. Since both of these periods contain relevant information for the purposes of analyzing labor reform, and have been included in previous studies, I incorporate it in my sample. Removing this countries produces similar results, but reduce the significance of estimates and the models. Other recent periods that could be problematic, such as that after the coup against Zelaya in Honduras or the much debated impeachment of Lugo in Paraguay are just outside the timeframe of my study.

Hypothesis 1: The record of left government, cumulative left government, *will be correlated with lower values of the variable* labor reform.

Union strength

Union strength is another elusive concept. In Latin America, it is largely a function of lasting institutional arrangements (collective labor regulation granting institutional resources to unions) that tend to persist over time once they come into being at historical critical junctures, and of the economic context that conditions the degree to which unions can mobilize their institutionally granted resources (Collier and Collier 1979; Collier and Collier 1991; Huber and Stephens 2012; Cook 2007). Variation then is larger here between countries than within countries, more so as we consider shorter periods of time. A widely accepted indicator of this variable is union density, which is often exploited by researchers studying advanced industrial countries (Kenworthy 2003; Rueda 2008). In the case of Latin America, sources of information are scarce and incomplete, so coming up with a complete series is no easy task. To do this, I have combined the most complete available indicators form different sources, all of which provide short and incomplete series on selected countries from my original sample of 17.[6]

All of these indicators should provide comparable measures of the proportion of union members within salaried workers in any given country, although I cannot discard that there may exist differences in the way in which all of the above define the labor force as a

[6] The indicators are: union density (the proportion of the workforce organized into unions) from the LAC 2008 dataset by Huber, Mustillo and Stephens; union density (percentage of labor force that is enrolled in a labor union), from the ICTWSS 2013 database by Vissen; unionization rate (the proportion of union members over the total labor force) in 5 year averages, from Pages (2004); union density (union members over total wage and salary earners), from the OECD 2013; union members as a percentage of total employees, from ILO's LABORSTA 2011 database.

reference category, something that I cannot assess with the information they provide on the respective methodologies. The variable union density is then constructed as an average of all these measures. Even then, this variable has a large number of missing values, since all the series employed themselves have an important degree of missingness (see Table 6 below). This drastically reduces my sample to 287 observations for 17 countries in the period 1985-2009 (the period for which I have data on my dependent variable)

Hypothesis 2: Union strength will be negatively correlated with increases in the flexibility of individual labor law, thus union density *should be negatively correlated to the value of* labor reform.

<u>Exposure to international markets</u>

As discussed above, there are two main sources of exposure to competitive pressure arising from international markets. The first one is the influence of MNCs settling productive facilities in developing countries. To measure this, I use FDI flows as a percentage of GDP, from the World Development Indicators database of the World Bank. Taking the percentage of GDP rather than the raw inflow allows me to scale for the importance of FDI in relation to the size of the host country's economy. The alternative, the raw measure of FDI inflows, would not be as informative of the expected impact FDI would have in pressures for labor reform or any other issue, since the same amount can mean very different impacts on a small (e.g. Bolivia) and a large (e.g. Brazil) economy, and this factor should be accounted for.

Whether producing for local markets or exporting, all other things being equal, I expect MNCs to prefer more flexible labor markets, which will allow them to adjust their demand of labor at low costs. Therefore, I expect FDI as a measure of MNCs influence in economic policy to be associated with higher levels of relative labor market flexibility (that is, higher levels of FDI should take countries closer to the highest flexibility in the region, and vice versa). To avoid the possibility of endogeneity, I lag FDI one year. This is particularly important given the fact that, if MNCs prefer flexible labor markets as proposed, then higher levels of flexibility may be attracting FDI, and not the other way around.

Hypothesis 3: Since MNCs prefer deregulated labor markets, FDI as a percentage of GDP *will be positively correlated with values of* labor reform.

The second aspect of exposure to external pressures is given by the degree of openness of the economy. The argument here is that higher openness to world markets increases competitive pressures towards more flexible labor markets, and therefore increases the probability of labor reform in that direction. To test this hypothesis, I use the variable *trade*, defined as the sum of exports and imports on an annual basis. Thus, I expect *trade* to be positively related with higher values of *labor reform*. To ensure that causality runs from trade to labor reform, I estimate the model using a one year lag of this variable.

Hypothesis 4: Since competition in international markets increases the pressure for reforms towards greater labor market flexibility, trade *should be positively correlated to higher values of* labor reform.

<u>Macroeconomic conditions</u>

I use two indicators of the severity or benevolence of macroeconomic conditions that are common in the literature. The first one is *GDP growth,* defined as GDP percent growth, which should capture both economic crisis and booms' effect in the economy of a given country. The second one is *Inflation*, which stands for the inflation rate and is measured as the percent change in the Consumer Price Index on an annual basis, which should capture the other effect of macroeconomic imbalances, rising prices. Given the presence of influential outliers in the case of this measure, I use the natural log of *inflation*. To avoid endogeneity, I use one year lags of both variables.

Hypothesis 5: Since the adversity of macroeconomic conditions imposes pressures for labor deregulation, I expect GDP growth *to be negatively correlated and* inflation *to be positively correlated with higher values for* labor reform*.*

Social spending

To assess the impact of social policy and welfare as alternatives to labor market regulation, I incorporate three measures that disaggregate social spending: education expenditure, health expenditure and social security and welfare expenditure, all of them measured as percentage of GDP, from the Huber, Stephens, Mustillo and Pribble Social Policy in Latin America and the Caribbean Dataset (updated 2012). I prefer the three components separately to aggregated measures for social spending, because the latter tend to obscure the different ways in which governments spend these resources, which has been shown to cover important differences for outcomes as relevant as inequality and the impact on poverty (Esping-Andersen 1990, Huber and Stephens 2001, Palier 2010). This disaggregated indicators are still far from optimal, since not all education or healthcare spending can be interpreted as an alternative to labor market regulation as a policy directed towards working-class constituencies. Still, the argument can be made that even in systems with inegalitarian features, social policy and welfare constitute means by which governments address the demands of working-class constituencies. Thus, I hypothesize that all indicators will be positively associated with increases in labor market flexibility.

Hypothesis 6: Education, health and social security and welfare *will be positively correlated with increases in* labor reform.

3.1.2 Estimation

The index that constitutes my dependent variable theoretically varies from 0 to 1, but the actual values in my sample only vary from around .39 to around .78. Therefore, I can treat it as an unbounded continuous dependent variable.

The data employed here has time series cross-section (TSCS) properties, so some strategy to account for clustering of observations across units is in order as well. A country fixed-effects specification provides a solution to account for this clustering, by relying only on longitudinal variation, that is, across time, not across cases, thereby eliminating any time-invariant unit specific factors that may be correlated with the dependent variable.

This strategy is then useful when there are reasons to be concerned about unmodeled factors at the unit level that can affect the outcome, which is typical in TSCS data. In this case, if underlying differences in the structural characteristics of countries may be affecting the relation between the dependent and independent variables in the model, fixed-effects allow for a control of what would otherwise be an omitted variable. It may however be problematic when longitudinal variation is scarce, since the model is then estimated with less information, which increases inefficiency. Indeed, in my sample the average within case variance is merely 0.0014, suggesting that variation over time is extremely small. Efficiency is further hampered by the relatively small number of clusters (17 in the dataset, but different specifications make use of only between 13 and 16 clusters due to missing information in the independent variables).

A solution to the perils of a fixed-effects specification is to exploit cross-sectional variation through a random-effects specification, which would be more adequate given the structure of the variance of the dependent variable, while still accounting for correlation in the error term.[7] However, by using inter-case variation, I may be introducing bias, since I relinquish control over time-invariant properties of the cases. Again, this is a common peril in time series cross-sectional data where countries are the units. To avert this possibility, I estimate the model using fixed-effects and random-effects, and run a Hausman test. This test will determine if there are any systematic differences across the parameters estimated using fixed-effects and those estimated using random-effects.[8]

[7] Given the strong correlation of observations within clusters, and the relatively small numbers of observations per cluster, the random-effects assumption of a common intra-class correlation is probably a plausible estimation of the variance covariance matrix given the data and the model that I am running. Still, this model may suffer from some inefficiency caused by a declining correlation structure between error terms that would be better modeled with an ar1 assumption. An alternative to address this would be to use Prais-Winsten regressions, which assume first order autocorrelation within panels and contemporary correlation across panels. However, given the time gaps in the sample (generated by the missing values of some of the independent variables), this technique is not appropriate, and yields models that are not significant. As Beck and Katz (1995) and Achen (2000) have argued, when there is a trend in the data, another alternative, including a lag of the dependent variable in the right hand side of the model, suppresses the power of other explanatory variables and is therefore also inappropriate. To further correct the standard errors for any disturbances that may violate the random-effects model assumption, I have included estimates of these models with Huber-White robust standard errors.

[8] Since the fixed-effects model eliminates all time-invariant unit characteristics, parameter estimates cannot be affected by them. Therefore, if there are any systematic differences of the random-effects estimates with respect to the fixed-effects estimates, there is good reason to suspect the former to be biased due to omitted variables that are relevant in explaining the outcome.

3.1.3 Results

Table 1 presents the results of estimating a model that incorporates partisanship, union strength and controls for the impact of exposure to international markets and macroeconomic conditions.

Table 1: Determinants of Labor reform. Fixed- and Random-effects models

	(I) Fixed-Effects	(II) Random-Effects	(III) Random-Effects	(IV) Random-Effects
Cum. left government	-0.0054***	-0.0052***	-0.0052**	-0.0053***
	(-4.4508)	(-4.3481)	(-2.4342)	(-2.7296)
Union density	-0.0012*	-0.0011*	-0.0011	-0.0014
	(-1.7806)	(-1.7265)	(-0.4096)	(-0.5300)
FDI % GDP lag	0.0046**	0.0045**	0.0045	0.0046
	(2.2908)	(2.2771)	(1.5478)	(1.5927)
Trade % GDP lag	-0.0000	-0.0000	-0.0000	-0.0000
	(-0.1316)	(-0.1841)	(-0.2059)	(-0.0800)
Inflation (ln) lag	-0.0042**	-0.0042**	-0.0042	-0.0039
	(-2.0724)	(-2.0566)	(-1.1219)	(-1.0847)
GDP % growth	0.0019**	0.0019**	0.0019	0.0019
	(2.2912)	(2.3429)	(1.4459)	(1.4440)
Labor reform 1985				0.7713***
				(5.9652)
Intercept	0.6334***	0.6129***	0.6129***	0.1704**
	(42.3476)	(17.7514)	(12.2104)	(2.0441)
R^2 within	0.1973	0.1972	0.1972	0.1968
R^2 between	0.0291	0.0284	0.0284	0.7859
σ_μ	0.1052	0.1176	0.1176	0 .0529
σ_ϵ	0.0330	0.0330	0.0330	0.0330
ρ	0.9106	0.9271	0.9271	0.7197
n	194	194	194	194
N	14	14	14	14
Robust Std. Errors	N	N	Y	Y

t statistics in parenthesis

$***\ p < 0.01$, $**\ p < 0.05$, $*\ p < 0.1$

The first column presents estimates of a fixed-effects GLS regression for comparison, while the second one presents the coefficients for the same model estimated using random-effects GLS regression.[9] All variables included in the right hand side of the model, except *trade* and *union strength*, turn out significant. *Trade* is statistically insignificant across models, while *union strength* is significant to the .1 level. All significant variables have the expected sign, except for *inflation* and *GDP growth*. Particularly, the negative and significant coefficient for *cumulative left government* provides evidence favorable for H1, that the cumulative effect of successive left governments drives labor market regulation towards more rigidity. The unexpected negative and significant coefficient for *inflation* and *GDP growth* suggest that governments (of either sign) tend to *protect* formal sector workers increasing labor market rigidity when inflation rises or GDP plummets, rather than respond by increasing labor market flexibility to address the economic crises by allowing employers to shed labor easily.

Further controls to address any residual disturbances in the error term (see fn. 7) cast doubt on the robustness of some of these results. Column III presents the results of re-estimating the random-effects model computing robust standard errors. Even though most coefficients turn out insignificant, *left government* retains its negative sign and is still significant, showing that this result is robust to controlling for a number of violations in the assumptions of the model.

The low values of the R-squared may be cause for some concern about the explanatory capacity of the model. To address this, column IV shows that adding the level of *labor reform* in 1985 (the beginning of the time series) drastically increases the R-squared for the model presented in column III, without changing sign or significance of coefficient estimates (and with very little change in magnitudes, except for that of the intercept). The

[9] For all model specifications, the Hausman test favors random-effects. The between variance is larger than the within variance, which reinforces the choice of random-effects.

inclusion of this variable thus shows that most of the difference between countries is explained by their relative starting point in the sample in 1985.[10]

Table 2: Determinants of Labor reform. Fixed- and Random-effects models

	(I) Fixed-Effects	(II) Random-Effects	(III) Random-Effects	(IV) Random-Effects
Cum. left government	-0.0049***	-0.0044***	-0.0044	-0.0038
	(-3.1149)	(-2.8152)	(-1.4164)	(-1.5054)
Union density	-0.0008	-0.0008	-0.0008	-0.0009
	(-1.1535)	(-1.0957)	(-0.3947)	(-0.4816)
FDI % GDP lag	0.0015	0.0014	0.0014	0.0013
	(0.6267)	(0.5843)	(0.5657)	(0.5808)
Trade % GDP lag	-0.0000	-0.0000	-0.0000	-0.0001
	(-0.0372)	(-0.2128)	(-0.1873)	(-0.2900)
Inflation (ln) lag	-0.0046*	-0.0044*	-0.0044	-0.0040
	(-1.9175)	(-1.8432)	(-1.5863)	(-1.6345)
GDP % growth	0.0017**	0.0018**	0.0018	0.0019*
	(2.0409)	(2.1147)	(1.6226)	(1.6581)
Educ % GDP	0.0087	0.0073	0.0073	0.0028
	(1.5754)	(1.3601)	(0.4845)	(0.2121)
Health % GDP	-0.0007	-0.0002	-0.0002	0.0008
	(-0.1743)	(-0.0410)	(-0.0620)	(0.2378)
Soc.Sec.&Welfare % GDP	-0.0068*	-0.0062*	-0.0062	-0.0033
	(-1.9182)	(-1.8965)	(-1.4005)	(-1.0709)
Labor reform 1985				0.7963***
				(6.5931)
Intercept	0.6312***	0.6073***	0.6073***	0.1459*
	(23.1874)	(16.0880)	(15.9423)	(1.8580)
R^2 within	0.1818	0.1811	0.1811	0.1711
R^2 between	0.0000	0.0000	0.0000	0.8623
σ_μ	0.1072	0.0935	0.0935	0 .0427
σ_ϵ	0.0309	0.0309	0.0309	0.0309
ρ	0.9235	0.9018	0.9018	0.6570
n	154	154	154	154
N	13	13	13	13
Robust Std. Errors	N	N	Y	Y

t statistics in parenthesis

$*** \, p < 0.01$, $** \, p < 0.05$, $* \, p < 0.1$

[10] The inclusion of this level 2 predictor (that varies only across countries, but not over time) also reduces the between- variance, which is to be expected if some of what appeared in column III as part of the unobserved effect of the units is modeled and incorporated as a variable.

This effect of left governments appears robust to incorporating the indicators for social spending described above, as the first two columns in Table 2 show. Columns I and II in this table also provide support for the effect of GDP growth, and weak support for the effect of *inflation*, once again in the opposite direction than that hypothesized by the literature. These models also provide some evidence against H6, since social security and welfare spending is significant to the .1 level. This suggests that social spending in these particular areas has an unexpected negative effect on the level of labor market flexibility, that is, that social security and welfare spending are associated with increases in the level of job protection. Support for these findings, however disappears when the model is re-estimated using robust standard errors.

The first point that stands out from the results I obtained is that these are not robust to changing assumptions about the structure of correlation of the residuals, that is, of the nature of the effect of the clustering of observations in countries. Controlling for plausible concerns about heteroskedasticity and first order correlation reduces the significance of the correlation between partisan government and labor market regulation flexibility.

The second point is how small coefficients for any of the variables are. In substantively interpreting this, it should be noted first, that the scale of the dependent variable is 0-1, and, second, the very small degree of variance of this variable (.011 overall, 0.0014 within-case), both of which imply that where cumulative left party is significant, there is a substantively important effect of on the outcome variable, and third, that, compared to any of the other right-hand-side significant variables, it is the one that has the largest effect. Particularly in the models including robust standard errors, the relations between the variables and the outcome need to be quite strong to show up in the estimation, particularly given the strong path dependent nature of labor market regulation. Indeed, the disproportionate amount of variance explained by the country random effect (above 90%) is an indicator of how little labor markets in the region have changed. If the theory that I presented addresses most of the influences shaping government policy, as the literature surveyed above implies, then this large unexplained variance is mostly the product of the different departure points for each country, which I failed to address given the limitations of the models that I developed and the data that I used to test them.[11]

3.2 Qualitative analysis

3.2.1 Individual labor law

The preceding section showed that the quantitative analysis provides weak support for the notion that the presence of left-leaning parties in governments is associated with lower relative measures of labor market flexibility. Indeed, this is consistent with the research that has shown that left-leaning parties in the region have pursued distinctive policies in at least some of the areas that are included in the measures I used to assess the level of labor market flexibility, such as minimum wage and social security contributions (López-Calva and Lustig 2012; Huber and Stephens 2012; Murillo, Ronconi, and Schrank 2011). In this section, I will provide additional evidence of the distinctive impact of left-leaning parties in the area of labor regulation, and will describe the paths that left parties have followed in government in the 2000s, the period that has received less attention, and where left wing governments have been conspicuous across countries. To do so, I will assess

[11] As in the case of the models presented in Table 1, I have included a fourth column that includes a model with the level of labor reform in 1985 as predictor, which shows that this procedure increases the explained variance without altering the statistical results for the coefficients, and that most between- variation is explained once the initial levels are accounted for.

the changes made in the 2000s in three dimensions that are not, or are deficiently, addressed by the aggregate measure analyzed above: unemployment insurance, outsourcing, and fixed-term contracts.[12]

For the most part, unemployment insurance made its debut in a region theretofore oriented towards other types of protection from unemployment risk in the 1990s, when seven countries implemented some type of unemployment insurance scheme: Argentina; Brazil, Chile, Colombia, Ecuador, Uruguay, Venezuela. Throughout their first decade of existence, these systems remained characterized by low recipiency rates, low replacement rates and poor monitoring (Murillo, Ronconi and Schrank 2011), contributing to the almost complete lack of safety net for those marginalized form the formal labor market (Huber and Stephens 2012).

In the 2000s, however, some advances were made in the development of these systems, but they remain still underdeveloped for the most part: out of 59 regulatory measures regulating unemployment benefits passed since 2000 in the region, only 14 were aimed at regulating unemployment insurance, while the rest addressed severance payments and special regimes for certain categories (mostly state employees). Most of the regulations aimed specifically at modifying unemployment benefits were concentrated in those countries that had developed them earlier in the 1990s: Argentina, Brazil, Chile, and Uruguay. Chile was the country that invested in developing a sizeable publicly sponsored program (I develop this point below).

Overall, then, the slow development of these regimes did not present a significant complement or alternative to the traditional pattern of protection that Latin American had

[12] This section is based on an original analysis from country-level legislation. Laws and other regulations are available on the ILO Natlex database: http://www.ilo.org/dyn/natlex/natlex_browse.home.

established (relatively rigid regulations on the hiring and firing of workers). Notably, however, those countries that did begin to invest regulatory (and, to a lesser extent, financial) resources in unemployment insurance were those were left parties where in government for most of this period.

One commonly cast aside issue is that outsourcing of services to temporary employment agencies, a type of employment that was for the most part introduced in Latin America in the 1990s. Although not as widespread as in other regions, the expansion of his form of employment has motivated the ILO to issue a report detailing the expansion of this practice and on different ways to mitigate its impact on the workforce (ILO 2013). Despite the warnings issued by the ILO and its union members, only Uruguay and Chile seem to have advanced in the regulation of this types of contract that often imply abuses by companies that pass permanent jobs as temporary contracts in lower wage agencies.

In the third place, even though deregulation of permanent contracts did not advance significantly in the region during market reforms, temporary contracts were introduced in many countries. Argentina, Brazil, Ecuador, Mexico Peru and Trinidad and Tobago established or regulated the existence of this type of contract during the period between 1990 and 2000, altogether issuing a total of 25 regulatory measures that directly or indirectly regulated this new type of labor relation.

During the 2000s, most countries where leftist parties won in the ballot boxes experienced a reversal of that trend. Dilma Roussef's administration limited the duration of short term contracts, establishing minimum and maximum durations and ordering the intervention of the Ministry of labor to allow any temporary contract that extends beyond three months. The socialist Lagos administration in Chile implemented a reregulation of temporary contracts (but later ceded to economic pressures and reversed some of them), which had been introduced by the Pinochet dictatorship that implemented a regime that made temporary work a synonymous of employer discretion (Palacios-valladares 2010). The FA presidency of Tabaré Vázquez in Uruguay established one of the strictest re-regulations of this type of contract, where any employer that subcontracted workers from other firms or employment agencies becomes responsible for their wages and social security contributions. Honduras was one of the exceptions form the countries in the sample selected in the previous section, as it expanded the scope of temporary jobs in the aftermath of the 2008-09 world recession. However, these measures were implemented by the government of Porfirio Lobo Sosa which assumed after the coup that ousted the democratically elected leftist president Manuel Zelaya. In Argentina, one of the first measures taken by the new labor minister after the election of Néstor Kirchner was to repeal most of the legislation that had establish the deregulation of individual contracts, from the extension of probationary periods and a variety of temporary contracts to the procedures for dismissal and severance payments.

If the preceding statistical analysis provided weak support for the idea that left-leaning parties tend to promote lower levels of labor market flexibility, the examples presented above should contribute to delineate a clear direction of the policy initiatives in the area of individual labor regulation that leftist parties adopted in Latin America, much clearer than in the preceding decades in which some of the traditional labor-based parties had been involved in deregulation.

3.2.2 Cross-national patterns: individual and collective labor law in the 21st century

Building on the evidence presented above, this section presents a brief exploratory analysis of the trajectories of labor regulation in Latin America. The countries selected in the sample do not allow for a controlled comparison, instead, they are intended as theoretically and empirically relevant examples of the dynamic of labor regulation suggested in the previous section, and of how that dynamic at the individual level integrates with changes promoted in collective labor law.

All countries presented in Table 3, Chile, Argentina, Venezuela and Uruguay, have comparable levels of economic development and records of democracy (at least until the mid-2000s). Their historical legacies regarding labor mobilization and the ties between unions and parties are among the most comparable in the region, certainly more so than with countries that reached a lower level of development with ISI, and that continue to be laggards in terms of development, poverty and inequality, a point that Murillo and Schrank (2005) have shown to be important for the trajectory of collective labor law. They also are among the ones that have made a good number of changes to the (not very but somewhat) deregulated frameworks they inherited from their neoliberal predecessors. Likewise, they have had long periods of left government (more than one consecutive term), albeit by parties of different origins, internal organization and linkages to civil society. More importantly, for the ends of this section, they have displayed at least three different patterns of labor re-regulation.

Table 3: Cross-national patterns of labor regulation

	Chile	Argentina	Uruguay	Venezuela[13]
Individual labor law	Minimum wage + unemployment insurance and temporary contracts	Job protection (dismissal, temporary contracts and informality[14])	Job protection (informality, temporary contracts and outsourcing)	Minor changes in job protection
Collective labor law	Changes in restrictive legislation for union organization	Collective bargaining expansion and recentralization.	Restoration of corporatist tripartite collective bargaining + Union rights law	Minor changes in government oversight.

The first one is one where policy output concentrates on individual labor law. This is the case of Chile. In this path, the instruments of protection are targeted towards a) the most usual risk in a flexible labor market (short-term unemployment) and b) the lower levels in the income distribution within the formal sector and the informal sector workers (those that are most affected by changes in minimum wage). As in the case of pension reforms, the socialists finally implemented an unemployment insurance that is part market (through individual accounts) and part solidaristic (a state sponsored solidarity fund) (Murillo, Ronconi and Schrank 2011).

Changes in collective labor law are minimal, and only address the most basic demands of labor unions. Under the first *Concertacion* presidency, the Pinochet labor code, was replaced in 1994 by a new one that made only minimal changes. Despite lifting some constraints for collective bargaining and strike activity, the core provisions of the previous

[13] I include only years from 1985 to 2005, after which the Polity IV scores fall below the threshold for electoral democracies.

[14] The law to combat informal employment was passed in early 2014.

regime, prohibition of unions beyond the firm level, extremely limited possibilities for negotiation above the enterprise level, and deficient protection of the right to strike, were left untouched. Frei's administration did not improve this situation, failing to pass reforms in three different occasions (Cook 2007). The first actual PS administration of Ricardo Lagos initially raised expectations of change, but once again the CUT would be disappointed. The downturn taken by the Chilean economy, coupled with pressure from employers led to the drafting of a bill that included further flexibilization of individual contracts, which initially incorporated as a compensation for unions the possibility of negotiating multi-firm collective contracts and lifted some restrictions on the exercise of the right to strike. Whereas the flexibilizing measures made it into the law that was eventually passed by Congress, compensations for labor were relatively meager: the law altered some of the most commonly abused employer-favoring practices in labor-management relations and increased government oversight capabilities to assure compliance, by augmenting the ability to impose fines and boosting labor inspection (Cook 2007).

Another path is represented by those parties that cater to working class constituencies combining a significant degree of both labor market and collective labor law. Examples of this trajectory are Argentina and Uruguay. This path is characterized by a significant degree of protection for labor market insiders, mainly targeted at some of the risks that they are facing in great part due to the (small but existent) changes in during the market reform period: lower costs of dismissal, longer probationary periods and outsourcing practices targeted at reducing employer costs at the expense of working conditions and/or wage compensation (hiring employees from temporary agencies for positions that are permanent or from companies that provide services in lower cost-lower wage sectors, such as cleaning).

Unlike the Chilean case, this path also implies policies directed at significantly strengthening the collective rights of workers, mainly empowering unions in the collective bargaining arena.

In Argentina, benefits targeted at labor unions included the restoration of centralized collective bargaining (which established the national level as default level again), the restoration of *ultractividad* (contracts are automatically renewed if no agreement is made) and the vertical articulation of collective agreements thorough the "most favorable contract provision" (no firm level contract may change higher level contracts unless they provide better conditions for workers). A significant expansion of collective bargaining at the national level also took place with the creation of a special bargaining regime for teachers at the national level (Etchemendy 2011a). Besides the changes in individual labor law reviewed before, Argentina under the Kirchners also made some advances in establishing minimum wage too, with the creation of a tripartite *Consejo Del Salario Minimo Vital y Movil.*[15] Arguably, though, this was motivated to a large extent by formal sector workers demands (since many fringe benefits and contributions are calculated based on the minimum wage, thus affecting employers and formal sector workers stakes in its level, and not only the lower levels of the formal wage scale or informal sector workers).

In Uruguay, the FA in office responded to its long tradition of strong linkages with unions. The most important measure taken in this respect was the reinstatement of the *Consejos* to their original place as central instances of negotiation, while innovating in the expansion of collective bargaining to include public employees, rural and domestic workers,

[15] This council congregates representatives of government, employers and both labor union confederations, but its functioning has been undermined by the deterioration of relations between government and the CGT, and later division of both major national level confederations.

and by establishing higher government intervention in setting wage guidelines to meet inflation targets. Two more laws are worthy of mention here. First, a union rights law, that elevated the status of the collective rights of union members and leaders, which were until then contained in regulatory measures of lesser importance or in collective contracts. Finally, as I mentioned above, the FA also addressed neoliberal legacies in individual labor law, with a "*tercerizaciones*" law that established a regulatory framework for subcontracting practices that was protective of workers' rights (O'Connell 2011).

Finally, there is a left-leaning path that does not provide much compensation in either arena. This is the case of Venezuela. Whatever the interventions of the government in the collective labor law arena, they strengthened government control at the expense of union autonomy. This changes have been incorporated directly into the 1998 "Bolivarian" Constitution, which extended the extent of government control over the management, internal election procedures and funding of unions (Vega Ruíz 2005), and have been the cause of repeated concerns by the OIT (OIT 2005). Since the new constitution entered into force, the Venezuelan government has issued at least four regulatory measures destined to regulate the process of internal elections[16], which were destined specifically at undermining the traditionally pro-AD leadership of the CTV (Murillo 2005). The Chávez administration (until 2005), was also lacking in initiatives regarding individual labor law. This seems to be the paradigmatic case for the Collier and Handlin (2009) A-net argument, where government addresses working class constituencies directly or through a network of decentralized associations, and mainly through social policy, not labor market regulation.

[16] Data available in the ILO database: NATLEX, http://www.ilo.org/dyn/natlex/natlex_browse.home.

4. CONCLUSIONS AND QUESTIONS FOR FURTHER RESEARCH

Consistently with previous research in the field, my statistical analysis finds some support for the idea that left leaning parties in government have a significant impact on labor market regulation, and in the protective direction that the theory I outlined above predicts. However, to the extent that the data employed constitute a reliable measure of the relative magnitude of change, the impact of any of the factors covered by my theory is substantively very small. As I have already mentioned, this is to be expected given the path dependent nature of labor markets. If anything, the addition to the analysis of the new context of post-market reforms, where competitive pressures are more important, should further diminish the impact of partisanship on labor market regulation.

If anything, the preceding models suggest the need to develop better measures for the underlying concepts. Although the quality and quantity of the data is insufficient to run statistical analyses on the post 2000 period alone, comparing my results on the whole period (1985-2009) regarding the impact of macroeconomic conditions with those of studies that encompassed mainly the period of market reforms may be suggesting that, if we incorporate the "left turn", the effect of economic crises is reverted.

Besides this, the analysis of the whole period suggests that assessing not only the direction, but also the magnitude of change, leads to more conservative conclusions about the effect of left governments, and the significance of the correlations is impeached when introducing stringent statistical tests. Murillo, Ronconi and Schrank (2011) find that all reforms in individual labor law implemented after 2002 reduced flexibility. They also find that the ideology of the party in government is a strong predictor of the direction of reforms, with left-leaning administrations significantly more prone to implementing laws that reduce labor market flexibility. However, their analysis does not take into account the degree of change (how much did the reforms actually change). Even though not conclusive, my analysis shows that the extent of change that left leaning governments have managed to pass is substantively small, reflecting the constraints that they now face in the context of economies that are subject to a greater degree of influence by external competition. Moreover, whereas in the long run my analysis concurs with theirs, in that most countries have displayed an erratic behavior in the trajectory of labor market regulation, my findings for the 2000s when combining developments in both the individual and collective level underscore the existence of a more consistent pattern (although with interesting shades across countries).

My intention with such an analytical strategy has been to show that there are good reasons to think that policy initiatives in both levels complement each other and therefore need to be considered together. This exploratory analysis is by no means a definitive test for the hypothesis. A research design that controlled for all relevant factors is needed to allow causal inference. In the quantitative analysis section I attempted to develop a controlled comparison, incorporating both national and international influences. Regarding the latter, other factors arising from the insertion of Latin American countries in the international economy have proven to be important in previous research. This is particularly the case for intra-regional differences in the evolution of collective labor rights. Particularly, the influence of globalization has acted through commercial agreements and certain types of

FDI, which have bolstered the strengthening of labor rights where unions are weaker, especially Central America, a factor that should be better accounted for in my research (Mosley 2011).

In the preceding sections, I also advanced the claim that labor market policy, and labor regulation generally, are but one of the ways in which left-leaning parties respond to working class constituencies in terms of policy output. If this argument is theoretically compelling, this justifies an integrated approach that conceives social policy and labor market policy together, which would provide a better understanding of the strategies of parties towards working-class constituencies. The tests I proposed above, however, are very rough tests of this hypothesis, and fail to find support for the argument.

To conclude, the question that my exploratory analysis poses still remains to be answered. If there is a significant impact of left-leaning governments on labor regulation, but there are also variations in the way they approach the issue, what explains these differences? A first natural candidate for this is to explore the different organizational structures and linkage mechanisms of leftist parties, an avenue that has proven fruitful in research on other policy areas, particularly social polity (Pribble 2013, Huber and Stephens 2012). If there is any support for the claim that both policy realms are related, then tackling this dimension is all but mandatory to further the analysis.

Another evidently important dimension is the impact of informality on labor market policy. If Collier and Handlin (2009) proceeded by analyzing mainly the impact of this factor without addressing the place of labor unions in the linkage strategies of leftist parties, the procedure I employed is the reverse. Neither is complete without an assessment of the relations between the worlds of formal and informal sector workers, and on how they impact policy initiatives by left-leaning governments.

Another element that is missing are the patterns of political competition. Indeed, the degree and origin of competition has been shown to affect policies espoused by left parties in the areas that I have surveyed above (Murillo 2001, Etchemendy 2011). The question for political competition also raises another and broader one: is there a particular type of influence of right wing parties in post-neoliberal Latin America? Indeed, during the 1980s and 1990s found a clear agenda to push for in the Washington Consensus, but is there a new agenda after market reforms? The experiences of Mexico, Colombia and Chile in the 2000s could be interesting departure points for a broader assessment of the impact of partisanship on labor market regulation.

As I mentioned above, previous research has shown that "historical legacies" are relevant in influencing the trajectories of parties in this area. The question that still remains is which historical legacies are relevant? Previous research has emphasized the legacy of labor mobilization and incorporation in the 20th century, but what is the impact of the more recent pattern of neoliberal reforms? The neoliberal period in the region has been considered as a new critical juncture in crucial aspects such as party systems (Roberts forthcoming). Indeed, Collier and Handlin (2009) make the case for a transformation of the relations between left and labor-based parties and their constituencies, but provide little in the way of an assessment of how these transformations play out in the policy-making process.

The pattern of reforms during neoliberalism may also help to better understand some of the patterns described above. Thus, the cautious advance of reforms in Chile, may certainly have been influenced by the legacy of neoliberal reforms that were firmly and thoroughly implemented by the Pinochet regime, and generated a balance much more favorable to business sectors. The cases of Argentina, Uruguay and, to a large extent, Brazil are comparable in how little neoliberalism changed labor market institutions and regulation. However, it would still be interesting to see if previous patterns of liberalization influence the slightly different trajectories of these countries. This seems particularly relevant to explain one of the outliers, Peru, where the demise of the traditional labor-based party together with the radical character of neoliberal reforms that all but exterminated union influence can certainly help to explain the trajectory in the 2000s.

Finally, my analysis has yet to reckon with the influence of the reverse of union strength: the power of business organizations. This undoubtedly important factor must be incorporated, as recent studies (Pribble 2013) in the area of social policy have shown the importance of their relative strength and linkages to rightist parties in contemporary Latin America.

APPENDIX

Table 4: Summary statistics

Variable	Mean	Std. Dev.	N
Code	9.5	5.194	468
Year	1996.5	7.508	468
Labor Legislation Index	0.593	0.105	425
Left party	0.295	0.456	468
Union density	15.042	8.768	287
FDI	2.531	2.582	462
GDP growth	3.301	3.778	465
Trade	55.217	35.156	454
Inflation	108.805	751.052	398

Table 5: Cross-correlation table

Variables	Lab. ref. (bin)	Lab. leg. ind.	Left party	Union density	FDI	GDP growth	Trade	Inflation
Lab. ref.(bin)	1.000							
Lab. leg. index	0.008	1.000						
Left party	-0.039	0.047	1.000					
Union density	0.029	-0.189	-0.017	1.000				
FDI	-0.041	0.155	0.102	-0.318	1.000			
GDP growth	0.136	0.208	0.031	-0.201	0.218	1.000		
Trade	0.129	0.071	0.046	-0.254	0.191	0.079	1.000	
Inflation	0.014	-0.072	-0.042	0.171	-0.106	-0.228	-0.094	1.000

Table 6: Collinearity Diagnostics

Variable	VIF	sqrt. VIF	Tolerance	R squared
Labor Legislation Index	1.08	1.04	0.9301	0.0699
Labor Reform Binary	0.494	0.5	468	
Left party	1.05	1.02	0.9527	0.0473
Union density	1.42	1.19	0.7029	0.2971
FDI	1.21	1.10	0.8264	0.1736
GDP growth	1.16	1.08	0.8589	0.1411
Trade	1.24	1.11	0.8055	0.1945
Inflation	1.14	1.07	0.8775	0.1225
Mean VIF	1.19			

Table 7: Missing Values

Variable	Missing	Perc. Missing
Labor Legislation Index	60	12.8
Labor Reform Binary	0	0
Left party	0	0
Union density	181	38.7
FDI	7	1.5
Trade	31	6.6
Inflation	86	18.4

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