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FEATURED Q&A

Would Higher Minimum Wages Benefit Latin Americans?

Q Speaking last month at the annual CAF Conference in Washington, the head of the United Nations Economic Commission for Latin America and the Caribbean, Alicia Bárcena, called for "a new social pact" in Latin American countries and recommended better minimum wage policies as a means to reduce inequality and allow people to improve their consumption level. What is wrong with minimum wage policies in Latin America and the Caribbean today? What changes in minimum wage policy would bring about the desired results? How do the countries in the region differ in terms of minimum wage laws, and how do these influence the business and investment climate?

A Guillermo Vuletin, fellow in the Global Economy and Development Program and ESPLA Initiative at the Brookings

Institution: "What is the basic rationale behind the suggested increase in the minimum wages in Latin America? Extensive research in the United States and other advanced countries suggests that a modest raise in the minimum wage increases earnings of low-income families, reducing poverty and income inequality without jeopardizing employment. This last element is undoubtedly key to assessing the effect on poverty and income inequality. If an increase in the minimum wage led to higher unemployment, the implications

for society would be less obvious. Would higher minimum wages bring similar desired results in terms of reduction in poverty and income inequality in Latin America? Generally speaking, not likely. The level of informal economic activity in Latin America ranges between 25 and 60 percent. This unfortunate fact is the result of a multidimensional and explosive mix. Broadly speaking, the region still suffers from poor rule of law and high levels of corruption. These chronic illnesses create a wedge between labor laws and actual labor

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Colombia Peace Talks Stall as Government, Rebels Trade Barbs

The peace talks between Colombia's government and the FARC rebels stalled Sunday with each side blaming the other for the slow pace of the negotiations. Lead government negotiator Humberto de la Calle said the talks need to move more quickly. See story on page 2.

File Photo: Colombian Government.

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NEWS BRIEFS

Colombian Governor Charged With Murder

Juan Francisco 'Kiko' Gómez, the governor of Colombia's La Guajira department, has been arrested on charges of murder and conspiracy for alleged links to the assassination of political rivals and ties to right-wing paramilitary groups and criminal gangs along the country's border with Venezuela, BBC News reported Sunday. Gómez's supporters surrounded his house to try and prevent the arrest. In another case last week, Gómez was charged with five counts of corruption.

Venezuelan Authorities Arrest Valencia Mayor on Graft Charges

Venezuelan authorities on Saturday arrested Edgardo Parra, the mayor of Valencia, the nation's third largest city, as well as his son and two others, on charges of corruption, BBC News reported. Parra, a member of the governing socialist party, and the other three arrested have been accused of extortion and creating cooperatives and companies to launder money. Authorities seized vehicles, cash and documents from Parra, saying they had found evidence of multiple counts of corruption by Parra.

Correa Threatens to Quit if Legislators Allow Abortion

Ecuadorian President Rafael Correa threatened Friday to resign if the National Assembly decriminalizes abortion as part of reforms to the country's penal code, BBC News reported. Correa said members of his alliance have been pushing for the change. "They can do whatever they want. I will never approve the decriminalization of abortion," said Correa. "If these acts of betrayal and disloyalty go on, I will tender my resignation."

Political News**Colombia Peace Talks Stall as Sides Trade Accusations**

The peace talks between Colombia's government and the Revolutionary Armed Forces of Colombia, or FARC, rebels stalled Sunday as the two sides ended their 15th round of negotiations and each blamed the other side for the slow pace of the negotiations, Reuters reported. After nearly a year of talks, the government and



Santos

File Photo: Colombian Government.

the rebels have only managed to reach a partial agreement on agrarian reform, the first point of a six-point agenda for the peace negotiations. Currently, they are discussing the future political participation of the rebels, and still face talks on reparations to victims of the armed conflict, drug trafficking, the end of hostilities and implementing an accord. The government had wanted the talks to conclude by November, the one-year anniversary of the talks and the beginning of the presidential election cycle. President Juan Manuel Santos is expected to announce his candidacy then for a second term ahead of the presidential election next May. On Saturday, a day before the latest round of peace talks ended, the government issued a statement accusing FARC negotiators of stalling the talks on purpose by raising issues that are not on the agenda and by taking advantage of the talks for propaganda purposes. "Since these conversations began it has been the government delegation that has insisted that these talks advance more quickly toward an agreement," said the statement, which was read by the government's lead negotiator, former Vice President Humberto de la Calle. Colombia's government views the talks' slow pace "with concern" and "communicated this to the guerrillas and public," the statement added. On Sunday, the FARC accused the government of failing to take seriously 100 proposals that it had

raised in dealing with rights surrounding the political opposition. "It makes no sense to try to paint the insurgency as the side of the dialogue that is holding back the pace of the [peace] process," said the FARC. The rebel group also threatened to break an agreement to refrain from publicizing details of the negotiations, saying the agreement is "absurd." The next round of talks is scheduled to begin Oct. 23.

Argentina's Fernández Leaves Hospital After Surgery

Argentine President Cristina Fernández de Kirchner was discharged Sunday from the Favaloro Foundation hospital in Buenos Aires, five days after undergoing surgery to remove a blood clot near her brain, BBC News reported. "Due to the favorable post-operative evolution of the president, it has been decided to discharge her today," presidential spokesman Alfredo Scoccimarro said Sunday. "She remains in high spirits. Constantly recovering. She sends her love." Fernández had been diagnosed with a subdural hematoma on Oct. 5, following a fall in

“She remains in high spirits.
Constantly recovering.
She sends her love.”

— Alfredo Scoccimarro

August in which she hit her head. The president's doctors have ordered her to have "strict rest" for at least 30 days. That means she will be unable to actively campaign for legislative allies ahead of the country's Oct. 27 midterm election. Her party is facing the possibility of losing control of Congress. Vice President Amado Boudou has been carrying out presidential duties during Fernández's hospitalization and recovery. Fernández, 60, has had a number of health problems during her presidency. She has suffered from low blood pressure and also underwent surgery in 2012 to have her thyroid gland removed.

Economic News

Brazil May Continue Currency Intervention to Boost Real

Brazil's central bank may extend its program of currency swaps and credit line auctions into next year in an effort to boost the real, Bloomberg News reported Sunday. Analysts expect the Brazilian currency will depreciate this year on the

“The program has proved successful in curbing volatility...”

— *Alexandre Tombini*

expectation that the United States will wind down its monetary stimulus. "The program has proved successful in curbing volatility and could be extended beyond year end if necessary," said Brazil's central bank chief, Alexandre Tombini. The central bank said in August that it would carry out currency swap auctions of \$500 million four days a week and credit-line auctions of \$1 billion once a week. The real had weakened to nearly a five-year low before the central bank started the program. It has since gained 11.9 percent against the dollar.

Company News

Banco Bradesco Planning Two New Funds for Infrastructure Investment

Brazil's **Banco Bradesco** is planning two new private-equity funds for investments in infrastructure, *The Wall Street Journal* reported Saturday. "We will launch two private-equity funds, one exclusively to invest in companies linked to infrastructure projects and the other with a mix of investments," said Denise Pavarina, a top executive at Bradesco. The bank wants to raise approximately \$300 million in the fund solely for infrastructure projects and \$500 million in the mixed fund. The announcement comes amid a large need for infrastructure investments in Latin

America's largest economy. Brazil's government is seeking to overhaul roads, airports, railroads and ports that have become inadequate after several years of rapid economic growth. Growth has

stalled, however, and officials hope infrastructure investments will help spur the economy. Bradesco until now has only invested its own money in private-equity investments.

Featured Q&A

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conditions. In this context, an increase in the minimum wage may be innocuous at best, or more likely, shift workers to the informal economy. Consequently, poverty and income inequality may remain unchanged or even worsen. Naturally, the expected outcome would be completely different if some progress was also achieved on the institutional front. Moreover, as a consequence of the disassociation between laws and actual practice, several Latin American countries have minimum wages to average income ratios that are fairly high by international standards. For example, in Paraguay, that ratio is above 100 percent (that is, the minimum wage is higher than the average income). Not surprisingly, these countries are among those with the highest levels of informal economic activity. While increases in minimum wages are an important policy tool to help alleviate poverty and income inequality, they require some institutional quality prerequisites to actually work. The region still has a deficit in this regard and urgently needs to make huge progress on this front."

A Sara Lemos, lecturer in the economics department of the University of Leicester in England: "Available research, which is mostly based on U.S. evidence, shows that the minimum wage compresses wage distribution and has a small adverse effect on employment. This compression is a reduction in wage inequality resulting from an increase for low earners and no increase for those earning higher amounts. The situation is different in developing countries, where minimum wage policies affect more workers, and labor institutions and law enforcement differ in important ways.

For example, the limited evidence for Latin America indicates that the wage compression and employment effects are considerably stronger in developing countries than in developed countries. Nonetheless, this literature consists of few studies (mostly one or two for each country) and the results are sometimes conflicting. Evidence of a wage compression effect for both the formal and informal sectors in Brazil between 1982 and 2004 was found using monthly household survey. The employment results indicate that neither the number of jobs nor the number of hours worked changed in either sector following minimum wage increases. The main policy implication deriving from these findings is that the minimum wage could be an effective policy tool in the fight against poverty and inequality without destroying too many jobs in Brazil. The minimum wage is effective not only in the formal, but also in the informal sector. Therefore, minimum wage policies might be more effective in reducing poverty than policies that attempt to incorporate informal sector workers into the formal sector, which might generate higher unemployment. Minimum wages could then be complemented by other policies specifically targeted at the poorest 10 percent, as the minimum wage does not reach those at the very bottom of the informal labor market."

A Sergio Daga, visiting senior policy analyst for economic freedom in Latin America at The Heritage Foundation: "Supporters of raising the minimum wage argue that doing so will reduce not only poverty but also inequality. They argue that by requiring employers to pay their lowest-paid employees more than

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Featured Q&A*Continued from page 3*

the open market wage rate, large numbers of other low-income households somehow will be lifted out of poverty. The empirical evidence, however, does not support their theory—either in the United States or in any Latin American country. The labor market is not very different from other markets. When policymakers impose a minimum wage, it sets in motion a very familiar process: just as a minimum price for any good or service that is artificially set above market price, the automatic response of markets is to react to an excess of supply. In terms of the labor markets, that process translates into higher rates of unemployment. The only workers who benefit from a higher minimum wage are those who actually take home that higher wage, and those workers are always in the economy's formal sector. In Latin American and Caribbean countries, the rates of labor market informality are among the highest in the world; workers in those informal sectors tend to be the lowest paid. Therefore, the positive impact of a minimum wage policy is limited to a relative few workers—and they are generally not the poorest workers in any given country. Raising the minimum wage further reduces many workers' job opportunities and working hours. Additionally, minimum wage increases also reduce the availability of training in the workplace,

because more resources are needed to recruit and retain the labor force. The establishment of a minimum wage also has another perverse and unintended consequence. It prevents some hard-

“The only workers who benefit from a higher minimum wage are those who actually take home that higher wage.”

— Sergio Daga

working and ambitious workers from competing for higher wages by lumping them together with other less-skilled or less-energetic workers at a lower-but-minimum wage. Thus a country's most potentially productive workers are effectively locked out of enjoying the full benefits of a formal and fair labor market. As a result, employment opportunities are reduced for everyone and the economy is constrained to grow at a less than optimal rate.”

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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