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## EMPLOYMENT AND QUALITY OF WORK IN COLOMBIA

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## EMPLOYMENT AND QUALITY OF WORK IN COLOMBIA

### 1. Labor Reform and Employment

With regards to income, Colombia has a poverty index that splits the population in two, and a rate of extreme poverty (or indigence) that effects one out of five of the poor. In Colombia, given the relevant indicators, it is impossible to talk of social justice, liberty or equality without first talking about poverty; nothing could be more urgent and critical to public policy than an effective strategy to tackle this humanitarian crisis.

This situation is organically linked to, among other factors: high levels of unemployment, low wages and high instability for the working population, and an overall structural inequality leading to unequal distribution of wealth and property.

**Chart 1: Poverty Indices in Colombia**

	Poverty		Indigence	
	2003	2004	2003	2004
UNDP Social Indicators <sup>1</sup>	51.8	52.6	16.6	17.0
World Bank	66.7			

Source: U.N. Development Program y World Bank

One of the objectives of the 2002 labor reform was to create conditions favorable to job creation. Many analysts and policy makers have argued that existing labor norms that protect stability and assign rights to workers are in fact an obstacle to job creation. For that reason, reforms were been proposed that look to add flexibility to labor laws, so as to better facilitate the entrance and exit into the labor market.

<sup>1</sup> Various government agencies (DANE, Naional University, National Comptroller) have adopted the World Bank's measure of poverty statistics in Colombia. Nonetheless, in 2004 the government decided to adopt a methodology change that resulted in a 10 point drop in this indicator.

The previous labor policy was first implemented as a result of the policies established in the “Washington Consensus”; after ten years of implementing this strategy, however, Colombia practically doubled its traditional unemployment rate, reaching 19.4% following the 1999 economic crisis.

Though, in the years after the recent labor reforms, unemployment has declined, this has nothing to do with the 2002 reforms, and is hardly an indicator of a recovering and growing economy, as evidenced by the performance of the distinct labor market indicators outlined below (Chart 2).

**Chart 2: Average Yearly Performance of the Labor Market, 2002-2004 (in thousands)**

	2002	2003	2004	2005**	Var. %
GDP Growth	1.93%	4.02%	3.96%	3.9%	
Total Population		43.134	43.860	44.433	1.31
Working Age Population	32.146	32.755	33.462	34.026	1.69
Economically Active Population (PEA)	19.656	20.345	20.325	20.199	-0.62
PEA Women			8.618	8.445	-2.01
Employed	16.711	17.467	17.578	17.633	0.31
Female Employed			7.094	7.028	
Unemployed	2.860	2.878	2.767	2.565	-7.3
Female Unemployed (16.79%)			1.524	1.418	-6.96
Subemployed	6.425	6.509	6.424	6.248	-2.74
Inactive	12.489	12.410	13.117	13.799	5.20
Female Inactive			8.965	9.442	5.32
Informal Work (%)*	63.26	60.66	58.68	58.78	
Formal Work (%)*	36.74	39.34	41.32	41.22	
Informal Female Work (%)*	63.26	61.96	60.10	60.22	

\*13 Metropolitan Areas \*\*Average through June

Source: DANE.

- The shift from negative to positive economic growth, from -4.3% in 1999 to 4.02%, 3.96% and 3.9% for 2003, 2004, and 2005, respectively, had an inevitable positive impact on employment numbers – an effect that would have existed regardless of whether labor reforms were implemented or not. Moreover, only in 2003 did we see a significant growth in employment, by 4.52%, or 756 thousand jobs. Again, this growth is primarily linked to natural effects of larger economic turnaround, not specific labor market reforms. In 2004, however, we only saw 111 thousand new jobs, and through July 2005, only 55,000. All in all, while the economy grows at a

rate of about 4%, the employment rate grows at under 1%. The economy may be growing, but it is not creating new jobs.

- The drop in the rate of unemployment, at its core, is linked to the growth of the inactive population, not to the economic recovery, and even less so to labor reforms. Between 2002 and July 2005, the inactive population grew by 1,300,000 people, a 10.49% growth. In this time period, 922,000 new jobs were created (82% of these in 2003 alone), a 5.52% growth level. In other words, employment grew at half the rate of inactivity.
- The drop in unemployment as a side effect of the inactive population growth has an overall effect on the makeup of the labor force. The economically active population, which is comprised of those who work and those who are seeking employment, is smaller today than it was in 2003, and is growing at negative rates, while the overall population grows at positive levels.
- In 2005, informal work accounts for some 58.78% of total employment, and fundamentally affects women workers, 60.22% of whom are occupied in this sector. This is a sector, as we will explore later, that is marked by a paucity of labor rights and protections.

**CHART 3: Working Population by Job Type**

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005-I</b>	<b>Var.% 03-04</b>
<b>NATIONAL</b>	<b>16.619.898</b>	<b>17.466.866</b>	<b>17.577.877</b>	<b>17.487.119</b>	0,64%
<b>Daily and Temporary Workers</b>	6.314.290	6.719.684	6.694.657	6.690.939	-0,37%
% Informal			36.29		
<b>Government Workers</b>	1.056.705	1.092.751	1.069.185	1.061.205	-2,16%
<b>Domestic Workers</b>	864.925	878.910	820.376	843.188	-6,66%
% Informal			95.11		
<b>Self-Employed</b>	6.516.164	6.855.159	7.072.986	7.093.205	3,18%
% Informal*			87.03		
% Female Informal*			86.36		
<b>Owner or Employer</b>	825.113	818.810	899.877	899.116	9,90%
% Informal*			88.72		
<b>[T. F.S.R y otro]</b>	1.042.701	1.101.552	1.020.797	899.466	-7,33%

\* 13 Metropolitan Areas

Source: DANE.

- The distribution of labor by occupation category is as follows (Chart 4): 38.26% of the labor force are manual laborers, daily workers, or specialized workers; of this group, 36.29% of employment is informal. 6.06% of workers are employed by the

state in some capacity (through public service or official positions). 4.82% are domestic employees, and 95.11% of these are informal. 40.56% are self-employed, and within this category 95.11% of workers are informally employed as well. 5.14% are owners and employers, with 88.72% being informally employed. Finally, 5.14% of workers are family workers, working without compensation. (Chart 3)

- Of the 922,000 new jobs created in the past three years, 577,041 (62%) fall into the category of self-employed workers. The categories in which there is the least amount of informality – day workers or specialized workers, and government employees – have shown negative growth rates in this same time frame.
- The drop in the population categorized as “domestic workers” is symptomatic of what could be occurring to household income, as it follows that one of the first things to go in the face of economic uncertainty would be these types of job opportunities.
- Women are worse off than others within the labor market: of every 100 working women, 62.22 are informally employed, and of workers who are categorized as “self-employed,” 86.36% are women. Women are also disproportionately affected by unemployment, the overall rate being 12%, but 16.79% for women.
- In looking at the behavior of the growing inactive population, there are several theories: the government asserts that this phenomenon is due to the fact that unemployment rates have dropped, allowing household incomes to rise, in turn reducing pressures on the job market and allowing those traditionally inactive citizens – students and home-bodies – to go without seeking employment. As we have shown, however, this assessment is far from the truth<sup>2</sup>. Another hypothesis states that long periods of unemployment and a bleak job market picture discourage many of the unemployed to the point where they drop out of the active population altogether. Finally, there is the theory that the impact of remittances sent by overseas workers back to their families is such that many potential workers – women and young people especially – return to the household or to their studies and do not feel pressure to seek employment, reducing unemployment rates but growing the inactive population<sup>3</sup>.

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<sup>2</sup> In 2004, according to the National Comptroller, 760,000 students abandoned their studies. In the DANE survey, 40% of the absence of those between 5 and 17 from school is due to lack of money; this greatly reflects the effect poverty is having on the population. Moreover, the need to work for those of this age (some 13.8% of the 1.2 million youth workers) is closely linked to low household income levels. 12-10-05.

<sup>3</sup> Remittances by workers back to Colombia have increased dramatically since 1999. Emigration from Colombia increased rapidly during the 1998-1999 economic crisis; remittances have grown from US\$745 million to US\$3,060 million in 2003, an annual growth of 25%. According to some calculations, remittances account for 4% of the GDP, almost double what they accounted for in 2000. By the end of this year, remittances will total four times the revenue from coffee exports and will be more than 10% of petroleum exports.

## 2. Employed Population by Activity Type

**Chart 4: Employed Population by Activity Sector and Gender, 2002-2005 (in thousands).**

	2002	2003	2004	2005-I	Var.% 03-04
NATIONAL	16.619.898	17.466.865	17.577.876	17.487.121	0,64%
Agricultural	3.491.912	3.768.856	3.683.300	3.668.930	-2,27%
Mining	180.857	177.002	199.281	178.072	12,59%
Industry	2.200.355	2.327.590	2.407.673	2.361.385	3,44%
Electricity, Gas, Water	74.371	61.989	74.222	90.649	19,73%
Construction	759.737	767.272	784.946	826.063	2,30%
Commerce	4.192.633	4.375.240	4.400.378	4.325.980	0,57%
Services*	5.702.111	5.983.771	6.021.493	6.032.194	0,63%
Not Reporting	17.923	5.146	6.585	3.848	27,98%

Source: DANE - Continuous Household Survey

\*Transportation, Financial, Community, Social, Personal Services

As seen in Chart 5, the economic areas that, in 2004 and the first quarter of 2005, accounted for the most employment activity were also those that showed the most sluggish growth levels: the commercial, restaurant and hotel sector saw 0.57% growth in 2004 and -1.69% growth in early 2005; services related to transport, finance, real estate, collectives, and personal activities all together grew by just 0.63% and 0.17% over the same period; the farming sector saw a spike in activity of 5.09% in 2003, but has regressed by -2.27% and -0.39% in the years since.

For these sectors, labor reform presented no positive stimulus whatsoever for new job creation, as many sectors were faced with lowered demand and no need to expand their labor force. As for industry, in the first quarter of 2005 there was a -1.92% change in employment, this after the 3.44% growth seen in 2004. The other sectors have demonstrated relatively steady behavior, with no drastic effect on employment indices.

In 2004, total employment growth was less than that of the overall GDP, some 0.63% in the face of 3.96% GDP growth. Several sectors showed similar behavior: industry, with 3.43% job growth versus 4.77% overall growth; construction, with 2.34% and 10.65% levels; and the commercial, restaurant and hotel sector, which showed 0.57% and 5.62% levels. These sectors reached their installed capacity, and increased productivity without feeling pressure to add new jobs, and those that were added were cheapened as a result of the labor reforms.

The sectors that saw employment growth that surpassed GDP growth were: mining and quarries (12.42% employment growth vs. 2.28% GDP growth); gas and water electricity (19.35% vs. 2.91%); transportation and communication (6.63% vs. 5.05%); and financial establishments (11.61% vs. 4.33%). It is very possible that these sectors preferred to maintain their labor base without significant changes, hoping that economic growth would continue and not simply be anomalous. This is certainly the case in the mining and quarry, as well as the electrical sector, which in 2003 saw a drop in employed personnel of 1.66% and 16.21%, respectively.

**Chart 5: Annual Variation in Production, Sale and Industry Employment; January – December 2004/2003**

	Production <sup>a</sup>		Sales	Total Employment		
	Nominal	Real		Total	Permanent	Temporary
[a – Total con trilla]	13,12	4,76	3,41	0,45	-1,94	4,04
pb - Total sin trilla]	13,04	4,87	3,54	0,44	-1,96	4,05

Source: DANE

With regard to the manufacturing sector, the annual survey conducted by DANE shows employment growth of a mere 0.44%; overall large industry growth came in at 1.05%, but there was a decline in medium (-0.94%) and small (-0.12%) industries. Nonetheless, growth levels for real production in all industry were at 4.87%, as sales grew by 3.54%. Mid-sized and small industry also saw positive levels in production (4.55%, 5.49%) and sales (4.31%,3.12%), respectively.

The performance of this sector confirms what we asserted above regarding the installed capacity and increased productivity: the labor reforms aimed at creating new jobs have not worked here; with the same personnel and the same installed capacity, this sector has reached higher levels of production and higher sales. Employers in this sector ought to be asked whether the increased productivity and the wealth they have generated has had any positive effect on the quality of life for those workers under them.

The DANE manufacturing survey also lets us see what type of jobs were linked to this sector, giving us a more nuanced picture of the make-up of the sector, and also acts as a harbinger for other sectors. Industry employment, as it turns out, grew by a mere 0.45%; of this, the growth of temporary workers was 4.04%, while permanent workers dropped by 1.94%.

We can also see – empirically – how many businesses are fraudulently taking advantage of labor cooperatives by subcontracting workers and reducing their labor costs. See, for example, what is taking place with the Santodomingo group of businesses, which manufactures beer: the majority of veteran workers were retired through various legal and illegal measures; unions were disbanded or reduced to the bare minimum; the notion of union solidarity no longer applies in any real sense, and the majority of workers are now contracted through cooperatives.

### **3. Quality of Work From a Labor Rights Perspective**

One indicator of the true quality of employment within a society is the extent to which workers' rights are protected and various other standards associated with workers are maintained: a minimum wage; social security and health services; pensions and professional risk management; paid vacations; payment during suspensions and interest during suspensions; maternity rights and protections; workplace safety and health standards; accommodation of workers with various disabilities; the prohibition of child labor; the prohibition of discrimination in the workplace; transportation services; recourses for those unjustly terminated; the ability of workers to organize and form unions, and protections of those unions to effectively negotiate labor conditions.

There can be no better indicator of a society's civilization than the breadth and scope of its democracy and the quality of life it offers its citizens; and no better indicator of this exists than the manner in which a society protects its workers and ensures liberty and equality for all in their daily, real, existence.

**Chart 6. Participation in Social Security by Types of Employment in the 13 Metropolitan Areas (2<sup>nd</sup> Quarters of 2002, 2003, and 2004)**

Type of Employment	% affiliated with health services (regular contribution plan)			Affiliated with Pension Plan		
	Apr-jun 2002	Apr-jun 2003	Apr-jun 2004	Apr-jun 2002	Apr-jun 2003	Apr-Jun 2004
A. TOTAL EMPLOYED	61,4%	62,3%	63,8%	34,3%	34,8%	37,2%
1. Formal Sector	88,1%	87,9%	89,4%	67,7%	68,0%	70,4%
2. Informal Sector	43,6%	44,4%	44,8%	11,9%	11,7%	12,6%
B. SALARIED WORKERS	76,4%	77,9%	79,1%	57,2%	57,7%	60,7%
1. Private	73,4%	75,2%	76,8%	51,8%	52,7%	56,4%
C. Up to 10 Workers	49,0%	51,9%	51,5%	20,6%	20,0%	22,7%
D. 11 or More Workers	88,7%	88,9%	90,6%	71,4%	72,1%	74,8%
2. Government Workers	98,5%	100,0%	99,1%	96,4%	97,7%	96,7%
<b>% Affiliated with Professional Risk Protection</b>						
	<b>2002</b>		<b>2003</b>		<b>2004</b>	
TOTAL EMPLOYED NATIONALLY	24.6		22.9		26.1	

Source: Household survey in the 13 metropolitan areas, second quarter.<sup>4</sup>

In Colombia, the great majority of workers' rights are rife with problems of implementation and protection. For the entire working population, the participation in the social security system is as follows: the highest participation levels are in health services, at 63.8%; next is the pension program, at 37.2%; finally, professional risk protection, at 26.1%.

In the informal sector, where 58.8% of workers are located, barely 44.8% of workers are affiliated with the social security health plans; the rest have to demonstrate sufficiently low income in order to qualify for subsidized health programs. With regard to pensions, only 12.6% of this sector is affiliated, indicating that the vast majority of these workers will have no safety net to allow them to live comfortably in their old age.

Only 26 out of every 100 workers participate in the professional risk protection programs. This program is required, but is the responsibility of the employer, the vast

<sup>4</sup> Taken From: Impacto de la reforma laboral sobre la generación y calidad del empleo. CIDE, 2005.

majority of who seek to evade participation due to the enormous implications an on-the-job accident could have.

The low participation levels by workers in social security programs is related to various problems. The first is the high segment of workers in the informal sector: 58.77%, the majority of whom work on their own, with such low and unstable income levels that they can rarely meet the social security payments, and must choose between putting food on the table and being a part of social security.

The vast majority of workers who comprise the informal economy are in highly precarious situations: sub employment in their hours and wages; work within a family business, or another situation in which they have little say and recourse regarding protections and conditions. In these situations, labor rights simply do not exist, as the only priority of the worker is to continue working and earn as much money as they can, simply to put food on the table.

The majority of those operating under these conditions are poor or living in critical conditions. Consequently, only 44.8% of these workers can avail themselves of social security through making regular contributions, and only 7% can take advantage of the pension system. For the rest, the best-case scenario is to qualify for health subsidy programs.

Another key factor in the paucity of workers who are affiliated with social security programs is the persistent and nefarious evasion on the part of many employers of their obligations to make contributions to social security (Chart 7).

Overall, in the formal sector of the economy, 10.6% and 29.6% of workers are affiliated with the health and pension sectors of social security, respectively. As seen in chart 7, the situation is more critical for salaried employees, who suffer from high levels of disaffiliation: 20.9% in health and 39.3% in pensions. This situation becomes even worse in the private sector: here disaffiliation rates rise to 23.2% and 43.6% in health and pension plans, respectively.

Much of this situation is explained by the structural characteristics of businesses in Colombia, where micro-, small- and medium-sized companies predominate, accounting for 91.7% of all businesses and employing 46.5% of the entire working population. The conditions in which the majority of the [MIPYMES] operate are highly unstable. Many of these companies are part of larger production chains, owned by bigger conglomerates. This leaves very little margin for error when it comes to profitability and efficiency. As a result, many companies must operate in illegal or unhealthy ways in order to meet expectations and avoid large business risks.

Much of the assembly sector operates in these ways. For its part, the government has not implemented effective policies to support this sector, and the few measures that it

does take are too paltry to promote any real formalization and legalization of this sector's practices. This is, for example, one of the reasons that the labor reforms of 2002 that looked to create new jobs have not been effective. Moreover, there is little effective support of science and technology progress, areas that could lead to improved efficiency and better labor policies. Also, domestic businesses find little room for growth within the internal market, as labor policy has dictated that they must maintain low labor costs in order to be competitive on an international level.

Finally, on top of this growing problem of illusion and evasion, there is the wholly insufficient oversight of labor practices on the part of the Social Protection Ministry. Every day there are hundreds of citizens who show up at the regional offices of this ministry to denounce some sort of violation or another related to labor and human rights practices. The ENS reported on 9/30/2004 itself that in the Antioquia regional office, they had received 69,000 personal claims, 45,000 of which were verbal and 24,000 written, and another 700 group claims on the part of unions.

In the face of this problem, the ministry supplies low numbers of inspectors (in Antioquia, only 15), who have to deal with not just these complaints but all matters related to labor rights and unions; in effect, the actual act of inspection, which ought to be consistent and persistent, practically does not occur.

**Chart 7: Claims Related to Violations of Labor Rights. Antioquia Labor Office (Period from 1/1/04-20/9/04)**

TYPE OF CLAIM:	%
1. Individual	
- For Non-Payment of Social Benefits	60
- For Unjust Termination of Contract	10
- For Non-Payment of Wages	10
- For No Affiliation With Social Security or Similar Plan	10
- Other	10
2. Group:	
- For Violation of Collective Agreement	70
- For Persecution of Unions	20
- For Refusal to Begin Labor Negotiations	10

Source: Ministry of Social Protection, Labor Region of Antioquia.

The disaffiliation with the social security system is also related to the types of contracts imposed on the labor market. The characteristics of the relationship that those participating and those not affiliated with the pension system illustrate very clearly what

is happening with regards to contracts: the Banking Superintendent has reported that of the 12 months in the year, 51% of those participating in pension funds only report around half or less of the time<sup>5</sup>.

This low level of reporting is a consequence of the precarious conditions in which many people work, particularly women and the young: short-term employment, informal employment, jobs acquired through subcontractors or third parties, through cooperatives or informal contracts – these are the types of unstable jobs many of these workers must take. In many of these cases it is the responsibility of the worker him/herself to make social security payments; in other cases, though, employers often mask the true nature of their businesses so as to avoid their legal obligations under labor laws.

This type of precarious situation condemns many workers to long periods of disaffiliation with the system, where they repeatedly enter and leave, exposing themselves to various risks. With regard to access to a pension, the fact of the matter is that workers in these situations only make pension contributions sporadically, when they are employed and have enough extra income. The pension system, however, is designed such that these workers will never have access to their pension benefits: 1,300 weeks of participation in the system – a figure that presupposes 25 consecutive years of employment – is needed to reap the benefits. The precarious and inconsistent nature of the job market makes meeting this requirement virtually impossible for many workers.

This is a development that our society must urgently take a look at. In a few years, we are going to be faced with a large segment of the population entering old age without any sort of recourse that allows them to live in comfort and dignity.

#### **4. Wages, Distribution of Wealth, and Poverty**

Poverty is not linked exclusively to lack of income. For a large section of the population, an income is simply not enough to provide for a dignified quality of life, one that allows them to act as autonomous and productive members of society. In fact, income levels for the majority of the salaried population in Colombia condemn them to a life of want and exclude them from truly fulfilling the notion of liberty and equality for all as established in our Constitution.

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<sup>5</sup> The Banking Superintendent has reported that of all those affiliated with pension funds, 49.9% are active and 50.1% are inactive. Active participants are defined as those having made payments in the previous six months. La República, Jueves 11 de Noviembre de 2004.

**Chart 8: Percent of the Working Population By Income (2<sup>nd</sup> and 3<sup>rd</sup> Quarter 2003-2004)**

	2003		2004	
	II	III	II	III
<b>National Total</b>	17.319	17.484	17.334	17.654
From 0 to ½ National Minimum Wage	32.16	27.65	29.29	28.39
From ½ to 1 NMW	24.38	24.82	22.99	23.90
<b>Less than 1 NMW</b>	<b>56.44</b>	<b>52.47</b>	<b>52.28</b>	<b>52.29</b>
From 1 to 1.5 NMW	22.85	22.87	24.17	24.68
From 1.5 to 2 NMW	7.65	7.14	8.90	8.42
<b>Less than 2 NMW</b>	<b>87.03</b>	<b>82.47</b>	<b>85.34</b>	<b>85.39</b>
From 2 to 4 NMW	8.88	8.35	9.86	9.83
4 NMW and more	.08		4.80	4.78
Total Respondents	13.545	13.760	13.576	14.113

Source: DANE y FENALCO, abril de 2005

In Colombia more than half of the working population – some 52.29% - receives wages less than the minimum wage, and a full 85% of workers earn incomes less than double the minimum wage. According to ENS calculations, in order to meet basket of basic goods, an average family would have to earn 2.1 times the minimum wage. That is to say that a typical family would have to have at least two members consistently earning minimum wage to even approach the income levels needed to secure a decent standard of living (Chart 9).

For the majority of households, this is not possible: they do not have two family members earning the type of wages we have indicated are necessary or – in the best case scenario – the combined income of two family members barely meets the demand of household costs.

To this picture we should add that the majority of women in the job market are within the informal sector (some 60%) and that – on average – women receive 30% less in wages than men.

One stark indicator of the extent to which insufficient incomes affect poverty in this country is the grave problem of child labor. According to DANE, 1.5million children between the ages of 13 and 17 work in this country. There are more figures that paint a detailed picture of this horrible reality:

- 11,000 boys and girls are involved in armed conflict (Human Rights Watch).
- 25,000 boys and girls are victims of sexual exploitation (Defensoría del Pueblo ).
- 323,000 boys and girls work in domestic jobs (UNICEF and Save the Children).
- 200,000 boys and girls involved in illicit activities (Defensoría del Pueblo).
- 794,976 working boys and girls between ages 5 and 14 (DANE).

- 750,531 boys and girls have household duties that take more than 15 hours per week (DANE).
- 512,344 boys and girls are involved in the commercial sector (DANE).

**Chart 9: Minimum Wage vs. Household Basket**

YEAR	Consumer Price Index resulting from previous Year	Growth in NMW (%)	NMW	Household Income (\$ yearly average)		[C. Fliar/ NMW Veces]
				Low	Mean	
2000	9.23 (1999)	9.99	260.100	575.954	1.472.119	2.14
2001	8.75 (2000)	9.96	286.000	625.804	1.589.814	2.18
2002	7.65 (2001)	8.04	309.000	670.960	1.691.736	2.17
2003	6.99 (2002)	7.44	332.000	720.149	1.810.356	2.17
2004	6.49 (2003)	7.83	358.000	762.917	1.919.473	2.13
2005	5.5 (2004)	6.56	381.500	802.347	2.009.894	2.10

Source : DANE ,calculations by ENS

When looked at by economic sector (Chart 10), we see that the most precarious conditions are those in the: Agricultural sector, 78.97% of whom earn less than minimum wage; the construction sector, where 55.64% are in this situation; and, finally, in the commercial sector, where 54.15% earn less than the law mandates.

**Chart 10: Income by Sector and by Minimum Wage 2003-2004 (3<sup>rd</sup> Quarter)**

	2003 (III quarter)		2004 (III quarter)	
	% under 1NMW	% under 2NMW	% under 1NMW	% under 2NMW
Commerce	57.78	90.721	54.15	89.96
Community and Social Services	46.65	75.67	43.46	73.14
Industry	45.56	88.54	42.88	87.41
Construction	61.55	92.93	55.64	92.58
Transportation and Communications	44.59	85.55	41.95	85.79
Real Estate Activities	30.77	77.88	27.42	67.89
Financial Establishments	19.86	59.60	7.9	51.41
Agriculture	77.62	98.61	78.97	98.33
Mining and Quarries	61.72	82.71	48.52	82.24
Electricity, Gas, and Water	17.64	66.66	5.08	55.93

Source: DANE y FENALCO, April 2005

Only the sectors with a high presence of formal employment – financial, electrical, water and gas – show low numbers of people who do not earn the minimum wage. In these sectors we also see, not coincidentally, a significant presence of labor unions and a tradition of collective negotiation that provides protection and a safety net for workers.

The Agricultural, construction and commercial sectors are also the areas in which we see the fewest share of workers who earn double the minimum wage: only 1.67% in the agricultural sector, 7.42% in construction, and 10.04% in the commercial sector. Though a large part of the activity in these sectors falls under the concept of informal employment (street commerce is considered informal), informality alone does not explain the dangerously unstable wage situation that more than half of these workers find themselves in. Many employers take advantage of high unemployment rates and widespread poverty to impose unjust and illegal working conditions on their workers, particularly in light of the fact that inspection and enforcement on the part of labor authorities is virtually non-existent.

Take, for example, the conditions that workers in the country's cattle farms find themselves in. In regions such as Magdalena or Cordoba, the majority of farm workers don't even have a contract, much less minimum wage protections or access to social security benefits. In these regions labor enforcement simply doesn't work, not only because the Social Protection Ministry does not inspect any work sites, but also because judges and government officials are under great political influence to protect land and business owners. Workers rarely take legal action to stand up for their rights because of this corruption, as well as the threat of violence on the part of guerrilla groups in these regions; it is a literal life or death choice for these workers when it comes to defending their labor rights.

In the commercial sector, employers also take advantage of high levels of unemployment among youth, particularly young girls, to impose precarious working conditions, especially towards the end of the year, when the number of workers in this sector increases significantly.

Similar conditions exist in the construction sector and for transportation workers, particularly hourly taxi-cab drivers, who suffer from tremendous job instability: there is no minimum wage, no standardized work-week, often no contract, and no connection to social security.

In sectors like health and manufacturing, low income is linked to the business strategies employed by these companies, which seek to lower labor costs by manipulating contracts and benefits. It is common to see hospitals and factories replace their workers who have longer-term contracts that were negotiated by labor unions and provide certain levels of protection and stability with temporary workers sub-contracted through the Associated Labor Cooperatives. This is the case within Social State Companies, and

in assembly plants, where thousands of women work without any protections or recourse to seek dignified working conditions.

In the health sector, the deteriorating situation for the majority of professionals is evident: medics and professional nurses work for minimum wage or less, having to pay their own social security and left with no manner in which to stand up for their rights or question their conditions. Almost always, these workers are part of cooperatives that are managed by policy directors, who control public clinics and hospitals; as a consequence, workers in these facilities are hired as "cooperants" and are subject to firing at any moment.

Job instability and the decline of the labor contract have even effected workers in the professional and technical fields. One recent study by of the Labor Observatory, the first step that graduates of technical, technological and university programs<sup>6</sup> must take, showed that only 44% of the surveyed professional had a long-term contract, and that the average professional salary was only \$1,600,000, and that the only way to improve this situation is to obtain an advanced degree. The study also found that, while a mining engineer could earn a monthly salary of \$1,462,000, a biomedical professional could not expect to earn more than 740 thousand pesos per month. This is less than a technician (797 thousand pesos) and much less that a male technologist, who earns 906 thousand pesos. In general, the study found that women with professional and technical training earn 300 thousand pesos less per year than men.

The result of this can be nothing but a worsening of the distribution of wealth, an area in which Colombia is already among the worst in the region, as Jose Antonio Ocampo, secretary general of the ONU pointed out: "in Latin America, the only country that, using various indicators, is less equal than us is Brazil, a country that is among the worst in the world with regard to this problem. We are part of the very next worse group of countries, countries where the earnings of the top 10% is 30 or 40 times that of the bottom 10%, whereas in an industrialized country this ratio is closer to 7 or 8 times"<sup>7</sup>.

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<sup>6</sup> El Tiempo, octubre 21 de 2005

<sup>7</sup> Ocampo Gaviria, José Antonio. Desarrollo humano, un desafío para el milenio. OBSRVAR No. 13 de diciembre de 2004

**Chart 11: Rank of Colombia in the GINI Coefficient**

<b>Position</b>	<b>Country</b>	<b>GINI</b>
1	Lesotho	0.632
2	Swaziland	0.609
3	Guatemala	0.599
4	Brazil	0.593
5	South Africa	0.578
6	Paraguay	0.578
<b>7</b>	<b>Colombia</b>	<b>0.576</b>
	Jamaica	0.379
	Uruguay	0.446
	Costa Rica	0.465
	Denmark	0.247
	Switzerland	0.25
	Norway	0.258
	Germany	0.283
	Netherlands	0.309

Source: United Nations Human Development Report, 2005

The most recent study on human development by the United Nations (Chart 11) placed Colombia among the most unequal when it comes to earning, alongside countries such as Lesotho, Swaziland, and South Africa. In the Americas, only Guatemala and Brazil surpassed us, and in overall we have the seventh worst distribution of wealth in the world. The GINI coefficient measures how wealth is distributed within a country: a number close to or equal to zero indicated completely even distribution of wealth. Colombia has a GINI coefficient of 0.576, far below countries such as Jamaica (0.3799), Uruguay (0.466) and Costa Rica (0.465). We are far from countries that are considered the most equal and democratic from a social and economic perspective, countries such as Denmark (0.247), Switzerland (0.25), Norway (0.258) and Germany (0.283).

In these aforementioned countries, there are two factors that contribute to social and economic equality: a large role for the State, and a large presence of unions and labor organizations. In Switzerland, 91 out of every 100 workers are affiliated with a union. Compare this to Colombia: the state, threatened by conservative forces within the country, is barely involved in protecting the Political Constitution of 1991, and labor unions, who have been targeted for destruction by business interests and militant forces, have a paltry role in the labor sector, with only 4.9% of the working population affiliated with some sort of collective organization.

The social dialogue that is fostered by the negotiation of a minimum wage often results in the promotion of redistribution policies that can eliminate inequality and alleviate the poverty and indigence that affects a country. All of this depends on the focus and manner in which this negotiation takes place. Traditionally, the government as well as employers have weighed the effects that this negotiation would have on prices and capital.

As seen in Chart 12 and 13, there is plenty of room to improve the wages of Colombian workers. It is not morally tolerable that the richest 10% of the population have 58 times the income of the poorest 10%. Closing this gap would not compromise the country's competitiveness; on the contrary, it would improve it, as fairly compensated workers respond with better and more efficient work.

**Chart 12: Distribution of Income Between Richest and Poorest 10%**

		Poorest 10%	Richest 10%	Ratio of Richest to Poorest
1	Namibia	0.5	64.5	128.8
2	Paraguay	0.6	45.4	73.4
3	Brazil	0.7	46.9	68.0
4	Venezuela	0.6	36.3	62.9
5	Panama	0.7	43.3	62.3
<b>6</b>	<b>Colombia</b>	<b>0.8</b>	<b>46.5</b>	<b>57.8</b>
7	Peru	0.7	37.2	49.9
	Germany	3.2	22.1	4.3
	Japan	4.8	21.7	4.5
	Finland	4.0	22.6	5.6
	Switzerland	3.6	22.2	6.2
	Norway	3.9	23.4	6.1

Source: United Nations Human Development Report, 2005

Nobel prize winning economist Amartya Sen has demonstrated, very convincingly, the negative effects of poverty stemming from low wages and labor instability, among which are "psychological damages, the loss of motivation, the lack of confidence in ones own abilities, the rise of illness and death, the breakdown of the family and of social life, a rise in social exclusion and increased social tensions, and strained relations between the sexes"<sup>8</sup>.

<sup>8</sup> Sen. Amartya. Desarrollo y libertad. Planeta. 2000

Higher wages lead to more opportunities and better access to education, better education, and an overall increase in quality and efficiency of workers in all sectors; better wages lead to improved health for workers, lower health costs, and a more stable work force; better wages mean better living conditions, and in turn less desperation and violence; better wages allow citizens to participate in their country and public life, and create a more perfect democracy; better wages give consumers more buying power, and lead to higher production for companies, stimulating new business and cycling back to new job creation.

As seen in Chart 12, the countries that are the most competitive – such as Finland, Germany, and Japan – have a better distribution of wealth between the top and bottom 10%. Colombia, on the other hand, is ranked 41<sup>st</sup> of 60 countries in competitiveness, and is among the worst in distribution of wealth.

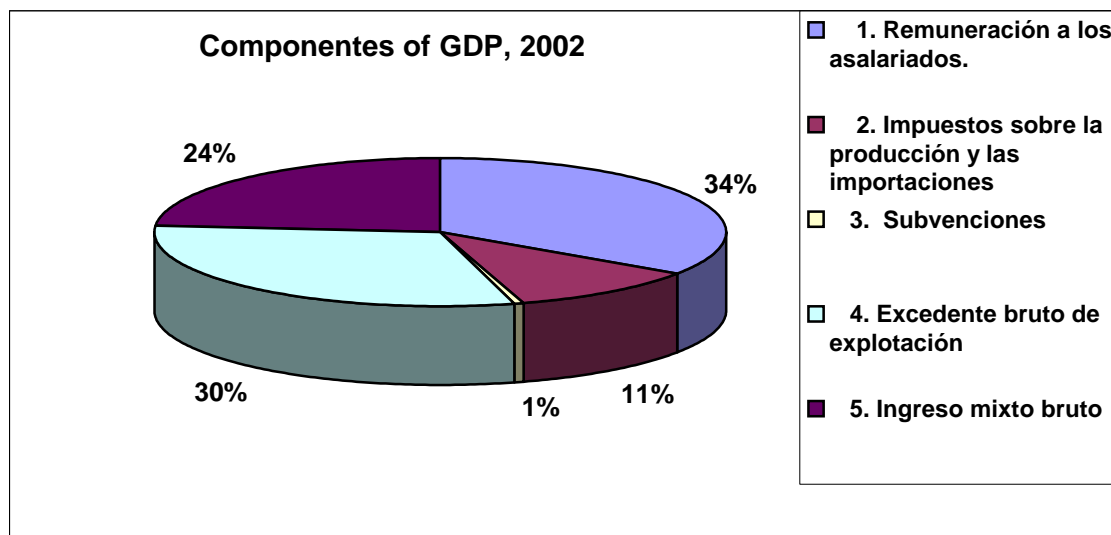
The role of capital in the GDP (Chart 13) can go a long way towards effectively and significantly bettering workers' wages. But, ultimately, the focus of the discussion should be the minimum wage. Until now, the discussion has centered on questions of prices, inflation, and the loss of workers; these discussions serve to mask the true discussion and help the cause of an influential minority that is interested in lowering their capital expenses, consistently at the expense of Colombia's well-being and the freedom of the majority.

**Chart 13: Percentage Contribution of Remittances and The Gross Operating Surplus in the GDP**

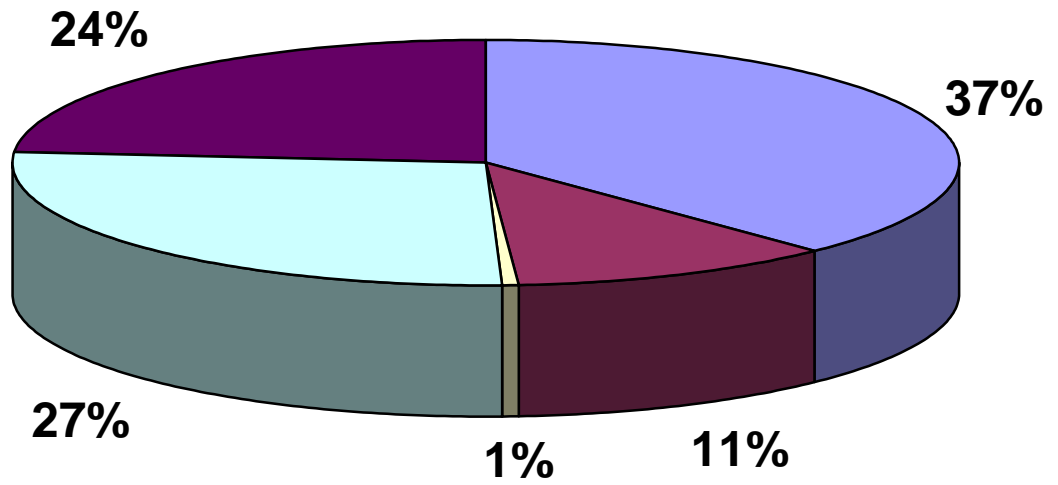
	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Remittances</b>	35,52%	35,09%	34,76%
Agricultural, Cattle, Fishing	2,81%	2,87%	2,87%
Mining	0,88%	0,86%	0,85%
Industry	4,87%	4,68%	4,54%
Construction	1,29%	1,29%	1,38%
Commerce	2,27%	2,04%	1,89%
Other Market Services	11,17%	11,18%	11,19%
Non-Market Services	12,24%	12,19%	12,04%
<b>Gross Operating Surplus</b>	31,03%	30,74%	30,77%
Agricultural, Cattle, Fishing	0,69%	0,54%	0,57%
Mining	4,68%	3,47%	3,36%
Industry	7,10%	7,06%	7,21%
Construction	1,98%	1,86%	2,06%
Commerce	1,41%	1,49%	1,70%
Other Market Services	11,96%	13,10%	12,96%
Non-Market Services	3,22%	3,22%	2,91%

Source: DANE

The graphics below suggest a simple conclusion: an increase of 10% in wages, as proposed now by workers groups, would only mean that wages account for a bigger part of the GDP (going from 34% to 37%). What happens to capital contributions? Their contribution simply drops by the same amount, and this means that for the richest 10%, there are fewer luxury cars, fewer overseas trips, and less wasteful consumption. For workers, however, this means better working conditions and a step closer towards realizing democracy's promise.



## increase of 10% in salaries



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