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CHARACTERISTICS OF THE PANAMANIAN LABOR MARKET

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Posted to GPN on March 17, 2006

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Report on the Panamanian Labor Market

BASIC FIGURES

Statistic	Year
Population	3.1 million (2005)
Economically Active Population	2.1 million (2004)
Unemployment Rate	9.8 % (2005)
Informal Employment Rate	23.8% (2004)
Poverty Rate	40% (2004)
Rate of Extreme Poverty	19% (2004)
Share of Total Income Received by the Poorest Citizens	1.5% (2000)
Share of Total Income Received by the Wealthiest Citizens	63% (2000)

Source:

Statistical data base of the Treasury and the Ministry of Economy and Finance, republic of Panama.

The State of the Panamanian Labor Market

1. Overall Picture of Labor in Panama

For the past two decades, the Panamanian economy has shown high levels of unemployment, generally in the double digits. During this time period, job creation lagged far behind economic growth: the GDP grew by 3.8%, while the employment rate increased by merely 2.8%. The economically active population grew by an average of 3.2%, leaving it unable to absorb demand. In 2004, the economy saw an expansion of some 6.5% and created 46,293 new jobs, which was nonetheless two percentage points below the GDP growth. Between 2003 and 2004, the growth of unemployment went from 13.6% to 12.3%, a 1.3% drop. However, as with other Latin American countries, the new jobs that were created were in low-income and low-productivity sectors.

Chart # 1

	1994	Rate	2004	Rate
GDP (growth)		2.9		6.5
Population above 15yrs age	1594667		2035970	
Economically Active Population (EAP)	967292	60.65	1285122	63.12
Employed	831824	86.00	1126816	87.68
Unemployed	135468	14.00	158306	12.32
Inactive	627375	39.34	750848	36.88

Source: Office of Statistics and Census, Household Surveys.

In 2004, the population of age 15 or older, according to the Household Census, grew by a rate 27.7% higher than that of 1994. With regards to the participation of this population in the labor market, we see a growth from 60.7% to 63.1% over the course of that decade. This growth in the economically active population conforms with the demographic shifts seen in Panama over that decade-long period.

The graph below highlights these changes in percentage terms, with regards to employment and the GDP. In general terms, we see that the employment variable does not act in step with the overall growth of the economy.

Graph I. Growth of Employment and the GDP: 1994-2004.

AÑOS	Precio Corriente		Precio 1996		Ocupados	
1980	3,810.3		6,058.7			
1981	4,312.7	13.2	6,616.6	9.2		
1982	4,764.7	10.5	6,970.4	5.3	561064	
1983	4,891.9	2.7	6,657.4	-4.5	597345	6.47
1984	5,109.2	4.4	6,837.7	2.7	613937	2.78
1985	5,402.0	5.7	7,175.7	4.9	626973	2.12
1986	5,613.7	3.9	7,431.7	3.6	643827	2.69
1987	5,638.3	0.4	7,297.3	-1.8	678314	5.36
1988	4,874.5	-13.5	6,320.9	-13.4	654405	-3.52
1989	4,887.2	0.3	6,419.6	1.6	686334	4.88
1990	5,313.2	8.7	6,939.6	8.1	702953	2.42
1991	5,812.3	9.4	7,593.2	9.4	720100	2.44
1992	6,641.4	14.3	8,216.0	8.2	781565	8.54
1993	7,569.5	14.0	8,664.2	5.5	815583	4.35

When looking more closely at the breakdown of employment figures, it is difficult to accurately compare types of occupation, as the methodology must change practically every decade to account for emerging professions. Nonetheless, in Chart 2 we see that in 1994 the professions with the highest level of subemployment were those of Artisan and those jobs related to the clothing and footwear manufacturing, as well as carpentry and construction

related jobs. In 2004, we see that the job type with the highest level of subemployment was traveling salesmen, workers not found in other classifications, and day laborers. This shift reflects the complex reality of the Panamanian labor market.

Chart # 2

PERCENTAGE OF VISIBLE SUBEMPLOYMENT, BY OCCUPATION			
YEARS 1994 Y 2004			
Profession	1994%	Profession	2004%
TOTAL	100,0		100,0
Professionals, Scientists and other Intellectuals	7,0	Members of the legislative and executive powers; people linked with public administration; those in the private sector working with public interest organizations	0,5
Managers, administrators, and others in a directorial position	0,5	Professionals, Scientists and other Intellectuals	4,4
Office and related workers	3,0	Mid-Level Technical and Professional Workers	2,3
Salesmen and related activities	9,1	Office Workers	3,0
Agricultural, fishing, livestock, hunting and related areas	15,7	Service workers and related workers	20,0
Transportation and related workers	7,2	Agricultural, fishing, livestock, hunting and related areas	18,0
Artisans and workers associated with clothing, leather, carpentry, construction, machinery and other related areas	29,7	Artisans and workers associated with clothing, leather, carpentry, construction, machinery and other related areas	18,6
Day and traveling workers	3,9	Workers on fixed machinery, transportation and other large machinery	5,9

Source: Directorate of Statistics and Census. Panama.

2. Unemployment

One of the first trends to jump out when looking at the nature of unemployment is that women play a large part in the unemployed, while the independent sector is dominated by men. Thus, as the economic situation becomes harder, women are forced to turn to the labor market and often take sub-standard jobs.

The growth of employment among women is still insufficient to absorb the expansion of the female population, leading to high levels of unemployment and a disparity with regards to male unemployment. Female unemployment in 2003 stood at 17.9%, 8 percentage points above the male rate.

We see that average labor productivity has grown in the past decade – during the first five years of the past decade it was accompanied by a growth in gross capital production, but then it followed a path similar to the growth in the unemployed population.

During that first period, which coincided with the growth of the Internet, productivity saw marginal growth but was not reflected in better wages; nonetheless, this period led to a net growth in jobs and helped stabilize unemployment levels far beyond the stagnation of capital growth. This stagnation could not be seen on a macro level – it was only visible within certain productive sectors.

A more difficult relationship to understand is that between variations in productivity and the consequent effect on employment within that sector; the available information indicates a very weak tie between productivity and employment in this respect. Most of the productivity indices, when increased, did not result in a tangible growth in demand for labor. The increases in production were largely due to greater efficiency and the introduction of new technology (as was the case in two large breweries), without a deliberate and effective policy to enrich the nature of actual labor. Moreover, as efficiency and automation increased, existing labor contracts became weaker and weaker as companies sought higher and higher productivity margins, and sought to increase their overall capital.

Consequently, the formation of gross capital has decayed, possibly due to an excess in capacity; nevertheless, average productivity continues to grow. There are various explanations that could account for this, among which may be:

- The excess industrial capacity has allowed for a more efficient acquisition of resources, a situation that is favorable to the development of better economies of scale.
- Higher personnel turnover. With growing unemployment rates, businesses can replace existing manual workers with unemployed personnel, who demand lower wages. In Panama, where unions are beholden to government policies aimed at creating greater investment of capital, generally at the expense of wages, the real power resides within the financial industrial complex, and the areas for collective negotiation are few and far between.

In theory, better economies of scale would be reflected in lower consumer prices. Strangely, the opposite has occurred – the CPI showed a continuing ascent, long before the explosion of petroleum prices. The rise in prices despite the favorable productivity margins suggest:

- The existence of a monopolistic collusion between major economic agents and government policy aimed at the accumulation of capital. If this is indeed the case, the assessment of the economic situation through a neo-classical lens is destined to fall short.

- That the accumulated capital was squandered on speculation (in real estate, finance, etc.) or wasted on new technologies that could not be readily implemented and did not lead to improved production.

This could mean that Panamanian businesses could give themselves the luxury of operating under increased industrial capacity because:

- The overall workforce during the first phase was more efficient, due to the introduction of better technology, aimed primarily at improving the training and control of production processes. The increase in workloads and the increase in wages over the past ten years are not in step with the increase in productivity, suggesting an overall intensification of work.

- In the second phase, with the decline in the formation of gross capital, productivity still increases because of an overall exploitation of existing labor (aided by job instability and high unemployment rates), and a general rotation of the labor force.

The expected result would be to see lower prices regardless, but this is not the case: the consumer price index has constantly grown. This indicates that actual buying power has decreased – there is a constant disconnect between wages and quality of life, even at the margins of productivity. This persistent price growth even in the face of increased productivity margins points at possible monopolistic collusion among dominant economic agents, or poor investment and capital management choices.

The slow growth of the minimum wage over the past decade, along with exponential growth in labor productivity, points to a significant intensification of work and severe instability within labor, as workers are being forced to perform more and more for less and less pay. Growth in the CPI despite better production indices suggests collusion among economic agents within the country – and within a country as small as Panama, where large businesses are few and receive preferred policy treatment, there is little room for effective market regulation.

The fact that the majority of investments do not reach the consumer indicated that the influx of capital is of questionable origin and poorly managed, such that there is no concrete effect on productive processes. The fallout is felt among workers, particularly young ones, as those left on the outside of economic progress fall into informality and instability. The historian Fernando Apaticio of the Instituto de Estudios Nacionales de la Universidad de Panamá discusses this phenomenon in his Socioeconomic Assessment of Panama, 2004:

The unemployment situation is much more dramatic than even the data suggest. As even the Ministry of Finance and Economy noted in its labor analysis of fall 2003, there has been “a sizeable increase in independent economic activities and semi-formal activities.” In actuality, there has been a growth of 8.1% in the number of employers using day labor, and an 11.6% increase in family workers. These numbers highlight the growth of the small-scale enterprise. Also growing, though at a slower rate, is the informal sector (the independently employed), which has grown at 2.6%. In contrast, formal employment has grown by only 1.0%. This is due to the large number of people, as stated above, who participate in “independent

activities” – both semi- and in-formal – and have resorted to substandard work simply to survive. Our streets are full of traveling salesmen, peddlers and other “hard workers” forced to enter into what is euphemistically referred to as “micro-business.”

The figure cited by officials to describe unemployment in Panama (11.8% in 2004), and even less so the number that emerges in the 2005 household survey (9.8%), does not come close to accurately describing the labor situation in this country. In Panama there are no safeguards for those who are forced to pursue precarious working situations simply to survive. Ultimately, as in many of this region’s countries, the problem is not as much an unemployment problem, as it is an instability problem.

3. Open Unemployment

The rate of open unemployment corresponds to the population that is actively looking for work, is available to work, and is part of the economically active population of 15 years or older. The figures compiled in 1994 and 2004 indicate a rise in open unemployment, and a disproportionate rise among women. There is also a slight difference seen in the urban versus rural figures, most likely due to internal immigration trends. These figures indicate the necessity for employment programs geared specifically at female and urban workers, so that they can more easily enter or re-enter the workforce. Chart #3 highlights some of the specific figures at play with regards to open unemployment.

Chart # 3

RATE OF OPEN UNEMPLOYMENT IN PANAMA, BY GENDER, BY AREA: HOUSEHOLD SURVEY, 1994 and 2004			
	Total	Men	Women
Total			
1994.....	8.8	7.9	10.4
2004.....	9.7	7.6	13.3
Urban			
1994.....	10.0	9.8	10.3
2004.....	11.1	9.2	13.7
Rural			
1994.....	6.5	5.3	11.0
2004.....	6.1	4.1	11.8

Source: Director of Statistics and Census.
Panama.

4. Hidden Unemployment

Hidden unemployment is another significant labor problem, and refers to those workers who have fallen out of the labor market, and are not actively seeking jobs because they consider it impossible to find new work, but nonetheless desire to work again. This, too, is a phenomenon that disproportionately affects female workers.

This trend becomes particularly acute during extended periods of economic recession, when the prospects for finding quality work seem that much bleaker. The costs of spending time in a job search no longer seem to outweigh the prospect of simply dropping out of the labor market entirely. In Panama, the rate of hidden unemployment among the inactive population is measured in conjunction with the open unemployment rate. From 1994 to 2004, the hidden unemployment rate dropped from 5.2% to 2.6%; this trend was seen in both men and women, and in rural as well as urban areas.

Chart # 4

HIDDEN UNEMPLOYMENT IN PANAMA, BY GENDER, BY AREA: HOUSEHOLD SURVEY, 1994 and 2004			
	Total	Men	Women
Total			
1994.....	5.2	5.7	4.4
2004.....	2.6	3.1	1.6
Urban			
1994.....	1.9	3.2	2.2
2004.....	1.7	2.2	1.0
Rural			
1994.....	9.7	9.4	11.7
2004.....	4.4	4.6	3.2

Source: Director of Statistics and Census, Panama.

The areas of activity that showed the highest levels of unemployment in 1994 were: the commercial sector, particularly in the area of automotive repair and personal services, with 15.2%. In second place was domestic services, with 10.3% and in third place, manufacturing industry, with 7.5%. In 2004, the first two areas remained the same, with 19.1% and 14.3%, respectively. In third place in 2004 was construction, with a 10.3% rate.

Within these figures, there are also relevant gender breakdowns. In 1994, within the automotive repair sector we saw the highest male unemployment, of 11.3%, and within domestic work we see a high of 17.2% unemployment for females. In 2004, the male unemployment in the former sector stood at 16.4%, while female unemployment in private household work had reached a level of 24.1%.

Table 1. General Indicators of the Labor Market (divided by sex)

	Country Total			Panama			Colon			Herrera			Los Santos		
	1980	1990	2000	1980	1990	2000	1980	1990	2000	1980	1990	2000	1980	1990	2000
Occupation	91.2	88.3	87	90	86.4	86.8	90	86	82.4	93	91.7	90.3	93	93.3	92.5
Occupation (m)		90	88.9		87.2	88.9		87.3	85		93.1	92.1		94.6	94.3
Occupation (f)		85.3	32.3		85	83.5		83.1	77.4		87.1	85.7		88.4	87.4
Unemployment	8.33	7.65	9.32	9.9	9.52	9.93	9.9	9.2	12.3	5.79	5.39	7.25	5.79	4.19	5.06
Unemployment (m)		7.29	8.42		9.49	8.91		8.75	11.3		4.96	6.39		3.9	4.29
Unemployment (f)		8.54	11.1		9.58	11.5		10.2	14.3		6.86	9.43		5.27	7.2
EAP (economically active population)	53.7	47.5	52.6	54.3	49.2	56.3	54.3	45.7	50.5	52.9	46.3	50	52.9	47.9	50.6
EAP (m)		66.6	70		64.5	70		62.3	65.9		70.5	70.6		73	72.7
EAP (f)		23	35.1		34.7	43.1		28.6	34.6		21.1	28.9		21	27.5
TPCP		31.8	29		22.4	20.1		26.7	24.5		42.4	41.7		48.2	46.2
TPCP (m)		38.3	36.3		29.1	26.2		32.6	29.8		48.8	50.2		54	53.6
TPCP (f)		15.3	13.3		10.3	9.97		12.9	12.9		19	18.6		25	24.2

Source: System of Development indicators: Controller General of the Republic, Social Cabinet of the Republic of Panama, United Nations Population Fund. "Panama in Numbers 1980-1990", Controller General of the República.

Table 2. Employed EAP of more than 15years of age in Panama, by sector and economic activity (in thousands).

Employed EAP of more than 15years of age in Panama, by sector and economic activity (in thousands).			
Sector and Area of Economic Activity	1994	1999	2003
Agriculture, livestock, hunting	158.4	157.2	179.2
Fishing	6.9	10.4	9.7
Mining and Drilling	1.9	0.9	1.0
Manufacturing Industry	89.3	94.0	96.6
Administration of Gas, Water and Electricity	9.5	7.0	8.8
Construction	52.5	73.0	79.6
Major and Minor Commerce	148.8		

		183.0	194.2
Hotels and Restaurants	26	39.0	53.3
Transportation and Communications	61	73.0	86.0
Finance	20	24.0	21.5
Real Estate, Entrepreneurship	26	39.0	44.6
Private Education	48	50.2	64.2
Social and Health Activities	26	30.8	37.8
Other community, personal and social services	38	57.5	9.5
Private Domestic Services	54.4	51.2	13.8
Public Administration	63	68.0	74.0

Table 3. Economically Active Population by State of Activity

Economically Active Population by State of Activity (in thousands)				
Year	Total	Employed	Unemployed	Net Job Creation
1991	851	715	136	n/a
1992	915	781	134	68
1993	940	815	125	43
1994	966	831	135	6
1995	1008	867	141	30
1996	1012	867	145	-4
1997	1049	909	140	47
1998	1108	958	150	39
1999	1117	986	131	47
2000	1117	966	151	-40
2001	1153	984	169	0
2002	1221	1049	172	62
2003	1250	1080	170	33
Net job creation from 1991 to 2003				
				331
Overall growth in the EAP from 1991 to 2003	399			

5. A Decade of Labor Flexibility in Panama (1995-2005)

Under the presidency of Perez Balladares (1994-1999), the neoliberal economic approach received full-fledged support, resulting in the deregulation of tariffs, the privatization of state-run agencies, structural adjustments, agreements with the World Trade Organization, and other reforms. Alas, the labor market was unable to escape the ill effects of these policies.

Despite intense pressure from protests by the union movement, particularly in urban areas, a key measure was adopted in the Labor Code. Among the reforms adopted were: a) a new rubric to calculate severance paid to workers upon termination; b) a new payment structure that accounted for more specific tasks and units of work; c) the creation of privately run pension funds; d) greater labor mobility; and several other reforms. The legal component of this code (Law 44 of August 12th, 1995) introduced more labor flexibility into economic policy. As in other cases, this measure simply conformed policy to reality, where such flexibility already played a large role.

In 2000, the number of workers who were terminated had grown significantly as companies – backed by Law 44 – began to cut labor: often, companies would replace older workers with younger, cheaper labor, thus reducing their overhead. Several years later, a local labor organization, faced with dropping wages and labor attrition, stood up and made the following declaration, aimed at addressing the labor reforms: “Gabriel Castillo, general secretary of the National Coalition of Independent Unions (CONUSI), asserts that the reduction in wages is a consequence of the Labor Code. For its part, this labor law facilitates the firing of older workers and replacing them with minimum-wage workers, in an effort to reduce costs and avoid the obligations of social security.” (La Prensa, 16 de abril de 2003)

Another element that has risen to prominence as of late is subcontracting. In this trend are two important elements worth highlighting: first, in the drive to reduce cost and maximize profit, companies outsource to other companies to perform their marginal activities, but eventually incorporate these activities into their central business model; second, what often starts as a minor downsizing of permanent positions evolves into an all-out assault on unions that looks to shake their very foundation.

As mentioned before, it is impossible to ignore the drop in the number of workers associated with unions. In a report of October 1991, prepared by the Planning Office of the then-named Ministry of Work and Social Welfare, the question of diminished union numbers was addressed: “ in looking at the number of unionized workers between 1991 with respect to 1985, we see the following: a drop in unionized workers by 28,769; the sector by far effected the most by this attrition is “industrial manufacturing,” which lost 16,042 of its union members. Other activities that also saw a drop in their union numbers were commerce (8,585), services (6,628) and transportation (4,476).”

This trend towards lower union numbers is worsened by Law 44 and the increased flexibility within the labor sector. Two examples help highlight these effects: 1) in an interview given in October 2005, the secretary general of the Bocas Fruit Union, Genaro Bennett, pointed out that within that company, three were more than 20 sub-contracted companies, employing more than 300 workers, none of whom had access to unionization; 2) the union affiliated with the Panama Cement Company (Holcim) has seen workers

subcontracted to perform not just jobs such as security or sanitation, but also essential labor for the running of the plant – none of these laborers are unionized, either.

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