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Freeing Latin America from Erroneous Theses

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A Journal on Capitalism and Socialism

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FREEDING LATIN AMERICA FROM ERRONEOUS THESES

Issue Editors: Arturo Alvarado, Serena Chew Plascencia, and Jan Rus

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Cover photograph: Rodolfo Stavenhagen in his library in Cuernavaca, Mexico, in 2016.

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Latin America's Domestic Market and the Maintenance of Capitalism

by

Berenice Patricia Ramírez López

Translated by

Mariana Ortega Breña

Rodolfo Stavenhagen, in his classic essay "Seven Erroneous Theses about Latin America," addressed the narrow domestic market, indicating that it was basically a matter of income distribution. It has become clear that the priorities of the Latin American ruling class are focused on the world market rather than the local-national one. During the past 40 years, this class has become more determined to play the role of intermediary, taking its place in the field of trade, commerce, and mainly speculative financial transactions that allow for immediate returns. It does not promote domestic productive investment or the strengthening of education, innovation, or development technology and therefore secure and protected employment. Inequality has increased across the region, along with increasing labor precarity (notably informal employment), and thus the internal market reflects productive and social segmentation and inequality.

Rodolfo Stavenhagen en su clásico ensayo acerca de las 7 tesis equivocadas sobre América Latina aborda la cuestión del estrecho mercado interno señalando que es esencialmente una cuestión de distribución del ingreso. Ha quedado claro y más en el periodo neoliberal que la prioridad de la clase dominante latinoamericana está en el mercado mundial, no en lo local-nacional. Queda demostrado que en los últimos cuarenta años ha asumido con más determinación su papel de intermediaria, interesada en situarse en el ámbito del intercambio, del comercio y de las transacciones financieras, principalmente especulativas, que le permitan rentabilidades inmediatas. No promueve en el mercado interno las inversiones productivas ni el fortalecimiento de la educación ni la innovación ni el desarrollo tecnológico y por lo tanto el empleo seguro y protegido. La región muestra que la desigualdad se ha acentuado, que se acompaña de una creciente precarización del empleo, que el empleo informal es lo que más destaca y que por lo tanto el mercado interno expresa la segmentación y desigualdad productiva y social.

Keywords: Labor market, Informal employment, Internal market, Inequality

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Economists and sociologists speak constantly about the need of incorporating the "backward" subsistence peasants into the money economy in order to strengthen the internal market and further economic development. Yet nowhere in Latin America is the gap between rich and poor greater than in the cities, where the desperately poor "marginal" urban population of the shantytowns is growing rapidly. If the internal market were indeed the driving force of Latin America's bourgeoisie, Mexico's capitalists would not be seeking, as they are, investment opportunities in Central America, or Brazil's in Paraguay and Bolivia; they would not be exporting millions of dollars a year to the security of American and European banks.

—Rodolfo Stavenhagen, 1965

The academic and political discussion that gave rise to the publication and subsequent debate about Stavenhagen's "Seven Erroneous Theses about Latin America" (1968 [1965]) sought to show that the supposed Latin American duality was not merely an expression of backwardness and therefore could not be overcome simply through economic growth. Nor was it just the expression of a structural heterogeneity that could presumably be eliminated through industrialization (Cueva, 1990; Cardoso and Faletto, 1987; Furtado, 1991; Ocampo, 2015). A noteworthy characteristic of the past three decades has been the fragmented nature of the Latin American labor structure as seen in the high rates of informal employment. In addition to the employment generated by households as economic units and the independent activities better known as "self-employment," there has been an increase in jobs lacking social security or employee benefits through the use of short-term contracts, independent contractors, or subcontractors, which now account for 30–75 percent of Latin American employment. Employment dynamics, income levels, and wages are both cause and evidence of the deepening of inequality across the region. In the international division of labor, Latin America continues to provide raw materials, consumer goods, and manufacturing processes, mainly assembly (maquiladoras). The search for new areas for investment, profit, and therefore accumulation has been accompanied by dispossession of territory, public assets, knowledge, and ancestral and even cultural practices. However, the expected growth of waged work in an ascending spiral of secure employment with social protections has not materialized; to the contrary, precarity and informality have increased. The following analysis of these developments will include a brief overview of the world of labor, occupations, and income in Latin America, a description of the Latin American domestic market and its function, and a discussion of the challenges of Latin American capitalism.

LABOR, OCCUPATIONS, AND INCOME IN LATIN AMERICA

We are witnessing radical changes in the capital/labor relationship. Multiple factors have increased pressure on waged workers: low economic growth, new technologies that affect the organization of work, and increased competition associated with the concentration of capital and the growth of monopoly power. Latin American growth has been uneven. The region experienced dynamic

TABLE 1
Rates of Nonagricultural Informal
Employment, 2013

Guatemala	73.6
Honduras	72.8
El Salvador	65.6
Peru	64.0
Paraguay	63.8
Colombia	54.4
Mexico	53.8
Dominican Republic	51.2
Ecuador	49.3
Average	46.8
Argentina	46.8
Panamá	40.4
Brazil	36.5
Uruguay	33.1
Costa Rica	30.7

Source: ILO (2016).

growth during the early years of the twenty-first century until 2008, but this was mainly limited to the Southern Cone. The International Labor Organization indicates growth of more than 40 percent in the decade preceding 2012, reducing poverty from 44 percent to 28 percent (ILO, 2014a: 11). Informality, however, dropped only from 50 percent to 47 percent (ILO, 2014a: 13) (Table 1). To explain this we must consider the characteristics of the growth of wage labor: According to the ILO (2016: 14), between 1991 and 2010 the unemployment rate rose from 8 percent to nearly 11 percent but then fell sharply to 6.3 percent in 2013. However, starting in 2014 economic growth and job creation weakened. The average growth of Latin America contrasts with that of Mexico, where the growth of the gross domestic product (GDP) in 1994–2015 was 2.5 percent (ECLAC, 2016: 16). The growth rate for waged work in 2005–2016 was an average of 2.5 percent while that of unemployment was 4 percent; however, informal employment (home-based employment and employment that does not provide social security) accounted for 58 percent of the urban employed population (INEGI, 2016).

The loss of employment and social security benefits, which once provided workers with some stability, has weakened most Latin American labor markets. Working conditions are increasingly precarious because contracts cover shorter periods, there is more turnover, wages are lower, and there is no social security. Along with reduced collective hiring (union contracts covering groups of workers in a business or sector), more outsourcing, and the impact of new technologies that lead to new forms of labor organization (e.g., distance work, fragmented, task-specific work, and robotics), these working conditions are driving the growth of informal employment. The incentive to participate in global production chains is primarily the result of lower labor costs that translate into low wages and the increasing lack of labor rights.

Investment is still focused on the extraction of natural resources, assembly, primary sector products, and income from the services sector. Between 2000

and 2015, jobs in occupations requiring highly skilled workers showed a limited increase, from 17.6 percent to 19.9 percent of total employment (ILO, 2016: 2). The trade and financial opening highlighted the differences among activities aimed at the foreign market, driven by products and raw materials tradable on the stock market, and a lack of domestic industrial and investment policies that deepened the abandonment and fragmentation of the internal market. This focus on an export model has had little impact on job creation because of the high proportion of imported inputs and components in the region's exports. In Mexican industries such as electronics, in which many companies operate under the *maquila* model, the national value added of exports is less than 10 percent of total value (ECLAC, 2016: 17).

High profit rates are maintained more by low wage costs than by increased labor productivity. It is striking that labor productivity in Mexico registered a growth of 0.9 percent between 2000 and 2014 (significantly less than that of the United States [2.1 percent]) (ECLAC, 2016: 17). The labor and social fragmentation of capitalism favors profitability and income for its hegemonic fraction. The concentration of wealth represented by the large industrial and financial conglomerates requires some direct, productive and therefore socially protected work, but it also needs the indirect, low-paying, precarious and informal jobs that this creates to achieve its incorporation into the world market and provide income options for those who cannot take part in the limited formal wage structure. The latter is restricted in an attempt to maintain profit levels and support the fragmented domestic markets, characterized by a variety of activities that are highly dependent on the household as an economic unit. In the absence of an increase in waged employment that provides both labor and social security and expresses the real relationship between labor and capital, the household, which owns assets and resources built by several generations (and, in some cases, several families), provides primarily a subsistence income based on the work of family members. This includes activities and services such as workshops, kitchens for food production and distribution, improvised home warehouses that store goods that will be sold in public space, and self-employment activities that turn the home into an office, studio, company headquarters, etc. When not reported to revenue authorities, these activities add to the informal sector, which includes employers, waged workers, and workers who work for tips or payment in kind.

During the 1960s, informality was seen as a phenomenon of urbanization and migration from the countryside to the city that would be resolved through the increase in waged labor that would result from modernization and industrialization. However, neither has the growth of waged labor met the employment needs of the economically active population nor is the number of informal and unemployed workers merely an expression of the industrial reserve army. Capitalism works in our countries by keeping one-third or more of the population in formal rather than real subsumption of labor to capital.¹ This is not a temporary or conjunctural phenomenon, and it is also starting to happen in the regions of highly industrialized countries that are not connected to globalization or that, while highly globalized, attract a migrant workforce whose reproduction takes place under simple relations of production.²

Thus, in a situation of reduced public and private investment in the domestic market that could have generated productive, entrepreneurial, and service activities to strengthen small and medium-sized enterprises, what has emerged instead is the strong participation of households as economic units. There are obviously institutional deficits, and the state has assumed a distinctly liberal role, attending only to extreme poverty outside the market circuit. However, dependency has become more pronounced, and alternative models of social reproduction require the combination of management of the resources that finance growth with distributive policies that promote the creation of jobs with social security and increased wages and social policies that bring about redistribution, beginning with reform of the tax system through progressive real estate transfer taxes.

Mexico is a clear example of uneven regional growth: its annual growth rate has been less than 2 percent for the past 30 years, 46.2 percent of the population is below the poverty line (Consejo Nacional de Evaluación de la Política Social, 2015: 14), and 58 percent of the employed population works in the informal sector (INEGI, 2016). If we compare it with Bolivia and Brazil, two countries that have sought to transform their development models during the past three decades, we find that Bolivia's growth rate was 4.5 percent for 2003–2008, 4.2 percent for 2009–2011, and 6 percent for 2012–2013, while Brazil's was 4.2, 3.3, and 1.7 percent during these periods (ECLAC, 2014b: 84). Although the nation sizes and economies are very different, poverty levels, at least as recorded in surveys of household income and spending, have declined in all these countries. Between 2004 and 2011 poverty in Bolivia decreased from 63 percent to 36.3 percent and poverty in Brazil from 36.4 percent to 18.6 percent (ECLAC, 2014a: 17, Table 1). From 1989 to 2011 the income share of the tenth decile in Bolivia declined from 38.2 percent to 26.4 percent while increasing for the second to fifth deciles (ECLAC, 2014a: 118 annex, Table 2A.1). In Mexico the share of the tenth decile decreased from 36.6 percent in 1989 to 31.4 percent in 2012. Brazil recorded a decrease from 43.9 percent in 1990 to 38.9 in 2013. Despite these results, informal employment has continued to grow. In Bolivia, 71 percent of the employed population older than 15 worked in the informal sector in 2009, increasing to 87 percent for young people aged 15 to 24 (ILO, 2013: 239 annex, Table 22).

In the case of Bolivia, the contradictions accumulated throughout the history of nation building and the evolution of the social formation, heightened by the political decision of social movements to bring about change, brought the Evo Morales government to power. This change in the political system has resulted in a transformation of both the economic model and social reproduction, but it is still based on the structure of production established in the second half of the nineteenth century. The financing of economic growth continues to be based on the extraction of natural resources (minerals and gas) because modifying funding sources or encouraging investment in other sectors linked to the internal market is a very long-term process. This is especially the case since, under neoliberalism, the opening up of trade and finance in Latin America meant that profit maximization involved investment in the dynamic sectors that contributed to global accumulation through minimal labor costs from low pay, lack of social security, and precarious and short-term jobs.

TABLE 2
Real Minimum Wage Index, 2005–2013
(Year 2000 = 100)

<i>Country</i>	<i>2005</i>	<i>2013</i>
Bolivia	106.3	174.4
Brazil	128.5	202.7
Chile	113.4	138.7
Colombia	107.2	121.2
Costa Rica	99.9	115.7
Dominican Republic	96.3	100.2
Ecuador	101.9	153.6
El Salvador	90.7	102.6
Guatemala	115.4	124.2
Honduras	121.6	276.5
Mexico	101.3	101.8
Nicaragua	118.0	202.2
Panama	104.5	109.1
Paraguay	104.4	101.2
Peru	105.2	135.6
Uruguay	132.1	256.1
Venezuela	108.6	112.6

Source: ILO (2014a), based on national data per country.

Between 2009 and 2013, 11 out of 14 Latin American countries managed to reduce their rates of nonagricultural informality (ILO, 2014b: 53–79). (In the Dominican Republic, Colombia, and Mexico, the rate increased.) The most prominent examples of decrease were Costa Rica (from 43.6 percent to 30.7 percent), Ecuador (from 60.5 percent to 49.3 percent), Paraguay (from 70 percent to 63.8 percent), and Brazil (from 41.7 percent to 36.5 percent). This decline may be associated with GDP and, particularly, investment growth. Ecuador's gross fixed capital formation, for example, rose from 18.4 percent of the GDP in 1980–1989 to 27 percent in 2003–2010 (Manuelito and Jiménez, 2015). However, this relationship is not the only cause of the decrease in informal employment; in Costa Rica gross investment in fixed capital was lower than Ecuador's, increasing from 19.7 percent to 21.8 percent. Another factor appears to be wage levels. Between 10 and 15 percent of the employed Latin American population receives up to one minimum wage. Although we need more detailed analyses by country regarding the relationship between increase in the real minimum wage and formal employment, it is clear that countries with less informality have experienced significant wage growth. The clearest example is Uruguay, with 33 percent informal employment and an increase in the index of the real minimum wage from 132 to 256 in 2009–2013 (Table 2). Brazil and Bolivia, where the wage index went from 120.5 to 202.7 and from 106.3 to 174.4, respectively, also stand out. The one country in which the minimum wage did not increase is Mexico. However, informal employment for the region remains an average of one-third of the labor force. Still other factors to be considered are the quality of employment and the degree of integration of the export and domestic markets.

THE LATIN AMERICAN DOMESTIC MARKET

New methodologies designed to identify informal employment³ take two elements into account: the employing economic unit and employment status. As already noted, the fragmentation of the internal market has led to the household sector's producing, on average, one-third of employment, and this sector tends to have low productivity. If to this we add the unprotected employment (what Slavnic [2009] calls "informalization from above") that is part of Latin American labor, we can begin to understand the dimensions of informal employment. However, the labor dynamic is more complex, especially in social formations with a mostly indigenous population, whose work patterns, relationship with the land, collective and community action, and other cultural practices establish informality from below (Slavnic, 2009). These are social forms that often have not been touched by a direct capital-labor relationship, and therefore there are still large segments of the population that were not included in proletarianization or the construction of citizenship and therefore remain excluded from human and social rights.

The term "precarity" has become widespread because, upon analyzing employment conditions and wage levels, researchers can demonstrate that legally protected waged work is not on the rise. What is increasing is self-employment and household-based employment and income-generating activities such as family workshops, informal commerce in the public space, the sale of any subsistence agricultural surplus, and domestic and personal care work. It is clear that household assets, often amassed under precarious conditions over several generations, are what holds the internal market together. In the case of Mexico, households generate 36 percent of employment. This, in addition to the amount of labor lacking social security in the formal sector, means that in the second trimester of 2016 57.2 percent of employment was informal (INEGI, 2016).

The construction of the domestic capitalist market is closely linked to proletarianization and an increase in waged workers. The free labor force is mainly the result of rural populations' being expelled from their lands and therefore requiring jobs and wages to cover their basic needs. This, plus the division of labor, is the principle underlying the growth and strengthening of the internal market. However, the contradictions of the capitalist system, the intense technological development, requiring fewer workers, and the concentration and centralization that produced domination by monopolies and transnational corporations eliminated the opportunity for free choice and free competition. This undercut the potential dynamic growth of waged labor that under the welfare state is supposed to enjoy social security and to constitute the basis for a free and competitive market.

In view of the dynamics of capitalist globalization and the global lack of employment, we must wonder what kind of vision prompts the leaders of the hegemonic nations, faced with the great need for food and only minimal levels of well-being, to promote conditional cash transfers that allow merely subsistence levels of consumption while their profitability is ensured by the polarized distribution of income and consumption by higher-income sectors. We must ask why the system does not allow for options that would include the

revitalization of the domestic market as the result of a more equitable income distribution. Part of what we see in Latin America has to do with the opening up our national economies to the world market and the absence of sound states that represent the national interest. Incorporation into externally generated production processes has been prioritized; foreign investment is much sought after, along with trade that generates profits; profits are usually not reinvested or employed to support innovation or local creation. In other words, we perpetuate a colonialist mentality.

It has often been said that what Latin American countries need is more and better education. Undoubtedly, there are regions in which it is fundamental to promote basic quality education with up-to-date content. Examining informality and education, however, Levy and Székely (2016: 499) report:

We find that in Latin America there has been a slight reduction in labor informality associated mainly with the first effect: recent generations of workers with more schooling have lower informality rates than previous ones. In the case of Mexico we also observe that younger generations of workers have more years of schooling than previous ones; however, this has not translated into lower informal employment because of adverse labor market characteristics. Thus, even though Mexico has experienced faster educational progress than the average of the region, its progress in reducing informality has been nil.

They conclude: "Thus, while the assumption is that more schooling translates into less informality, the labor market may dilute or even reverse it" (502).

When we analyze Latin American labor markets, we also discover that social reproduction continues to show areas of simple reproduction that do not necessarily lead to increased valorization. This may be because of lack of options, but it may also be because its objective is not the accumulation and increased reproduction of capital. According to Wallerstein (2006: 28–31), instead of free workers who offer their labor power on the market we find a network of households with a division of activities. The household becomes an exploited subject that is functional for capitalism in that it may combine several kinds of workers and income sources: a salaried worker, a self-employed worker, a street vendor, a nonwaged worker, and a transfer payment recipient. Consumption is ensured and the domestic market remains fragmented. The problem, as I see it, is that policies that should increasingly address universal redistribution merely focus on ensuring a subsistence income rather than encouraging the creation of stable paid occupations with social security.

The households that in Latin American daily life coalesce into communities and cooperatives have a different logic from that of the capitalist market. They find a simple commercial relationship sufficient and privilege other expressions of sociability and relationships between humans and nature. They mistrust capitalist institutions not because they are unfamiliar with financial culture but because of the greed they represent. They participate in consumer and commercial practices and, although they are not wage earners, are immersed in expensive and risky credit plans. Additionally, their daily existence in a context of institutional weakness and political exclusion leads them to reproduce patterns of corruption, drawn into these dynamics by the struggle for spaces that once were public.

The clear difference between a domestic market as a local space for the production and exchange of goods and services and one that is grounded in the growth of free labor and the generalization of wages⁴ allows a better understanding of the role of informality and precarity in system maintenance. First of all, such a system cannot provide the whole population with protected employment if it is to remain competitive in the world market. Secondly, a proper integration of the domestic market would involve opening up spaces for competition under equal conditions, thus eliminating the concentration and centralization represented by corporate conglomerates and transnational corporations. It is clear that the fragmentation of the internal markets of Latin American countries serves to maintain the inequality these societies experience.

THE CHALLENGES OF LATIN AMERICAN CAPITALISM

Analyses of Latin American development have focused on the following approaches: overcoming via modernization the dual structure that leads to poverty and marginalization, promoting state-led industrialization to transform the productive process in an equitable way, and allowing the market to determine via free trade, indiscriminate economic openness, and the prioritization of incorporation into world markets. In all these scenarios, informal employment remains prominent and even becomes more so. Slavnic (2009) has pointed out that the informal economy cannot be understood as separate and isolated from the economic system; informality exists to varying degrees in all types of social action. Like the formal economy, it must be addressed via demands for public policies that alleviate inequalities.

In a globalized world with a concentrated distribution of income and in countries that experience dependent relationships, the only way to sustain profitability seems to be to ensure a fragmented domestic market. Nonetheless, Latin American countries such as the Andean nations of Bolivia and Ecuador have attempted other forms of development, new forms of social organization that emphasize living well and a relationship between humans and nature that is environmentally sustainable. This has given rise to analyses that focus on new forms of production and a shift toward growth reduction. Others emphasize the recovery of indigenous peoples' worldviews and the defense and construction of public and common spaces. There are also those who have salvaged the concept of social capital and stress the importance of shared norms, knowledge, and rules for collective action (Ostrom and Ahn, 2003: 164). Adopting a different perspective on development entails the construction of sustainable production processes based on a relationship between humans and nature that transcends an exclusively utilitarian and commercial logic. Agriculture, crafts, culture, and community service should not be synonymous with backwardness but part of an inclusive social construction focused on human well-being and development.

The debate ahead of us is one between capitalist hegemony, based on consumption and waste, and a vision of sustainability and care of the environment and life as a whole. The great challenge is to give labor its proper place as a vital

expression—a creative, transforming and liberating force. This will entail a long path of transformation including changes in ways of fulfilling needs, obtaining income, and creating collective projects that encompass labor, culture, recreation, and social and political action. This will be a long and rocky road, a challenge that requires broad participation.

NOTES

1. In formal subsumption, capital places particular forms of work under its control in the technological state in which it finds them and as they have developed from noncapitalist production conditions. Real subsumption is identified with a specifically capitalist mode of production and encompasses not just the individual worker but also social work and diverse labor capacities, allowing for valorization and constant accumulation (see Echeverría, 2005).

2. Production based on private ownership of the means of production and the personal work of producers, who produce articles intended for sale on the market. In a simple mercantile economy, the only commodities are the products of human labor, while in a capitalist one the labor force itself becomes a commodity (Borisov, Zhamin, and Makarova, 2009).

3. According to the ILO (2004), informal employment includes “own-account workers employed in their own informal sector enterprises; employers employed in their own informal sector enterprises; contributing family workers; members of informal producers’ cooperatives; employees holding informal jobs in formal sector enterprises, informal sector enterprises, or as paid domestic workers employed by households; own-account workers engaged in the production of goods exclusively for own final use by their household” (if such production is a significant contribution to total household consumption).

4. “Says Mirabeau: . . . ‘The isolated, individual workshops, for the most part combined with the cultivation of smallholdings, are the only free ones.’ The expropriation and eviction of a part of the agricultural population not only set free for industrial capital the workers, their means of subsistence and the materials of their labor; it also created the home market. . . . And only the destruction of the rural domestic industry can give the home market of a country that extension and stability which the capitalist mode of production requires” (Marx, 1977 [1867]: 910–911).

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