Photo by Ricardo Funari.

Workers clean vaporizing tanks in a São Francisco ethanol and sugar plant.

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The Low-Skill Trap

by Andrés Schipani

Chile has been widely praised by economists, political scientists, and international organizations as the model of economic and political development in Latin America. Its high economic growth rates since the late 1980s, combined with the strength of its state institutions and political parties, have caused many Latin American scholars to turn their attention to Chile in order to learn lessons on how to promote economic and social development across the region. However, this perception has changed over the last two years, as massive student protests against the government have shone a spotlight on discontent with the country's model of economic development among important segments of Chile's population. This reaction is particularly puzzling not only because of Chile's elevated rates of GDP growth but also because Chile has the highest college enrollment rate in the region. How can we explain the widespread dissatisfaction with Chile's "successful" model?

Ben Schneider's hypothesis is that Chile's recent wave of student demonstrations speaks to a broader phenomenon. Most Latin American economies are characterized by "macro" indicators that have looked quite positive over the last decade, particularly when it comes to economic growth and declines in inequality. However, Schneider, a professor of Political Science at MIT, argues that the region's economies show important deficiencies when observing more fine-grained, "micro" indicators such as rates of capital formation, workers' skills, and the quality of newly created jobs. These micro indicators, which do not usually make the front page of the paper, are crucial elements for models of economic and social development that aim to achieve Western European or even East Asian levels of human development in the long run. Indeed, while rates of capital formation in Latin America are around 20 percent of GDP in most countries, many of the jobs generated in the past decades have been low-skill, low-wage positions. In other words, high capital formation rates did not necessarily lead to an upgrade of skill levels. Moreover, although access to education has increased considerably across the region, its quality is low by international standards. According to Schneider, this is what Chileans are mobilizing against: a model of economic development that fails to produce enough good jobs for citizens.

Why do Latin American countries exhibit these problems? Schneider argues that the region's countries are characterized by a "hierarchical" variety of capitalism that is different from any of the successful models of development in North America, Western Europe, or East Asia. This model of capitalism has four core elements: an important role for multinational corporations in local production; local business groups that are embedded in a wide variety of economic sectors; atomized labor relations; and low-skilled workers. Schneider's central thesis is that these four elements tend to reinforce one another in a way that pushes Latin American economies toward a low-skill equilibrium from which it is extremely difficult to emerge. Indeed, in economies with atomized labor relations and high turnover rates, companies have no incentive to invest in upgrading their workforce's skills: why would they, when workers will almost certainly leave within one or two years? Moreover, the high level of informality among the Latin American workforce means that there is only a small pool of workers able to acquire advanced skills.

Interestingly, this characterization of the region's economies goes against recent optimistic accounts of Latin America's export commodity boom. As a matter of fact, while many observers characterize this growth in the commodities market as a unique opportunity to foster Latin American prosperity, Schneider argues that the export commodity boom is only reinforcing the low-skill trap of Latin America's hierarchical capitalism. In this regard, Chile's example is particularly illuminating: while copper exports account for 20 percent of its GDP growth in the last decade, they have only generated a 2 percent increase in employment. Moreover, as the case of Brazil under the Lula administration makes clear, commodity exports tend to appreciate local currencies, which in turn leads to relative increases of exports based on primary goods (such as sugar or meat products) at the expense of more capital-intensive industrial exports. Hence, the commodity boom has the perverse effect of reinforcing Latin America's demand for low-skill workers.

Given this scenario, is there any escape from the low-skill trap? Schneider tends to be pessimistic. First, it is very difficult to forge the political coalitions necessary to get countries out of the low-skill trap by improving the quality of public education. While middle-class families have an exit option available to them by sending their children to private schools, the poor tend to reward politicians that meet quantitative standards (such as building more schools) over those who are concerned with more subtle issues such as improving the quality of education in existing schools. Thus, it is extremely hard

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Chile's Chuquicamata copper mine.

Photo by Magnus von Koeller.

for politicians to build cross-class coalitions to reform public education, a necessary condition to get countries out of the low-skill trap.

Second, when one observes the cases of countries in other regions that were able to escape the pitfalls of hierarchical capitalism, their exit route seems hard to replicate in a Latin American context. The obvious comparison for Latin American countries is Finland, which went from an industry based on natural resources (mainly forestry) to creating successful, capital-intensive industries in the telecommunications sector (the best-known example being Nokia). But according to Schneider, Finland's strategy for upgrading its workers' skills combined two features: (1) high public investment in education and (2) high private investment in research and development (R&D). Paradoxically, in Latin American countries such as Chile the opposite scenario is the rule: the state makes most of the investments in R&D, while the private sector is the largest investor in education. Although some auspicious developments are taking place in Brazil, where multinational corporations are starting to invest in private R&D in order to upgrade industries based on primary products and engage in more capital-intensive products such as ethanol, these efforts are still inchoate.

In sum, although Latin America has exhibited impressive economic growth indicators over the last decade, it still experiences important limitations in terms of those micro indicators of economic and social development that actually set developing nations on a sustainable path toward development. Among these indicators, improving the quality of Latin America's public schools stands out as the most important task politicians need to tackle. In this regard, the Chilean case clearly shows how politicians' failure to improve education can create widespread social resistance to unequal models of economic development.

Ben Ross Schneider is the Ford International Professor of Political Science at the Massachusetts Institute of Technology. He spoke for CLAS on April 13, 2012.

Andrés Schipani is a Ph.D. student in the Charles and Louise Travers Department of Political Science at UC Berkeley.

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A fruit seller makes a living in Peru's informal labor market.

Photo by Julia Manzerova.