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(300) 000

Boston University
Institute for Employment Policy
July, 1986

LABOR MARKETS IN JAMAICA
Structure, Performance, and Policy

Summary

Bruce T. Vermeulen
Colby College

Peter B. Doeringer
Boston University

This study was conducted under AID contract #OTR-0092-C-00-2254-00,
Project #930-092. Project title: "Labor Markets and Labor Market
Structure in Developing Countries."

Summary

Chronic unemployment, low productivity, and widespread poverty and inequality have been persistent features of the Jamaican economy for decades. However, sharp reductions in opportunities for emigration, severely curtailed rural job options, rationalized production in manufacturing, and faltering economic growth in the late 1970s, have combined to aggravate joblessness and undermine income growth in recent years.

Unemployment declined and real wages rose during the early 1970's, spurred by Keynesian expansionary policies coupled with public employment programs aimed deliberately at alleviating unemployment. However, productivity went into a sharp decline, which continued through the decade, as a result of OPEC price rises and subsequent foreign exchange crises. Once austerity measures were required to bring spending more in line with productivity, real wages fell as well. By the end of the 1970's unemployment was well above its level at the beginning of the decade and real wages had fallen as well.

The slow pace of job growth in the late 1960's, and the virtual stagnation of employment growth after the public employment projects of the early 1970's proved unsustainable, testify to the difficulties which Jamaica faces in attempting to employ its population productively. Employment, as well as the population, is increasingly urban and jobs are becoming concentrated in 'modern' rather than 'traditional' occupations. This transformation has been the result more of "push" forces due to changes in agricultural employment than of strong 'pull' forces created by a prosperous urban economy.

The negative effects on worker incomes of declining labor demand have been felt only partly through job losses and unemployment. To a much greater extent than in more industrialized economies, unemployment effects are partially disguised in the increased marginalization of income-earning opportunities, as individuals are pressed into less and less productive jobs. Particularly in the informal sector, adjustments to faltering demand take the form of falling incomes rather than "open" unemployment. Thus, although official unemployment data have an upward bias due to the inclusion of youths some of whom may not genuinely be seeking employment, they also greatly understate the extent of unemployment among those whose skills and willingness to work are seriously underemployed.

For women, whose labor force participation rates are unusually high and have continued to increase, the consequences of declining wage-earning opportunities have been especially severe. The data indicate that women have suffered disproportionately high rates of open unemployment in all occupational categories.

Among women who are employed, incomes tend to be relatively low even in a strong labor market. With female employment concentrated in services, teaching, clerical jobs, and petty trade ('higgling'), most income-earning opportunities, even for more educated Jamaican women, are in occupations at the lower end of the wage distribution. Unemployment is also disproportionately concentrated among females.

Since 1980, government policies to address conditions of high unemployment, low productivity, and poverty have had a limited impact on these problems. After an initial surge, the economy has shown far greater resistance to growth, and the hoped for infusion of international business initiatives has not yet come to fruition.

A second major concern of Jamaica's recent efforts to stimulate domestic and foreign private investment, and to generate new jobs, has been the contentious nature of labor-management relations. Within the formal sector, industrial relations concerns are voiced prominently by both businessmen and labor leaders in discussions of employment problems. Yet, the link between the quality of industrial relations and successful employment growth is largely unexplored in recent policy discussions.

The persistence of labor market and industrial relations problems underscores the difficulty of generating sufficient productive employment in Jamaica. While macroeconomic and international factors will continue to dominate the economic situation, growth prospects can be improved through better labor market policies. Devising such policies demands a better understanding of the functioning of labor markets within Jamaica's various types of employment subsystems.

Distinctions need to be made between markets in which easy entry and open wage competition are the principal determinants of income-earning opportunities, and those within which internal labor markets, job sharing networks, and other institutional structures constrain and modify the forces of market competition. Effective human resource policies will also require a more complete understanding of the ways in which employers fill jobs in different sectors and the manner in which individuals from various socio-economic and geographic backgrounds navigate through the complex employment system to build a livelihood.

Policy Considerations

Our reading of labor market problems and policy in Jamaica suggests that four closely related areas of particular importance and concern are:

(1) skill bottlenecks and labor force training; (2) labor productivity; (3) youth employment; and (4) labor-management relations. Failure to improve performance in each of these areas may inhibit job creation, stifle economic growth, and worsen poverty and inequality.

Solutions which have already been proposed to correct problems in these areas focus on the formal sector -- and on the stimulation of market competition by reducing union power. Skill bottlenecks are to be addressed by expanding the vocational training capability of the education system; inadequate labor productivity is seen as being rooted primarily in skill deficiencies; and youth unemployment has been viewed as a structural problem also to be solved by a combination of school-based training programs and subsidies to employers who hire young workers.

Labor-management problems are viewed most frequently by business and government decision makers as a result of union militancy. In this view, union power is used to press for economically unjustifiable wage increases; to resist technical and administrative changes which could improve productivity; and to disrupt production through strikes in order to achieve union objectives. Unions are thereby thought to weaken the international competitiveness of Jamaican industry. The principal recommendation has been to lessen union power and to invigorate labor market competition.

Our analysis of labor market processes in Jamaica leads to a significantly different analysis of Jamaica's labor market problems. While a number of important questions remain unanswered, our findings suggest that several modifications in current policy approaches may be appropriate.

Skill bottlenecks. The formal sector has developed a variety of effective strategies for meeting major changes in the level and skill composition of its labor force. We encountered no insurmountable skill

bottlenecks as the companies interviewed seemed well equipped to handle skill development in response to a variety of fairly substantial changes resulting from growth, new technology, and the introduction of new products.

The internal training capability of these large enterprises is strong. These companies have also developed partnerships with individual vocational schools to provide specialized training which tailored to the company's particular needs. Where training facilities are unavailable within Jamaica, such as when specialized machinery is brought on line requiring a small number of newly-skilled workers, companies have found suitable programs in the United States and Canada to which they have sent key employees.

Apart from skill bottlenecks among highly educated occupations, the main problem in the education and training area seems to be connected to primary (and possibly secondary) education. As in more industrialized countries, employers generally expect to provide a considerable portion of any specific skill training needed by their work force. However, the learning ability of trainees, and therefore the costs of accomplishing any training, depends crucially on workers' ability to learn. This capacity to learn efficiently often depends on having effective skills in reading, writing, communication, and basic mathematics. Jamaican employers we interviewed are critical of the educational foundation in these basic skills which is being provided by the public schools. Although these employers are able to find sufficient workers to meet their minimum hiring needs in the present economy, they reported that many school leavers were only marginally prepared in the basic mathematical and communication skills needed for effective learning on the job. Thus, hiring often requires screening many applicants to find a few with sufficiently developed learning skills.

Apart from short-term complaints about labor quality, especially from lower-wage and more marginal firms, employers are not likely to face

difficulties in meeting the bulk of the labor demands in the foreseeable future. Where specific skill shortages do emerge, they are likely to be in technical and managerial occupations. These vacancies will continue to be hard to fill within the Jamaican labor market and in the short term will require some on-going recruitment from abroad.

Jamaican employers do turn to the international labor market on those rare occasions when internal recruitment and training, or vendor training, cannot provide a particular set of highly specialized skills. Such foreign recruitment typically involves technical, professional and managerial occupations for which demand cannot yet be met quickly enough within the Jamaican labor market and its education and training system.

Past emigration has created a pool of educated and experienced Jamaican nationals living abroad. If income-earning opportunities at home improve, this pool of already-qualified individuals represents an important source of skilled labor which requires no additional educational investments. Thus, expanded investments in very expensive forms of higher education may be ineffective in the absence of relative wage increases within these occupational categories, and they may be superfluous if such wage changes occur.

Rather than causing major bottlenecks in a broad range of specific skill categories for which expanded vocational training is appropriate, successful economic growth is likely to intensify concerns over the quality of basic primary and secondary education already expressed by the employers interviewed for this report. Thus, as growth progresses, the costs of job creation, the biases in choice of technology, and the decisions governing levels of investment within Jamaica as a whole, all depend to an important degree on the basic learning abilities of the work force. Developing a

successful human resources strategy, therefore, requires evaluating the costs and benefits of a wide range of training options — employer-based on-the-job training, vocational training, basic education and higher education.

Labor productivity. Labor productivity has improved substantially in recent years in Jamaica's formal sector. This improvement occurred without major changes in either skill levels or technology. Our interviews suggest that much of this improvement can be traced to changes in management practices with respect to the organization of production and the utilization of labor. In addition, there have been improvements in the quality of human resource management, in the interpersonal and organizational skills and attitudes of supervisors, and in the financial and nonmonetary incentives provided at the workplace. The extent to which productivity improvements also reflects workers' reactions to the prospect of layoffs could not be determined, but this was undoubtedly a reinforcing factor.

Although productivity does not appear currently to be the most pressing issue within the formal sector, it is a very real problem elsewhere in the economy. The shake-out in formal sector employment that occurred during the recent recessions, coupled with a growth in the youth labor force, has forced an expansion of employment in the informal sector without a corresponding growth in output or productive jobs. Thus, output and earnings per worker has inevitably declined, and underemployment has accelerated in the informal sector. While this sector has provided vital employment opportunities in a time of rising unemployment, the rapid erosion of earnings among workers in smaller enterprises and in self-employment after 1975 means that the official unemployment data account for less of Jamaican poverty than in the past. Aggregate statistics which report employment and output for the entire economy, therefore, conceal the

divergent trends in productivity and earnings between the formal and informal sectors.

Yet, as in the formal sector, problems of low productivity cannot be solved through strategies which rely exclusively on education and training. Surveys of the informal sector suggest that the problems of inadequate demand, shortages of intermediate inputs, and capital availability are also serious threats to small enterprise performance. Many small businesses survive, in spite of these problems, on the basis of long hours of work, unpaid family labor, and flexibility and ingenuity in small enterprise management.

We were unable to explore the problems of small enterprises beyond those that were evident from surveys and labor force statistics. These surveys show that the small enterprise sector is heterogeneous with respect to industry, scale of operations, and production methods. Nevertheless, many of these firms have accumulated significant items of capital equipment, many have fixed business locations, and some employ wage labor.

The challenge for policy makers is to find ways of exploiting the strengths of the informal sector by encouraging an expansion of demand for the goods and services that it produces. This small business sector has demonstrated its effectiveness in absorbing workers and in producing goods and services in a labor-intensive manner. By investing in measures which aid in its expansion, government policy can promote increased employment, productivity, and incomes.

Youth unemployment. Since 1976 there has been a substantial increase in the youth unemployment rate, and labor market policy has tended to focus on this problem. The aggregate employment data suggest that the principal cause of increased youth unemployment has been slow growth in the Jamaican

economy during the late 1960's and 1970's, coupled with a sharp increase in the youth labor force.

Even when the demand for labor is robust, however, young workers in Jamaica consistently face employment problems. In the years immediately after leaving school, young workers traditionally have higher unemployment rates than adults as they begin to establish their work patterns. Due to inexperience, lack of connections, employer hiring preferences, and the like, youth cannot always obtain the kinds of jobs they expect. They often experiment with a variety of formal and informal sector jobs, and may move erratically from job to job and in and out of the labor force prior to settling down as adults.

As a result, there may be a large component of both "frictional" and "waiting" unemployment among young workers as they sample different jobs and as they hold out for jobs that will meet their employment expectations. Since all young workers are included in the unemployment statistics, whether they are actively seeking work or merely "waiting", it is difficult to assess the social cost of unemployment among this age group. Yet, it seems quite clear that in Jamaica, most young workers face severe obstacles to obtaining productive employment, even when they engage in active job search.

Unemployment rates for Jamaican youths have been relatively high as long as data has been available; and unemployment rates have been sharply lower for workers in their late twenties. Young workers experience more frictional unemployment and more restricted job opportunities than older workers almost regardless of market conditions, as they search for and test job alternatives.

Inexperience, and possibly age discrimination, rather than a lack of formal skill training, appear to be the major employment barriers to youth.

Employers, particularly in formal sector firms, often prefer to hire somewhat older workers who have some experience with work and who are ready to settle down in the labor market. In an economy with large surpluses of available workers from which to choose, formal sector employers are particularly likely to select more mature and experienced workers in preference to recent school leavers.

Efforts to make young workers more attractive by providing skill training are, therefore, not likely to affect this overall pattern of unemployment to any great degree. Moreover, we have seen no evidence of skill bottlenecks, or of substantial numbers of unfilled jobs at skill levels for which young workers could be trained within a reasonable period of time.

Thus, the principal means of reducing youth unemployment is to achieve a rate of economic growth which is sufficient to lower the aggregate unemployment rate in the economy. Measures focusing specifically on young workers have a tendency to be self-defeating, either because they have no impact on demand, or because they tend to reallocate existing demand so as to cause job losses for some other group in the work force.

Other changes in employability. The concern with youth unemployment has masked several changes in the labor market situation of other groups. For example, there appears to be a general shift in employment practices which has favored prime-age adults. These workers not only experienced employment gains relative to young workers, they also showed improvement relative to older males aged 55-64 and to young adult females aged 20-24. The employment rates of adult female workers aged 25-54 have also shown gains relative to those of adult males, along with sharp increases in labor force participation rate. However, unemployment rates among adult women

have grown even faster, and are more than three times as high as males in the same age range.

While open unemployment of young workers may not be as serious a structural problem as has been argued, so long as adulthood brings a reasonable likelihood of stable employment, the benefits and costs of economic change are not being spread evenly through the labor market. Wage differentials continue to be substantial by sector, and workers in some sectors are far more vulnerable to layoffs and real earnings declines than in other sectors during periods of recession. Moreover, even where employment rates have been improving, much of the growth has occurred in sectors of the economy, such as services and self employment, where low earnings and underemployment are a persistent problem. Thus, there are a broad range of structural problems affecting the employability of various demographic groups.

Labor-management relations. The stridency of union-management relations is also cited as a cause for concern in the labor market. Historically, there has been a long tradition of animosity and distrust between employers and workers. Unions are blamed for inflationary pressures in the economy, for disrupted production, and for inflexibility and opposition to productivity enhancements at the workplace. Management is termed old-fashioned, and insensitive to the working conditions and welfare of their employees.

In spite of these perceptions, aggregate measures of strike activity do not indicate that Jamaica is unusually strike prone, particularly for a country with a relatively large unionized sector. This apparent paradox may stem from the fact that strikes are only one manifestation of a troubled industrial relations climate. An adversarial relationship between workers

and managers can have a devastating impact on productivity even without actual strikes.

It may also be that the degree of unpredictability in labor-management relations creates a sense that the conduct of business in Jamaica is unusually difficult. The nature of Jamaican unions, inter-union rivalries, and the weakness of the governmental industrial relations machinery, contribute to conditions of uncertainty. They create a volatile atmosphere in which work stoppages may occur for non-economic reasons, without warning and when they are completely unexpected by the employer. Where relations are poor to begin with, minor altercations can trigger major disputes.

Government machinery for resolving industrial disputes has not been successful at addressing these problems and promoting orderly collective bargaining. Regardless of which major party is in office, there may be conflicts of interest between narrow political objectives and the smoother functioning of industrial relations. Neither party has incentives or inclinations to disengage itself from its union supporters and the intense inter-union rivalry.

Therefore, despite the efforts of a number of key government mediators and arbitrators, the government's industrial disputes machinery remains exceptionally weak. The lack of well-defined regulations, poor facilities, a shortage of technical support, and the limited experience of some mediators and Tribunal members, all serve to undermine efforts to ensure a degree of rationality and foster peaceful bargaining between the parties. While it may be difficult to depoliticize industrial relations in Jamaica, improvements in the mediation and arbitration services can and need to be made.

Our interviews further suggest that worker militancy and strike activity are related to the state of the economy. The pressures of

declining demand and job cuts have reduced the frequency and intensity of industrial disputes during the most recent economic recession. The prospect that economic recovery may rekindle industrial strife, further emphasizes the need to improve Jamaican industrial relations.

For policy makers intent on encouraging private investment and accelerating the process of job creation, the industrial relations system in Jamaica has advantages as well as disadvantages. Although the highly political nature of the trade union movement in Jamaica encourages both businesses and politicians to settle disputes in a politically expeditious manner which too often is not conducive to economic growth, a well organized work force and business community can also be a great asset for economic development. The close relationship between the government and the unions, combined with both high levels of union organization and the presence of a tightly-knit business community in the formal sector, provide an institutional vehicle which can be coordinated far more effectively than it is now for linking economic policy with industrial relations policy. This potential for harmonizing growth and industrial relations policies is an important key to making private investment more attractive, and thus is vital for accelerating employment growth in the future.

An Integrated Labor Market Strategy

There is little disagreement concerning the problems which need to be addressed by policy-makers in Jamaica. Clearly, job creation is a critical need. Currently, additions to the labor force are outstripping employment growth. Increased productivity is needed, both to keep Jamaica's exports competitive on world markets, and to make possible widespread increases in incomes.

Our labor market findings differ from those upon which current policy is based, however, in the relatively greater importance that we place on understanding formal and informal institutional relationships in the labor market. The historical character of the Jamaican economy, the contemporary social and political relationships which constrain economic decisions, and the role of trade unions and employer associations, must be taken into account along with more traditional economic variables. These institutional forces have shaped both the current structure of the economy, and many of the perceptions concerning policy options which are open to decision-makers. They often are key determinants of success and failure in the implementation of new policies.

Concerns over the accumulated effects of the loss of skilled labor through emigration, and a desire to increase the productivity and employability of the Jamaican work force, have led to an emphasis on expanding programs for vocational education and on-the-job training as the key tools of labor market policy. Our preliminary investigations have suggested, however, that the current strategy for training is unlikely to achieve its objectives because it does not sufficiently address either employers' concerns over the quality of basic education, or workers' needs for greater numbers of new jobs.

Spot skill shortages have been a problem, particularly in professional and managerial positions, but these problems require longer term solutions than are contemplated within the framework of vocational training policy. Second, the most frequent criticism by employers of the education and training system concerns general knowledge rather than specific vocational skills. Jamaican firms are accustomed to providing specialized skill training, but need adequately educated trainees who can learn these skills efficiently.

If the mix of education and training investments is to be re-balanced, steps must also be taken on the demand side of the labor market to ensure that earnings are commensurate with the level of individual and public educational investments. Not only must there be a sufficient increase in job opportunities that can productively employ trained workers, there must also be an increase in employment stability and improvements in industrial relations.

Finally, in planning for an integrated labor market policy, account must be taken of the variations in workplace employment practices in different sectors of the economy. Hiring procedures, patterns of job access, skill requirements of employers, training strategies, job stability, wage structures, wage determination procedures, working conditions, and fringe benefits all differ fundamentally in various parts of the economy. Programs and incentives need to be tailored to fit these specific and distinct sets of employment practices. By taking advantage of these differences through customized programs, significantly greater returns can be achieved on public investments in employment and training programs.