

Spinanger, Dean

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## The labor market in Panama: An analysis of the employment impact of the labor code

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# Kieler Arbeitspapiere Kiel Working Papers

Working Paper No. 221

THE LABOR MARKET IN PANAMA

- An Analysis of the Employment Impact  
of the Labor Code -

Dean Spinanger

Kiel, December 1984

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## Preface

This study represents an attempt to determine to what degree well-meant labor market policies negatively influence employment and hence unemployment levels. To do this a survey - referred to hereafter as the Labor Code Survey (LCS) - of firms in Panamá was carried out. This survey is unique not only for Panamá - such a broad-based attempt to analyze the impact of labor market regulations has not been carried out anywhere else. The study as it stands, however, is not considered by the author to be complete, as neither the entire depth of the information gathered for the project could be presented here, nor are possible issues from the employees' side explicitly covered in this approach. The author would thus welcome comments on issues which could be analyzed further and criticism of aspects neglected or overly stressed.

Needless to say this study - carried out for the "Economic Studies Program" under the auspices of US AID/Panama - would not have been possible without the cooperation and assistance of many people in the Republic of Panamá. First and foremost are Isabel Atencio and Andrea Butelman who suffered through the tedious and frustrating work of making sure that the survey was answered and who sifted through various mounds of documents and data to fulfill my requests. Thanks to their tenacity and diligence the study could be completed. Furthermore, Marco Fernandez, Juan Luis Moreno, John Panzer, Pedro Videla and Daniel Wisecarver all provided valuable assistance and suggestions whenever problems arose. Of particular importance to me as an economist were the discussions with Jorge Fabrega, Arturo Hoyos and Yauda Kuzniecky - all of them helped to contribute to my better understanding of the Labor Code. Last but not least, the author would like to thank the 54 companies which replied - without the work they invested in answering the survey this study would have produced less meaningful results. Back in Kiel the author would like to thank Juergen B. Donges, Egbert Gerken and Herbert Giersch for worthwhile discussions on various aspects touched upon in this paper. The author exonerates all of those mentioned above from any possible errors or omissions and accepts - albeit grudgingly - responsibility for them.

References made to the Labor Code in this study refer to the English version published by the ILO (Legislative Series, 1971 - pan.). Interpretation of the Code was made with the help of Arturo Hoyos' article on Panama in the International Encyclopedia of Labor Law and Industrial Relations (R. Blanpain (Ed.), Netherlands, 1979). For more detailed information on the labor market in Panama readers are referred to two other studies within the

framework of the Economic Studies program: Andrea Butelmann and Pedro Videla "El Código de Trabajo y sus efectos sobre salarios y empleo" (November, 1984); Pedro Pou "Empleo, inversión y crecimiento económico en Panamá durante la década de los setenta" (July, 1984). These are complemented by the 1982 World Bank report on urban unemployment as well as the 1984 country report. A good overview of the economy up to the mid-seventies is given by Robert Looney ("The Economic Development of Panama - the Impact of World Inflation on an Open Economy". New York, 1976).

Dean Spinanger  
Kiel, Germany  
October 1984

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## Chapter I - Employment Problems in Panama - Issues, Approach and Overview

### 1. Introduction and Relevance

The purpose of this part of the Economic Policy Studies Program is to analyze employment problems in Panama, determine their causes and formulate strategies to resolve or at least mitigate them. Urgency in this matter is called for. Already unemployment is at its highest level in decades and new employment opportunities in the private sector are being created at but a very sluggish pace. Since this constellation alone would dictate prompt action, the fact that by the end of the decade there will be over a third of a million more people of working age in Panama than at the beginning, accentuates the urgency of the situation. If this potential growth in the labor force is not to exacerbate employment problems in the coming years, thereby nurturing social injustice and unrest, effective and forceful measures are required once the actual causes of the problems have been identified.

The specific approach taken in this study attempts to do justice to the task by concentrating on what is perceived to be the crux of the problem - namely on barriers in the labor market which keep the unemployed, underemployed or new entrants from procuring employment commensurate with their abilities. To be sure this is not a conventional approach, where problems are analyzed from the viewpoint of effecting increases in aggregate demand, decreases in working hours or active labor market policies. But in light of the failure of such approaches to achieve employment goals in the past, the unconventional analysis would seem to be a more promising way of dealing with the issues perceived to be currently facing economic policy-makers in Panama.

Given the rapidly growing labor force, a wait-and-see attitude by the government - perhaps assumed because of hesitancy to transgress political, economic or social tabus - would not seem to offer a viable solution, since the employment problems are not going to solve themselves. As a matter of fact such an attitude would even seem to run counter to the Constitution of 1972 (Chapter 3) where it is explicitly stated that the State is obligated to establish the political and economic policies necessary to promote full employment and ensure the economic conditions prevail so that each employed person can earn a decent existence. The modus operandi through which the State originally perceived this to be achieved are primarily embodied in the Labor Code (LC) of 1972. Therewithin the relationship between capital and labor is governed, providing "special attention of the workers by the State with state interventions to make remunerated employment available to all those without work" (LC, para. 1).

While most modern welfare (market-economy) states - and Panama can be classified as such - have tended to assume a greater role in achieving employment goals, it has become increasingly doubtful that the above stated goals can be efficiently reached through state interventions in the labor market. Furthermore, when other policies (e.g. income distribution) are attempted to be effected through the labor market, thereby directly influencing the price of and hence demand for labor, the doubts (particularly in light of the increasing amount of evidence from industrialized countries)<sup>1</sup> about the effectiveness of such a strategy become confirmed. It has been convincingly shown for any number of countries that the good intentions of the state usually get in the way of a more complete clearing the labor market, thereby creating or worsening rather than reducing employment problems.

Given the general validity of principles perceived as governing the workings of market economies - be they in industrialized or industrializing countries -, this project examines

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<sup>1</sup> See for instance Donges, Spinanger (1983); Spinanger (1983).

the framework within which the labor market functions in Panama. It will specifically attempt to determine which barriers/interventions keep the labor market from absorbing more of the rapidly growing labor force, thus coming closer to achieving the stipulated employment goals. It goes without saying that while the removal of barriers from the labor market can provide adequate employment opportunities, accomodating policies in other areas - which have been examined in other parts of the Studies Program - are essential if other broader economic/social goals are to be achieved.

## 2. Scope and Structure of Study

Within the above framework this study attempts to deal with employment problems in Panama by centering on a breakdown of barriers/interventions in the labor market according to their intended thrust. This breakdown is made along the following lines:

- I. Policies directly influencing pay levels
  - legal minimum wages
  - contract minimum wages and lump-sum pay increases achieved via collective bargaining
- II. Measures directed toward job rights
  - employment security
  - antidiscrimination
- III. Actions aimed at job environment
  - work rules
  - job/occupational training
- IV. Legislation embodying social aspects
  - maternity leave
  - paid sick leave
  - unemployment compensation
- V. Policies affecting the economic environment
  - collective bargaining framework
  - bureaucratic and legal ramifications

This breakdown - as has been established in the meantime - interfaces quite well with the problems encountered in the Panamanian labor market and thus allows most relevant issues to be covered. Experience from many developed and developing countries unequivocally shows that the policies mentioned in points (I) and (V) primarily effect the demand for labor adversely; the other policies influence both the demand for and supply of labor.

In applying this framework two alternatives were available. First - and this would be the usual procedure - the appropriate macroeconomic indicators for each of these headings would be gathered, tracked and analyzed over a certain time period (or across sectors, regions, etc.) and then conclusions drawn from the results. This alternative was not chosen, but rather it was decided to approach the problem in a more challenging fashion, namely from the microlevel in order to attempt to find out exactly what influence existing barriers/interventions have or have had on specific employment and pay practices; in other words a survey of firms was carried out. Despite the risks involved in such an undertaking, it was felt they were worth accepting knowing that a successful survey could provide better insights into the interaction of employers with the parameters (i.e. regulations) they face in the labor market<sup>1</sup>. The survey thus represents the main body of

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<sup>1</sup> Obviously such a survey is one-sided as the issues as seen by the employees and employees' organizations are only indirectly picked up. However, time constraints (and Murphy's Law) made it impossible to cover the other side as well. Nonetheless, the results of this survey quite adequately cover the question posed. With the results of this survey in mind it would seem to be a worthwhile additional project to hook up to the employee's side of the story in order to attempt to find out how large or how small the differences or rather areas of agreement between the two parties are. The result (i.e. the area of agreement) could then be interpreted as a map of an area within which - given the specific conditions of companies/sectors - a social consensus could be achieved. Since the consensus area common to all companies and employees would no doubt be relatively small, politicians could enlarge it in a manner to minimize resistance and in accordance with economic efficiency criteria.

this report. It does not stand alone, however, as the necessary background information and data are presented to put the analysis in the proper perspectives or extend the analysis beyond the questions asked in the survey.

The study begins (in the remainder of this chapter) with an overview of the salient features of the developments in the Panamanian labor market. This overview also includes a brief portrayal of other macroeconomic variables. In the next section the institutional framework of the Panamanian labor market is examined and the possible impact of various measures is analyzed. This is primarily accomplished by drawing on the results of the survey. The paper closes with a summary of the results, policy recommendations drawn therefrom and conclusions.

### 3. The Labor Market and the Economy of Panama: a Brief Overview

Employment problems in a small open economy like Panama, where the exchange rate is given (i.e. the Balboa is on a one to one relationship to the US dollar) and over half of the population is concentrated in a strip of land (straddling the Canal) about 50 miles wide and 30 miles long, where infrastructure levels are relatively high thereby providing a basis for the exploitation of locational advantages, with comparatively high levels of education and an absence of political violence so common to other countries in the region, would a priori seem to be something of temporary or at the most of a frictional nature. This is not the case, however, as neither do unemployment levels show any sign of decreasing nor do job opportunities seem to be expanding in a manner to accommodate a growing labor force.

A glance at key macroeconomic indicators (Table 1) highlights developments leading to the present situation and reveals that a different story could be told of earlier times. During the 60's Panama's economic performance far excelled that of other Latin American countries in general. Not only did a low aver-

age rate of inflation prevail, but real per capita income, investment and exports increased in a manner otherwise associated with fast growing Pacific rim economies. Unemployment rates remained at relatively low levels and labor force participation rates increased over the years.

In the 70's, however, the Panamanian economy began to weaken and growth rates of GDP per capita and most other key macro-economic indicators dropped below average. While the growth of merchandise exports even turned negative, private investment just barely expanded. Developments in the labor market deteriorated as documented by the rise in unemployment levels as well as by the sizeable decrease in the economically active population (as % of total population - see Table A1).

While it's true that the 70's were particularly turbulent years in which two "oil shocks" had to be suffered through it would be short-sighted to place an overly large share of the blame on such external developments. After all Table 1 does put Panama's developments into perspective and relatively speaking other countries did fare better. These developments even occurred at a time when the dollar was continually depreciating thereby improving Panama's competitive edge over countries not tied so closely to the U.S. currency. Furthermore, the various measures introduced in the early 70's to promote offshore banking in Panama induced a strong surge in the number of foreign banks and - because a full-fledged presence is necessary - in construction activities.

Without going into further detail on the structure and growth of the labor force (justice has been done to this in recent World Bank mission reports as well as in the paper prepared by Pedro Pou) three trends need be brought to attention:

- There has been a noticeable decrease in economic activity rates - particularly for the younger age cohorts -, a development which can be interpreted as reflecting the failure of

Table 1: Development Indicators<sup>1</sup> for Panama and Selected Latin American Countries: 1960 - 1982<sup>2</sup>  
 (The underlined values are above Latin American averages.)

|                                    | Middle Income Countries |           | Latin America |           | Panama      |            | Costa Rica  |            | Colombia   |            | Mexico      |            | Brazil      |             |
|------------------------------------|-------------------------|-----------|---------------|-----------|-------------|------------|-------------|------------|------------|------------|-------------|------------|-------------|-------------|
|                                    | 1960-1970               | 1970-1982 | 1960-1970     | 1970-1981 | 1960-1970   | 1970-1982  | 1960-1970   | 1970-1982  | 1960-1970  | 1970-1982  | 1960-1970   | 1970-1982  | 1960-1970   | 1970-1982   |
| GDP/Capita                         | 5.8                     | 5.5       | 2.7           | 2.7       | <u>4.7</u>  | 2.2        | 2.5         | 2.4        | 2.1        | <u>3.6</u> | <u>4.2</u>  | <u>3.4</u> | <u>3.2</u>  | <u>5.5</u>  |
| GDP by sectors:                    |                         |           |               |           |             |            |             |            |            |            |             |            |             |             |
| Agriculture                        | 3.5                     | 3.0       | 3.2           | 3.2       | <u>5.8</u>  | 2.0        | <u>5.7</u>  | 2.3        | 3.5        | <u>4.5</u> | <u>4.5</u>  | <u>3.4</u> | .           | <u>4.5</u>  |
| Manufacturing                      | 5.8                     | 7.3       | 5.7           | 4.8       | <u>10.5</u> | 2.7        | <u>10.6</u> | 6.0        | <u>5.7</u> | <u>5.2</u> | <u>10.1</u> | <u>6.8</u> | .           | <u>7.8</u>  |
| Services                           | 5.5                     | 5.5       |               |           | <u>7.7</u>  | 5.3        | <u>5.7</u>  | <u>4.6</u> | <u>5.7</u> | <u>6.5</u> | <u>7.3</u>  | <u>6.5</u> | .           | <u>7.7</u>  |
| Consumption                        |                         |           |               |           |             |            |             |            |            |            |             |            |             |             |
| Private                            | 5.2                     | 5.2       | 5.4           | 4.3       | <u>6.4</u>  | <u>4.6</u> | <u>6.0</u>  | 3.5        | 5.5        | 5.3        | 7.0         | 5.9        | <u>5.4</u>  | <u>8.0</u>  |
| Government                         | 6.2                     | 6.3       | 4.5           | 6.0       | <u>7.8</u>  | 5.2        | <u>8.0</u>  | 5.3        | <u>5.5</u> | <u>5.7</u> | <u>8.8</u>  | <u>8.2</u> | <u>3.7</u>  | <u>7.1</u>  |
| Investment - priv.                 | 7.6                     | 6.6       | 6.2           | 6.0       | <u>12.4</u> | 1.0        | <u>7.1</u>  | 2.9        | 4.5        | <u>6.7</u> | <u>9.9</u>  | <u>8-0</u> | 6.1         | <u>6.5</u>  |
| Exports                            | 5.4                     | 2.6       | 5.5           | 4.3       | <u>10.4</u> | -7.3       | <u>9.6</u>  | <u>4.5</u> | 2.6        | 2.2        | 3.4         | 8.6        | 5.3         | <u>8.8</u>  |
| Imports                            | 5.9                     | 3.9       | 5.3           | 8.0       | <u>10.5</u> | -3.9       | <u>10.1</u> | 0.1        | 2.3        | <u>8.7</u> | <u>6.4</u>  | <u>8.7</u> | 5.0         | <u>1.4</u>  |
| Inflation rate                     | 3.0                     | 12.8      | 20.3          | 43.7      | 1.5         | 7.5        | 1.9         | 18.4       | 11.9       | 22.7       | 3.5         | 20.9       | <u>46.1</u> | 42.1        |
| Money Supply <sup>4</sup>          | -                       | -         | 25.0          | 45.3      | 9.1         | 11.7       | 8.8         | 21.9       | 18.9       | 24.9       | 12.0        | 28.1       | <u>47.7</u> | <u>48.6</u> |
| Population                         |                         |           |               |           |             |            |             |            |            |            |             |            |             |             |
| Total                              | 2.6                     | 2.4       | 2.7           | 2.3       | <u>2.9</u>  | <u>2.3</u> | <u>3.3</u>  | <u>2.5</u> | 3.0        | 1.9        | 3.3         | <u>3.2</u> | <u>2.8</u>  | <u>2.4</u>  |
| Urban                              | 4.4                     | 4.2       | 4.2           | 3.5       | <u>11.1</u> | 3.2        | 4.0         | 3.2        | <u>5.2</u> | 2.7        | <u>4.7</u>  | <u>4.2</u> | <u>5.0</u>  | <u>4.1</u>  |
| Labor force                        | 2.1                     | 2.4       | 2.3           | 2.4       | <u>3.4</u>  | <u>2.4</u> | <u>3.3</u>  | <u>3.8</u> | <u>3.0</u> | <u>3.3</u> | <u>2.8</u>  | <u>3.2</u> | <u>2.7</u>  | 2.3         |
| Potential labor force <sup>3</sup> | -                       | -         | 2.7           | 2.9       | <u>2.9</u>  | <u>3.2</u> | <u>3.7</u>  | <u>4.1</u> | <u>3.2</u> | <u>3.5</u> | <u>3.1</u>  | <u>3.4</u> | <u>2.9</u>  | 2.3         |

<sup>1</sup>Annual growth rates; where relevant in real terms. - <sup>2</sup>While most of the series cover 1982, in some cases only 1981 or 1980 data were available. It is assumed that such minor distortions do noticeably affect the overall picture. - <sup>3</sup>Population between 15 and 65 years. - <sup>4</sup>For Panama deposit money; otherwise M<sub>1</sub>.

Source: Own calculations based on World Bank data.



the labor market to absorb new entrants. While the reduction could also include increased attendance in schools, the size and speed of the change would seem to vouch more for withdrawal from the labor force due to the failure to find a job.

- The expansion of employment over the last 10 years has been accounted for to a large degree (75%) by an increase in the government sector. While an increase in the government's share of the labor force is not an indication per se of an inefficient allocation of resources, the magnitude by which government employment expanded in Panama must be open to questioning: Obviously to the extent that the state provides or expands services which allow the economy to operate more efficiently, such state activities could be sanctioned. However, the expansion of government activities into a wide range of sectors as well as a sizeable increase in given ministries and institutions, has probably involved not only a misallocation of resources but has also caused indebtedness and tax burdens to increase (see Nasser Saidi's paper).
- The sizeable decline in the number of entrepreneurs reflects the general economic malaise in Panama in as much as it is through entrepreneurs that new ideas are developed, market niches are filled and flexibility is introduced into the economy. The fact that they are on the decline means that an important ingredient in the development process is lacking. Entrepreneurs are also important in providing new jobs, particularly of the labor intensive variety. Should they not have been able to sustain business activities in the economy because of the labor code, tax reasons or other regulations, the chances are that a large number of them disappear into the free-wheeling underground economy.

If these three trends and their interpretation can be taken as correctly representing salient features of the Panamanian economy, then there is every reason to believe that the problems in the Panamanian labor market do stem from rigidities and distortions, the exact sources of which must now be determined.

Chapter II - Interventions in the Labor Market in Panama -  
Extent and Impact

1. Introduction

With the enactment of the 1972 Labor Code the government of Panama set forth and considerably expanded its active role in influencing the labor market begun in the Constitution of 1946 and Labor Code of 1947. The major changes incorporated into the 1972 Code covered the area of job security (i.e. no free termination of employment relations), hours of work, collective bargaining and in particular the formation of unions. Generally speaking, however, the Labor Code of 1972 minutely lays down and defines rights/obligations of employers/employees. This is done in over 1000 provisions and procedural rules beginning with general principles (see above) and followed by books on individual labor relations (Book I), employment injuries (Book II), industrial relations (Book III) and (extensive) procedural rules (Book IV).

Predating the LC by two years, and responsible for dealing with most issues connected with the Code, is the Ministry of Labor and Social Welfare. It is involved not only in labor market analyses and planning, as well as in employment and legal aid services, but also in aspects concerning collective bargaining agreements, enforcement of labor laws and - perhaps most important - judicial matters. In the last aspect the Ministry was empowered (in 1975) to act as a legal court in dealing with certain disagreements arising out of the LC and not covered by other specific labor boards or courts (e.g. sectional labor courts and Boards of Conciliation and Decision).

Out of this system of Labor Code and labor courts two major issues have developed. The first deals with the impact of the Labor Code on employers and employees and concerns the degree to which the Code has been correctly (or incorrectly) interpreted and applied. The second deals with the judicial pro-

ceedings and includes the degree to which decisions have been made in accordance with the letter and spirit of the law as well as in a consistent manner. Whereas this study deals primarily with aspects in connection with the first part, it cannot be avoided that certain aspects of the second part are touched upon as well.

2. On the Scope and Impact of Policies Directly Influencing Pay Levels

Legal Minimum Wages<sup>1</sup>

Minimum wages in Panama have been anchored in the body of laws governing the labor markets since the Constitution of 1946 and the ensuing 1947 Labor Code. The form in which they currently exist corresponds with the statement of general principles (mentioned in Chapter 1) and provides a classic example of how laws are formulated to achieve a certain goal which actually cannot as such be achieved in such a manner. That is to say, Section 172 of the LC stipulates that "every worker shall be entitled to a minimum wage enabling him to meet the normal material, moral and cultural necessities of his household; this minimum wage shall be fixed periodically in order to improve the workers living standard, taking into account the particular conditions of each region and each industrial, commercial or agricultural activity." In other words via a mere setting of minimum wages (e.g. by the National Minimum Wage Board) a minimum level of income is to be ensured. Beyond this the increases in minimum wages (designated to be effected every two years) are intended to improve upon the initial minimum standard of living - obviously increases in excess of the inflation rate must be effected.

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<sup>1</sup> Although only legal minimum rates are discussed here, the same arguments apply to contract minimum wages; they are therefore not specifically dealt with.

Legal minimum wage rates in Panama have been increased three times over the last 10 years (see Table 2). After the last increase (in 1983) they were - on the average - about 45% above 1974 levels. Inflation, however, has negated any improvement in real terms, as real minimum wages actually fell by over 13% in the same time period. Since average hourly wages increased more rapidly than inflation, the relative position of these receiving minimum wages also decreased. While increases across the more populated areas of the country were slightly below average, the rest of the Republic - i.e. largely rural areas - had minimum wages increased at a rate almost 50% higher. That is to say, in areas already suffering from locational disadvantages and high levels of unemployment, wages were rapidly increased, when instead measures should have been taken to ensure a more extensive use of labor. It can probably be assumed, however, that the compliance rate in rural areas - particularly in small establishments - is quite low. Hence the effective impact is probably not as large as might be assumed. Only in those companies with unions, where contract minimum wages have been set, would the degree of compliance be high and thus the negative employment effects larger. In any case the deterioration of the terms of trade (as a result of the oil price increases) were apparently not taken into due account when wages were set.

With the help of the survey (question ID) it was attempted to find out how companies actually do react to minimum wage increases (one of 10% and another of 50%). The reactions analyzed were in connection with those already employed by the company (i.e. employment levels) as well as the number and quality of those to be hired. In evaluating the answers it was assumed that similar perceptions on forthcoming economic developments prevailed. In particular it was assumed that there was a general consensus on how much of the increase could be passed along in terms of higher prices.

The analysis revealed (Table 3) that an increase of 10% would have no impact on employment levels in 75% of the firms answering. About the same percentage amount applies to hiring

Table 2 : Development of Hourly Wages and Minimum Wage Rates (B./hr.): 1974-1983

Wages and minimum wages

|                | Average <sup>1</sup><br>hrly.<br>wage<br>(1) | Real <sup>2</sup><br>hrly.<br>wage<br>(2) | Minimum<br>wage<br>(3) | Real <sup>2</sup><br>minimum<br>wage<br>(4) | Relative <sup>3</sup><br>minimum<br>wage<br>(5) |
|----------------|--|---|------------------------|---|---|
| 1974           | 1.23   | 1.23                                      | .40/.55                | .40/.55                                     | 32.5/44.7                                       |
| 1975           | 1.29   | 1.22                                      | ↓                      | .38/.52                                     | 31.0/42.6                                       |
| 1976           | 1.41   | 1.29                                      |                        | .36/.50                                     | 28.4/39.0                                       |
| 1977           | 1.50   | 1.31                                      |                        | .35/.48                                     | 26.7/36.7                                       |
| 1978           | 1.54   | 1.29                                      |                        | .33/.46                                     | 26.0/35.7                                       |
| 1979           | 1.64   | 1.27                                      |                        | .50/.66                                     | .39/.51   |
| 1980           | 1.80   | 1.23                                      | ↓                      | .34/.45                                     | 27.8/36.7                                       |
| 1981           | 1.91   | 1.21                                      |                        | .32/.42                                     | 26.2/34.6                                       |
| 1982           | 2.00   | 1.22                                      |                        | .30/.40                                     | 25.0/33.0                                       |
| 1983           | 2.09 <sup>4</sup>                            | 1.25                                      | .59/.78                | .35/.47                                     | 28.2/37.3                                       |
| % Change 74-83 | 70.0   | 1.6                                       | 47.5/41.8              | -12.5/-14.5                                 | -13.2/-16.6                                     |

Minimum wage by regions

|                | Panama City,<br>Colon and<br>San Miguelito | David<br>and<br>La Chorrera | Chitré<br>and<br>Santiago | Puerto Armuelles<br>and<br>Changuinola | Rest of<br>Republic |
|----------------|--|-----------------------------|---------------------------|--|---------------------|
| 1974           | .55  | .50                         | .45                       | .45/.50                                | .40                 |
| 1979           | .66  | .59                         | .54                       | .54/.59                                | .50                 |
| 1983           | .78  | .69                         | .64                       | .64/.69                                | .59                 |
| % Change 74-83 | 41.8                                       | 38.0                        | 42.2                      | 42.2/38.0                              | 67.8                |

Minimum wage by sector

|                | Agriculture <sup>5</sup> | Manufact. <sup>6</sup> | Construction <sup>6</sup> | Trade/Banks <sup>6</sup> | Services <sup>6</sup> |
|----------------|--------------------------|------------------------|---------------------------|--------------------------|-----------------------|
| 1974           | .35                      | .55/.72                | .70                       | .55/.68                  | .55/.66               |
| 1979           | .47                      | .66/.75                | .79                       | .66/.75                  | .66/.75               |
| 1983           | .55                      | .78/.88                | .91                       | .78/.88                  | .78/.88               |
| % Change 74-83 | 57.1                     | 41.8/22.2              | 30.0                      | 41.8/29.4                | 41.8/29.4             |

<sup>1</sup> Average monthly salary in private sector divided by hours/month (187). <sup>2</sup> Deflated by consumer price index 1974=100. <sup>3</sup> (4) divided by (1). <sup>4</sup> Estimated. <sup>5</sup> Daily rate divided by 8.5. <sup>6</sup> In Panama City.

Source: Own calculations based on Boletín Informativo Salarios Minimos Vigentes, various issues; Panama en Cifras (1984) p. 224; Situación Social (1982), p. 134. International Monetary Fund, various issues.

Table 3 : On the Possible Impact of Minimum Wage Increases

| Impact of a 10% minimum wage increase on ... by ... % |               |      |                    |      |           |
|---|---------------|------|--------------------|------|-----------|
|   | 0%            | 1-5% | 6-15%              | >15% | No answer |
| Employment <sup>1</sup>                               | 36            | 3    | 3                  | 3    | 9         |
| Hires: Quantity <sup>1</sup>                          | 28            | 5    | -                  | 4    | 17        |
| Quality   | No change: 15 |      | Higher quality: 15 |      | 24        |

| Impact of a 50% minimum wage increase on ... by ... % |               |      |                    |      |            |           |
|---|---------------|------|--------------------|------|------------|-----------|
|   | 0%            | 1-5% | 6-15%              | >15% | Firm broke | No answer |
| Employment <sup>1</sup>                               | 14            | 2    | 4                  | 8    | 14         | 12        |
| Hires: Quantity <sup>1</sup>                          | 14            | -    | 4                  | 6    | 14         | 16        |
| Quality   | No change: 10 |      | Higher quality: 16 |      | 14         | 14        |

<sup>1</sup> Decrease.

Source: Own calculations based on LCS.

policies (i.e. quantity of hires), but only half thought that they would not increase their demands for more qualified labor. Since a 10% increase in minimum wages is only about half of what was experienced in the past, the firms were probably able to adjust their estimates according to prior reactions. It should be noted that - as could be expected - those predicting decreases in employment levels tended to be of smaller than average size. Roughly speaking for those who gave estimates, the elasticity of employment levels with respect to minimum wages would be about 1.

In connection with a 50% increase in minimum wages we still find that one third of the companies answering would not decrease employment levels - these are companies in which average wages/salaries are 5 times the hypothesized level of minimum wages after the 50% increase (e.g. banks and certain large capital intensive manufacturing companies). However, an equally large number of companies (mainly of smaller than average size) find that such an increase would cause them to go broke - a reaction which can be understood if it is known that minimum wage rates would increase from about 40% of average pay in the firms to 60%. Assuming this drastic reaction would actually occur and combined with the information on the percentage decrease in employment and in hires in the other firms, it would seem to be quite apparent that minimum wages are not the means through which minimum income levels can generally be achieved for all those working at the time of increase.

It goes without saying that in a market economy like Panama measures aimed at increasing income levels - irrespective of human capital levels or changes therein - via the price firms have to pay for labor, will cause less labor to be employed albeit at a higher wage for those who still have jobs. Often the demand for labor is shifted to other labor force cohorts

where average productivity levels tend to be above minimum wage levels. To the extent that below-minimum wages are paid, there is the tendency to do this outside the official economy (given ineffective controls), thus causing those who are willing to work for such wages to be forced into illegal employment relationships.

Despite knowledge about these negative employment effects of setting wage floors dating back over 200 years (to Adam Smith) and quite thorough research in the last 20 years<sup>1</sup>, most societies have some sort of minimum wage regime, either in the form of legislation - as in the case of Panama - or indirectly through unions. Given this information it is difficult to understand why countries would opt for minimum wages. Quite likely it is the simple reason that the institutionalization of such a measure is meant to exhibit that the government is indeed doing something about minimum standards of living. Furthermore the promulgation of minimum wage fixing agreements by the International Labor Organisation (ILO) and the implementation of international conventions (nos. 26 - ratified by Panama -, 99 and 131) covering minimum wage fixing obviously elevates the status of such a measure to a level which is interpreted as an official seal of approval. Whatever the case - it would seem that the time has come to reconsider the effectiveness and efficiency of minimum wages as a policy measure to achieve the above stated goals.

### 3. On Measures Directed toward Job Rights

#### Employment Security

Of the changes incorporated into the 1972 Labor Code the introduction of job security after a given period of time (2 years) represented one of the sharpest breaks with the past.

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<sup>1</sup> See for instance the various articles in Rottenberg (1982), in particular those dealing with industrializing countries.



Whereas before the 1972 LC employers had the right (with but few exceptions) to dismiss employees in accordance with the needs of the firm, the new LC severely restricted the right of the employer to dismiss workers. In the case of a dismissal which was later determined by the courts to be unfair, it was initially left up to the employee to state whether a reinstatement or monetary indemnification was desired (Section 218). This was first revised in 1976 (Act. No. 95) by shifting the decision on reinstatement or indemnification to the employer and then again in 1982 (Act. No. 8) when it was stipulated that a reinstatement decision would be made by a court and that an employer could only opt out of the reinstatement (Section 219) by paying a 50% increase in the amount of payment due to an employee (in accordance with Section 225). Put into hard numbers (see Table 4) this would mean that an employee dismissed after 20 years would be entitled to receive 3 years pay plus whatever wages had been foregone between dismissal and execution of court decision. That such payments could put firms into severe financial difficulties was fully recognized in the report of a special task force appointed by the President in 1983.

The LC thus started off by offering job security as long as an employee wanted it. As it stands now this right has been eliminated de jure and replaced by a de facto monetary barrier. It must also be remembered that in accordance with Section 14 of the LC employees retain their rights regardless of changes in the legal or economic structure or changes in ownership of a company. Job security is thus something which is deeply interwoven into the Labor Code, even if it explicitly does not exist.

In formulating the survey an attempt was made to find out whether the many complaints made about job security were actually reflected in the employers' evaluation of the five most important provisions (ranked accordingly) negatively impacting on a more efficient allocation of resources. In connection

Table 4 - The Pecuniary Risk of Firing an Employee - % of Monthly Salary

| Length of service | Since enactment of Labor Code |               |                                      | Before Labor Code       | Total pay and risk premium <sup>2</sup> |
|-------------------|-------------------------------|---------------|--------------------------------------|-------------------------|---|
|                   | Preaviso (1)                  | Severence (2) | Long-Ser-vice bonus <sup>1</sup> (3) | Severence and bonus (4) |   |
| <b>Months</b>     |                               |               |                                      |                         |   |
| 1/2               | 0                             | 0             | -                                    | 50                      | 159.6                                   |
| 1                 | 100                           | 25            | -                                    | 25                      | 163.4                                   |
| 2                 | 100                           | 25            | -                                    | 25                      | 163.4                                   |
| 6                 | 100                           | 50            | -                                    | 50                      | 164.1                                   |
| 12                | 100                           | 75            | -                                    | 100                     | 164.9                                   |
| 18                | 100                           | 225           | -                                    | 225                     | 169.4                                   |
| 24                | 100                           | 300           | -                                    | 300                     | 171.6                                   |
| <b>Years</b>      |                               |               |                                      |                         |   |
| 3                 | -                             | 375           | -                                    | 300                     | 163.4                                   |
| 4                 | -                             | 450           | -                                    | 300                     | 164.1                                   |
| 5                 | -                             | 525           | -                                    | 300                     | 164.9                                   |
| 6                 | -                             | 600           | -                                    | 400                     | 165.6                                   |
| 7                 | -                             | 675           | -                                    | 400                     | 166.4                                   |
| 8                 | -                             | 750           | -                                    | 400                     | 167.1                                   |
| 9                 | -                             | 825           | -                                    | 400                     | 167.9                                   |
| 10                | -                             | 925           | 250                                  | 400                     | 171.4                                   |
| 11                | -                             | 1025          | 275                                  | 500                     | 172.6                                   |
| 12                | -                             | 1125          | 300                                  | 500                     | 173.9                                   |
| 13                | -                             | 1225          | 325                                  | 500                     | 175.1                                   |
| 14                | -                             | 1325          | 350                                  | 500                     | 176.4                                   |
| 15                | -                             | 1425          | 375                                  | 500                     | 177.6                                   |
| 20                | -                             | 1925          | 500                                  | 600                     | 183.9                                   |
| 21                | -                             | 2025          | 525                                  | 700                     | 185.1                                   |

<sup>1</sup>Applies only to males (females) 40 (35) years and older. - <sup>2</sup>Expressed as % of base pay. Risk premium assumes that during the first two years of employment the risk to the employer of having to release a person and pay the preaviso and severence pay is 3 %. Thereafter, it is reduced to 1 %. Based on the estimate of 1980 labor costs in Diagram 1.

Source: Own calculations based on LC provisions.

with each provision mentioned it was requested that the firm estimate how much could be saved by having the provision changed. While such estimates should be viewed within caution, they can no doubt be considered to be ballpark estimates of what might be achieved by changing/removing certain LC provisions.

As it turned out the most important single aspect mentioned was associated with job security, namely firing/hiring conditions/costs (see Table 5). Well over one half of the companies gave this issue a number one ranking - its share of total mentions amounted to almost one third of all responses. The prime importance of job security as a barrier to entry and as a barrier negatively effecting pay levels can be clearly seen in Table 6, which contains the dollar estimates of savings stemming from possible changes in the LC. Even if the dollar amounts are exaggerated and off by 20 or 30% the remaining impact is still quite considerable<sup>1</sup>. It might be added that in a counterpart question on what changes the employers felt would cause the most unrest among the employees (Table A2) the ranking was similar to the one above. There also seemed to be a certain degree of consensus among the firms answering that achieving more flexibility in the hiring/firing provisions will have to be bought off from the employees. The amounts listed in Table 6 can thus give some idea about the monetary leeway available. This is also seen as being complemented by other measures, which would give employees more responsibility in influencing their own working conditions and in shaping decisions within the firm.

#### Antidiscrimination Measures

Based on Article 62 of the Constitution, where it is stated that equal pay - regardless of sex, age, race, nationality,

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<sup>1</sup> One reaction pattern which was not determined, was the degree to which the savings would be used to hire more people, expand production facilities or actively pursue rent seeking activities.

Table 5 : Which Labor Code Provisions Cause Most Problems<sup>1</sup>  
for Employers?

| LC provisions                           | 1st  | 2nd  | 3rd  | 4th  | 5th  | Sum  | Share <sup>2</sup> |
|---|------|------|------|------|------|------|--------------------|
| Firing reasons/costs, hiring conditions | 21   | 6    | 7    | 5    | 1    | 40   | 30.8               |
| Union related                           | 5    | 9    | 7    | 6    | 8    | 35   | 26.9               |
| Protection of union members             | 2    | 5    | 2    | 2    | 4    | 15   | 11.5               |
| Organization of unions                  | 1    | 2    | 1    | 2    | 2    | 8    | 6.2                |
| Collective bargaining rules             | 2    | 2    | 4    | 2    | 2    | 12   | 9.2                |
| Wage costs/inflexibility                | 9    | 10   | 7    | 3    | 2    | 31   | 23.8               |
| Work behavior                           | 1    | 4    | 1    | 3    | 2    | 11   | 8.5                |
| Sick/maternity leave                    | 0    | 2    | 4    | 2    | 0    | 8    | 6.2                |
| Labor contracts/relations               | 1    | 1    | 0    | 0    | 0    | 2    | 1.5                |
| Other                                   | 1    | 0    | 1    | 0    | 1    | 3    | 2.3                |
| Total answers                           | 38   | 32   | 27   | 19   | 14   | 130  | 100.0              |
| No answers                              | 16   | 22   | 27   | 35   | 40   | 140  | -                  |
| % responses                             | 70.3 | 59.3 | 50.0 | 35.2 | 25.9 | 48.1 | -                  |

<sup>1</sup>Ranked by importance. - <sup>2</sup>Shares calculated for firms answering.

Source: Own calculations based on LCS.

Table 6 : Estimated Savings (B) Stemming from Changes in the Labor Code

|  | Savings (B)/employee     |      |     |      |    |       | Savings in % of wage |
|--|--------------------------|------|-----|------|----|-------|----------------------|
|  | Order in which mentioned |      |     |      |    | Total |                      |
|  | 1                        | 2    | 3   | 4    | 5  |       |                      |
| <u>LC Provisions to be changed</u>             |                          |      |     |      |    |       |                      |
| Firing reasons/<br>costs, hiring<br>conditions | 821                      | 1685 | 991 | 4671 | -  | 1517  | 31.5                 |
| Union related                                  | -                        | 80   | 381 | 1235 | 41 | 272   | 10.7                 |
| Protection of<br>union members                 | -                        | 94   | -   | -    | 41 | 74    | 2.9                  |
| Organization of<br>unions                      | -                        | -    | -   | -    | -  | -     | -                    |
| Collective bar-<br>gaining rules               | -                        | 66   | 381 | 1235 | -  | 561   | 13.3                 |
| Wage costs/in-<br>flexibility                  | 786                      | 318  | 430 | 187  | 72 | 506   | 11.4                 |
| Work behavior                                  | 36                       | 18   | -   | 90   | -  | 51    | 0.5                  |
| Sick/maternity<br>leave                        | -                        | 60   | -   | 54   | -  | 57    | 1.0                  |
| <u>Industry</u>                                |                          |      |     |      |    |       |                      |
| Agriculture                                    | 517                      | 86   | -   | 69   | -  | 672   | 27.3                 |
| Manufacturing                                  | 2058                     | -    | -   | 1235 | -  | 3292  | 47.0                 |
| Construction                                   | 786                      | 786  | 917 | 26   | -  | 2516  | 28.4                 |
| Trade/Hotels/<br>Restaurants                   | 645                      | 110  | 381 | 4671 | -  | 2223  | 35.8                 |
| Transportation/<br>Communications              | 768                      | 309  | 430 | 177  | 72 | 1720  | 40.0                 |
| Financial/busi-<br>ness services               | 191                      | 122  | 16  | 123  | 41 | 404   | -                    |
| <u>Size of firm (no. of employees)</u>         |                          |      |     |      |    |       |                      |
| 1- 19  | 1500                     | 600  | 500 | 300  | -  | 2900  | 74.4                 |
| 20- 49   | 391                      | 135  | 381 | -    | -  | 521   | 15.3                 |
| 50- 99   | 437                      | 132  | -   | 69   | -  | 604   | 13.6                 |
| 100-500  | 761                      | 233  | 431 | 1223 | 57 | 2450  | 31.4                 |
| Total  | 730                      | 229  | 434 | 925  | 57 | 1740  | 28.9                 |

Source: Own calculations based on LCS.

etc. - shall be forthcoming from equal work, Section 10 of the LC unequivocally guarantees the principle of equal pay<sup>1</sup> for equal work (i.e. for the same employer, holding position, job, hours, efficiency and length of service constant). Infringements upon this principle can lead to court proceedings (Section 145), whereby, however, it is up to the employee to prove his/her case. Although the large differences which exist in pay levels between males and females (see Table A3) could possibly be interpreted as expressing some degree of pay inequities due to discrimination, no real attempt has been made to envoke court action as is the case in Germany and the United States. No matter what might explain this lack of action, it is probable in this case, that the potential problems are mitigated by the low labor force participation rates and the willingness of many females to be part of the secondary labor force. For sure, the greater the tendency of females to become part of the primary labor force and enter into occupations with advancement potential, the more likely that conflicts will develop.

#### 4. Actions Aimed at the Job Environment

##### Work rules

The work rules incorporated into the 1972 Constitution and the LC cover a wide spectrum from the length of a working day to measures protecting minors/women and paid leave of absence to attend meetings abroad. As a matter of fact there is hardly an area which is not affected by restrictions or regulations of some type. For instance each and every enterprise with at least 10 employees must submit for approval detailed work rules to the Ministry of Labor and Social Welfare, as well as

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<sup>1</sup> Pay includes ordinary and extra pay, bonuses, ex gratia payments, commissions, tips, etc. made by an employer to an employee.

to the respective unions (otherwise the employees). Any changes in work rules already approved require that the same institutions consent to them. It is thus all the more perplexing to find only two specific mentions of provisions negatively impacting on the demand for labor. In the one case it was the provisions (Sections 117-124) in the LC restricting the employment possibilities for minors: Over 20% of the responses to the question about the basic reason keeping younger people from getting a job felt that LC restrictions were a barrier (see Table A4). In the other case it was the same question in connection with women - here only one single response (out of 35) could be attributed to the LC.

One specific question in the survey did attempt to determine the impact of the rule permitting extended leaves of absence. This provision (Section 160) allows an employee to take part in activities representing the country or a particular organization for a certain period of time (3 weeks within country and 2 months outside the country) with full pay and irrespective of whether such a leave had already been granted to the same person in recent times. Since firms have no explicit right to deny permission it could be expected to find that such an arrangement acts as an incentive for misuse and thus proves to be quite costly. As it turned out the number of firms stating that Section 160 had been taken advantage of was relatively small (11). They reported, however, that a total of 77 applications (representing less than 1% of employment) were submitted in 1983 and on the average almost 2 months leave had been applied for. In other words in most cases the maximum limit of two months for foreign leaves proved to be more the rule than the exception - and 2 months away in the company means an average increase in base pay of 20% for the remaining 10 months. While larger companies could sustain such expenses without difficulties, smaller firms would be financially hard pressed if a key person left for such an extended period.

It might be added that generally speaking the questions in this area - particularly as concerns environmental and health

rules and regulations - were sparsely answered (see Appendix B for discussion). Perhaps this failure to answer can be interpreted as indication that the measures had little negative impact. More likely, however, is the possibility that the impact of other distortions (e.g. job security) was considered to be so large that the measures analyzed here were relegated to a secondary position.

### Job/occupational training

The state-being obligated by the Constitution (Articles 70 and 71) to implement education and training programs-reformed the educational system in the early 70's to upgrade the level and quality of those completing compulsory education. A nine year general basic education program was established, whereby the last three years placed stress on socio-economic (called "Basic Cycle") aspects. With a large scale school construction program in the mid-70's, 19 Basic Cycle schools (primarily in rural areas) and 4 vocational institutes were built. Complemented by specialized training programs in industries and hooked up to job placement efforts the thrust of the educational policies would seem to be heading in the right direction. To help finance these educational expenditures - which have accounted for about one third of government expenditures - an educational payroll tax was introduced in 1971 - it placed a 1.25% burden on employers and .75% on employees.

While this is not the place to go into more detail on the efficiency of the educational system vis-à-vis the labor market, the survey did attempt to roughly find out whether the given educational and training system was producing skilled or unskilled workers in line with the needs of the economy. This was done by determining which general requirements the companies stress in selecting skilled employees and how pay differs between various combinations of education, vocational training and experience profiles; likewise characteristics of prospective unskilled hires were also requested.



Allow us to approach this issue from the micro-level, i.e. from the position of a person making a human capital decision. With four times as many unskilled as skilled workers being hired by the responding companies (see Table 7), the first question to be raised would concern the decision to opt for the path leading to a skilled or unskilled job. Given the rapid growth in the labor force and assuming that the potential exists, opting for the path leading to a skilled job would seem - in light of the almost 30% wage differential between the two - to be the obvious choice. The next decision to be made is whether to acquire the vocational training or try to move into a job after receiving a general education. Given the preferences of the firms, the additional training would be the logical choice. This logical choice can also be interpreted as a substantiation of the general educational and training policies followed by the government: if the firms had rejected the system, they would have shown preference to train their own employees. Furthermore, those who had received the education and thus foregone income during this period would have attempted to maintain an acceptance wage which didn't interface with their actual value to firms. In this case the barriers would not have been on the demand side, but rather stickiness would have existed on the supply side.

## 5. Legislation Embodying Social Aspects<sup>1</sup>

### Maternity Leave

The protection of women during the pre- and postnatal period is anchored in the Constitution of 1946 as well as in the 1972 Constitution. Its incorporation into the 1972 Labor Code is unequivocal and straight forward - Section 105 to 166 of the

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<sup>1</sup> Since unemployment compensation as such does not exist in Panama, it is not dealt with here. However, the earlier discussion on job security covers certain aspects of interest.

Table 7: Impact of Education as well as Vocational, Technical and Clerical Training on Employment and Pay

Number of skilled/unskilled employed in 1983 3099/12371  
 Number of skilled/unskilled hired in 1983 397/ 1637

Characteristics preferred for a prospective skilled employee

- A Good general education as basis for company training 15
- B Good general education and training 37
- No answer 2

|  | Aver. | -20-0% | 0  | 1-5% | 6-15% | 16-49% | ≥50% | No answer<br>other |
|--|-------|--------|----|------|-------|--------|------|--------------------|
| Initial pay differences between A + B    | 22.1  | -      | 7  | 0    | 15    | 22     | 4    | 6                  |
| Pay difference if A had experience       | 8.1   | 4      | 13 | 5    | 15    | 4      | 2    | 11                 |
| Pay difference between skilled/unskilled | 27.7  | -      | 2  | 0    | 11    | 22     | 8    | 11                 |

How are employees fitted into skilled jobs?

|  | Importance |     |     |       |     |           |
|--|------------|-----|-----|-------|-----|-----------|
|  | No         | Yes | ≤20 | 21-40 | >40 | No answer |
| We train them ourselves                      | 9          | 28  | 3   | 1     | 24  | 17        |
| We hire trained employees without experience | 9          | 10  | 3   | 4     | 3   | 35        |
| We hire trained/experienced employees        | 9          | 32  | 5   | 7     | 20  | 13        |

Characteristics for judging unskilled workers to be hired

|                          | 1st  | 2nd  | 3rd  | Sum  | Share |
|--------------------------|------|------|------|------|-------|
| Personal characteristics | 17   | 19   | 15   | 51   | 36.9  |
| Work attitude            | 12   | 15   | 17   | 44   | 31.9  |
| Education/training       | 12   | 5    | 6    | 23   | 16.7  |
| Work/economic background | 3    | 6    | 2    | 11   | 8.0   |
| Other                    | 3    | 2    | 4    | 9    | 6.5   |
| Total answers            | 47   | 47   | 44   | 138  | 100.0 |
| No answer                | 7    | 7    | 10   | 24   | -     |
| % responses              | 87.0 | 87.0 | 81.5 | 85.2 | -     |

Source: Own calculations based on LCS.

the Code contain the regulations setting up the broad coverage. The protection begins by making it unlawful to dismiss a woman during pregnancy and five months thereafter from employment (i.e. without a valid reason and prior judicial approval). It entitles the expectant mother to six weeks leave prior the birth and eight weeks thereafter, whereby the employer is liable to pay the difference between the maternity allowance paid by social security and the amount otherwise entitled to her. In cases where no social security claims exist the obligation to pay is "incumbent entirely on the employer". Once the woman has returned to work (eight weeks after birth of the child) a 15 minute nursing break every 3 hours (or two half-hour breaks during the working day) and short rest breaks are stipulated - both of which are considered to belong to the remunerated time worked. For firms employing over 20 females on the same premise a nursery is to be provided, given the financial constraints of the firm. The regulations also limit the employment of expectant women to non-shift work and bar the employer from having expectant women perform tasks which might adversely affect her condition.

This protection of women in the pre- and postnatal period corresponds favorably with legislation applicable in Western European countries (see Table A5). Basically all these laws date back to guidelines set up by the ILO in 1919 which were meant to be applied to all women without exception. To the extent that a society (or rather a government, on its behalf) has decided that childbearing and the protection of mothers must be given special attention - as is the case in Panama and European countries -, then a key remaining question concerns shouldering the financial aspects, without negatively influencing the demand for (female) labor. In Panama a large share of the maternity pay is taken over by social security payments, thus additional wage costs to be borne by employers are either quite minimal or occur in but a few cases (e.g. if a woman has not yet qualified for coverage under the social security system). Of greater importance are thus the limita-

tions imposed upon the employment of females during the pre- and postnatal period.

Without intending to question the societal justification of maternity protection, the labor code survey attempted to find out whether and to what extent this regulation influenced the employment chances of females<sup>1</sup>. Although the female labor force is less than half the size of the male labor force (see for instance Table A1), it has increased more rapidly in the past and it can be expected - in light of increasing education levels and declining birth rates - to increase rapidly in the future as well.

Particular care was taken in formulating the questions in this part so as to try to prompt answers influenced more by economic factors than by emotional responses connected with motherhood and babies. The results of the survey are interesting and revealing. Beginning with responses to questions on the general protection of women in connection with performing particular jobs and under certain working conditions, no major impact could be discerned (see Table 8) - over 80% of the firms stated that there would be no change with respect to positions in firms, hiring policies or pay. This can be interpreted as corresponding with comments made vis-à-vis work rules (see above).

Maternity protection laws tell a different story. First of all, about two thirds of the employers agree that maternity protection laws negatively influence the number of women being employed. This negative impact is reflected again in the table (under biological characteristics) containing the basic reasons keeping firms from hiring more women - 40% of the answers fall in this category. Most interesting, however, are the

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<sup>1</sup> To some extent the impact of specific limitations on employment of women in certain types of economic activities (Section 104) will also be picked up here.

Table 8: Impact of Loosening Regulations Protecting Women

|   |           |          |                       |                        |   |
|---|-----------|----------|-----------------------|------------------------|---|
| Employment of women in firm:  | No change | 44       | More/better positions | 8                      |   |
|   | No answer | 2        |                       |                        |   |
| Hiring of women   | No change | 45       | More women hired      | 6                      |   |
|   | No answer | 3        |                       |                        |   |
| Pay   | No change | 45       | Increase              | 7                      |   |
|   | No answer | 2        | Decrease              | -                      |   |
| Do firms employ fewer women in childbearing age because of protection before and after pregnancy? |           |          |                       |                        |   |
| Agree   | 35        | Disagree | 16                    | No answer              | 3 |
| If agreement, what changes should be made:  |           |          |                       |                        |   |
|   |           |          |                       | <u>Impact on wages</u> |   |
| Reduction/elimination of post maternity job security  | 6         |          |                       | + 25%                  |   |
| Reduce length/classification of maternity leave   | 4         |          |                       | + 25%                  |   |
| Costs should be borne more by social insurance  | 2         |          |                       | -                      |   |
| Temporary hiring without consequence should be easier, other                                      | 3         |          |                       | + 10 %                 |   |
| No answer   | 39        |          |                       | -                      |   |

What Basic Reasons<sup>1</sup> Keep Firms from Hiring More Women?

| Reasons                     | 1st  | 2nd  | 3rd-5th | Sum  | Share |
|-----------------------------|------|------|---------|------|-------|
| Cultural/family obligations | 7    | 3    | 4       | 14   | 40.0  |
| Biological characteristics  | 8    | 3    | 3       | 14   | 40.0  |
| Personal characteristics    | 0    | 1    | 2       | 3    | 8.6   |
| Economics situation         | 1    | 1    | 1       | 3    | 8.6   |
| Labor Code                  | 1    | 0    | 0       | 1    | 2.9   |
| Total answers               | 17   | 8    | 10      | 35   | 100.0 |
| No answers                  | 37   | 46   | 152     | 235  | -     |
| % responses                 | 31.5 | 14.8 | 6.2     | 13.0 | -     |

<sup>1</sup>In order of importance.

Source: Own calculations based on LCS.

suggestions made for changing the LC and the ensuing impact they could have on the pay of women - pay increases (here estimated by the firms to amount to 25%) could be forthcoming if more flexible arrangements for maternity protection could be effected. Since the figure mentioned (i.e. 25%) is quite close to the amount mentioned in connection with the impact of job security arrangements, it could perhaps be interpreted as representing a ballpark estimate of the leeway available for arriving at an economically more efficient solution. Whatever such a solution might entail, it would not only engender more jobs for women, it would also reduce pay discrimination against women, who do not intend to give birth to any more children. That is, since average female characteristics are assumed to apply to each woman in childbearing age, those who deviate from the average are discriminated against by being given less pay. With more flexibility (i.e. freedom of contract) this could be avoided.

#### Paid Sick Leave

The 1972 Labor Code includes provisions dealing with paid sick leave (Section 200) in connection with the discussion on suspension of effects of contract. It is specified therewithin that for each worker (beginning with the date of contract) a sick-leave entitlement account is established, which accumulates a sick leave entitlement at the rate of 12 hours' (144 hours') sick leave for every 26 days (year) actually worked. Sick leave may be accumulated for not more than two consecutive years and may be taken in its entirety in the course of the third year. Should entitlement to social security benefits not exist and a worker has used up his sick leave, extended sick leave can be granted by deducting it from the annual vacation leave.

In trying to determine how paid sick leave and the corresponding social security benefits influence the employers' and employees' actions, the labor code survey contained three different questions. First of all, if paid sick leave was a real problem it would be mentioned in the question concerning

necessary changes in the LC. This proved not to be the case as only a few mentions were made in the sick/maternity leave group (see Table 5). Secondly it was attempted to determine whether the benefits induced a sickness pattern within a given week which was heavily skewed towards the weekend, with but few sick cases in the mid-week period. Of the 388 sick cases reported (for Monday through Friday) over two thirds fell fairly equally on Monday, Thursday and Friday. Although the remaining one third (on Tuesday and Wednesday) is less than the expected 40% share, the difference is not so large that it could be definitely interpreted as being an indication of a misuse of sick leave. It should be noted, however, that an employee can be fired if on 2 Mondays in a month or on 6 Mondays in a year he is absent without permission or a valid excuse. A Monday is interpreted in this context as any day following any public holiday or day of mourning (Section 213, 11). Assuming this provision does influence the distribution within a week, then Monday's sizeable share can only be explained by the fact that verified excuses by doctors are easy to come by.

The third approach to the issue covered the breakdown of wage costs beyond gross pay. That is, the firms were asked to include all payments made to employees beyond normal wages. Of these payments sick leave accounted for about 4% and health insurance costs (including to some extent social security) for about 35%; when compared with total wages these two aspects amounted to about 7%. After correcting for possible incorrect computations by the firms and including the employees' share to the total health/sick leave costs, a figure greater than 10% of gross pay would result. This is an amount which would seem to exceed what competitive insurance rates might be for such a set-up. In other words moral hazards and bureaucratic inefficiencies noticeably increase the cost of labor to the firm (and the employee) and hence reduce the firm's labor demand.

## 6. Policies Affecting the Economic Environment

### Collective Bargaining Framework

As in the case of employment security, the Labor Code of 1972 put collective bargaining on an entirely new path. Although the right to organize was expressed in the 1946 Constitution, the 1972 provisions not only explicitly supported unions in their organizational efforts (e.g. Section 379 "The State of Panama is under the obligation to encourage ... the establishment and constitution of trade unions ... " and the protection of members of unions in the process of establishment mentioned elsewhere), members were also granted new rights and privileges (e.g. special protection of union officials). Particularly indicative of the philosophy behind the LC provisions dealing with unions is Section 334 in which unions are "declared to be in the interests of the general public, as an official means of contributing to the economic and social support and development of the country, the culture of the people and Panamanian democracy." Given this basic attitude it is quite logical that if unions are in the interests of the general public, then actions explicitly aimed at damaging unions cannot be condoned. Such is the case and Section 388 lists practices deemed to be unfair "against the trade union movement and the workers' rights." Backing up the unfair labor practices is punishment in the form of fines (100-2000 Balboas per infringement, to be doubled for each repeated offence) or - in the case of unfair dismissal or treatment - reinstatement and full reimbursement of back pay. Unions on the other hand may only be fined (10-200 Balboas) or disbanded (Section 390). The impact of this new legal framework is clearly reflected in the surge of the number of new unions formed (over 50% of the unions were founded after 1970), the rapid expansion in union membership (an increase by about two thirds since the early 70's to over 80,000) and particularly in the exceptional increase in the number of collective bargaining agreements (from an average of only 12/year in the period 1969-71 to 151 in 1973).



It goes without saying that the newly granted freedom was viewed with more than scepticism from the employers' position and complaints about the LC being overly biased towards labor abounded. It wasn't until 1976, however, that the government - in light of a stagnating economic growth - effected major changes in the 1972 code (Law 95). First of all collective bargaining agreements were extended for two years (through the end of 1978) without further negotiations. New enterprises were granted a two year reprieve from complying with LC provisions concerning collective bargaining. Even the right to strike was restricted as the government could call for binding arbitration and end strikes. Some but not all of these changes were rescinded in 1981 (Law 8). One of the specific changes evoked in 1976 (and not changed in 1981) concerned the right of unions to effect new negotiations even if just a minor point like job classification difficulties (Section 401) was affected. An employer who refused to agree to such demands could be legally struck.

The LC not only sets up the rules of the game for carrying out collective bargaining, it also explicitly stipulates that new agreements reached cannot worsen conditions already existing (Section 406). By doing so the Code inserts a high degree of inflexibility into the system and includes but little possibility of getting out of agreements made for instance during better times. What seems to have been done to some extent by employers in collective bargaining agreements in order to attempt to compensate for this inflexibility, is to stress incentives aimed at increasing productivity. For instance in the case of sick leave about 65% of collective bargaining agreements examined for the years 1982 and 1983 (roughly 150) contained rewards if sick leave wasn't used. These rewards were either related to salary levels or were offered on a lump-sum basis.

Despite this attempt by employers, the unions have been able to push through a whole spectrum of new benefits for their members, which extend well beyond the conditions laid down in the LC. For instance 28% (39%) of the contracts examined in

1982 (1983) contained clauses which stipulated that after paid sick leave has been used up at which time social security payments would begin at 60% of the prior salary, the employers would then pay some or all of the remaining 40%. Also sizeable increases in the number of working days vacation (6-8 days more than in LC) have been agreed upon. All in all these additional benefits have added noticeable amounts to total wage costs already inflated by the LC.

The obvious question arising out of this discussion concerns the degree to which employers see a necessity to revise collective bargaining rules, so agreements based on current economic parameters can be achieved. In referring back to Tables 5 and 6 it can be seen that changes in the LC with respect to provisions dealing with various union aspects rank second behind firing/hiring reasons. Although collective bargaining rules rank only second among the three union categories, their revision would effect by far the largest savings - amounting to over 10% of average wages. Knowing that (1) taking into consideration the individual financial constraints of the firms and (2) productivity oriented collective bargaining agreements were specifically cited, it would seem reasonable to conclude that the LC has tended to decrease the competitive position of firms and thus make jobs less rather than more secure. A caveat is no doubt due, however, as it needs to be explained why firms consent to such cost increases if they realize that they then have to suffer from the consequences. In other words, is this behavior LC-induced or are the employers incapable of achieving economically accommodating bargaining agreements?

#### Bureaucratic and Legal Ramifications

This somewhat nebulous heading refers to the workings and impact of the various parties involved in dealing with one another in matters concerning the Labor Code. It covers all areas where costs are involved in abiding by, policing and administering the LC and where decisions are made in favor of

one party or another. It is of course an area which includes more legal ramifications than the other areas discussed so far, but since it cannot be the purpose of this study to move into such subject matter only the economic issues and impact are examined here.

Given the LC as it is the costs related to it evolve both in firms as well as in the government sector. On the firm side of the issue costs arise in connection with not being able to carry out activities as desired (e.g. using personnel departments as opposed to more efficient employment agencies), as a result of fulfilling LC requirements (e.g. setting up work rules), responding to or effecting legal actions (e.g. expenses for company/outside lawyers, personnel costs for legal hearings/proceedings) and reacting to legal decisions (e.g. costs of sentences imposed). The costs incurred by the government are restricted primarily to the Labor Ministry and the legal institutions established or used in connection with the Labor Code. While not all aspects can be investigated here, some particularly interesting areas are treated.

As concerns the costs borne by the firm, the survey attempted to probe into the matter by requesting information on possible interest in private employment agencies, expenses involved in dealing with LC cases and personnel department activities. It was hoped to be able to collate this information in a manner to allow the indirect costs of the LC to be estimated. Since this was only partially successful information from other sources had to be gathered as well.

Beginning with a question on potential interest in private employment agencies (see Table A6), it was planned to compare payment of such services with the costs stemming from similar activities carried out within the personnel department of a company. While obviously smaller companies would not have a personnel department as such, costs could nonetheless be imputed for the time spent by a given individual. It was hypothesized that the economies of scale which private agencies

could achieve as well as the quality of the services they could offer, would mean that a significant savings could be achieved. While the calculations must be considered to be just reasonable guesstimates there would seem to be about a 3%-5% savings (of yearly wages) per employee hired via a private employment agency.

As concerns costs emanating from LC cases these were picked up in the survey by requesting information on man-days invested by personnel attending hearings/proceedings and expenses incurred by having to employ or retain lawyers to handle the court cases. Based on the data provided, the lawyers' costs (mainly from outside the company) and the imputed personnel costs add up to about 1000 Balboas/case. Knowing that most of these cases deal with employees being remunerated at below average rates these costs could very well amount to 20% of the annual wage/salary of the average employee.

The final component on the employers' cost side covers the fines/payments imposed by the courts. The data from the survey indicate that on the average about 3500 Balboas/case were involved. Since the survey data was not considered to be sufficient to allow correct interpretation to be made in this crucial issue, additional information was gathered in the Ministry of Labor and Social Welfare from 47 selected cases (tried in 1982 and 1983) which had gone through extensive legal proceedings. These data yielded an average cost per case of almost 4500 Balboas (see Table 9). The information in this file also allowed a further differentiation to be made - namely according to length of service and whether the case was decided in employees' favor or by mutual agreement. As can be seen the costs climb considerably as the length of service with a company increases. For reasons which couldn't be clarified, the average cost per case calculated from overall Labor Ministry figures for the years 1982 and 1983 amounted to 618 and 357 Balboas respectively. Such figures would seem to be too low, given the manner in which employers have protested

Table 9 - Cost of Court Cases<sup>1</sup> by Length of Service and Type of Decision

| Years of service | 1982         |              | 1983         |              | Average 1982 - 1983 |              |
|------------------|--------------|--------------|--------------|--------------|---------------------|--------------|
|                  | No. of cases | Average cost | No. of cases | Average cost | No. of cases        | Average cost |
| 2                | 7            | 1124         | 7            | 820          | 14                  | 972          |
| 2 5              | 9            | 4487         | 6            | 2465         | 15                  | 3678         |
| 5 10             | 7            | 6621         | 4            | 9152         | 11                  | 7452         |
| 10               | 4            | 8440         | 3            | 6826         | 7                   | 7748         |
| Total            | 27           | 4754         | 20           | 3976         | 47                  | 4380         |

|                      | No. of cases | Average cost |
|----------------------|--------------|--------------|
| Type of Decision:    |              |              |
| In favor of Employee | 28           | 5213         |
| Mutual Agreement     | 14           | 3196         |
| Not known            | 4            | 580          |

<sup>1</sup>In Balboas.

Source: Own calculations based on unpublished data from Ministry of Labor and Social Welfare

and employees have gone to courts. It is thus assumed that an average amount of 4000 Balboas/per case (roughly 70 % of average wages) represents a reasonable estimate.

The costs in the government sector are primarily limited to the Ministry of Labor and Social Welfare in the form of personnel costs. Although the rate of growth in the Labor Ministry's budget over the last 10 years was above average, its share in the total expenditures of all departments is very small (i.e. slightly over 1%). For being such a relatively small agency it has shouldered quite a large burden with wide-ranging implications. After all any attempt to codify all possible facets of labor market behavior (for an unknown time frame) is not only going to induce problems in connection with the failure to include or correctly specify certain aspects (be it due to oversight or the passage of time), To some degree this is testified to by the fact that by the end of 1984 roughly 25,000 cases - or an average of 50 cases a week - have been dealt with (by the Ministry) since the reorganization of judicial responsibilities in 1975. But - as has been seen - the degree of regulation (i.e. inflexibility) also hinders economic activities from being efficiently structured thereby prompting avoidance and creating potential problems with employees and the government. Furthermore in the course of the survey it was often mentioned that problems with the LC would be noticeably fewer if the courts would arrive at their decision in a consistent and fair manner. That is, the interpretation of the Labor Code does not necessarily cause the major problems, but it is rather the reinterpretation by the courts.

To conclude, it is obvious that the major costs of applying, administering and policing the LC are borne by the employers - the estimates of savings which could possibly be effected by private employment agencies or major changes in the labor code speak for themselves. For sure it is labor, in particularly lower income levels, which is disadvantaged by being priced out of the market.

Chapter III - Summary, Policy Recommendations and Conclusions

1. Introduction

The wide sweeping reform and reformulation of labor policies incorporated into the 1972 Panamanian labor code was meant to correct what was perceived to be an untenable distribution of power in the hands of employers over employees. With the intended shift in power towards the employees achieved, the code, its interpretation and application have - despite some few changes in the meantime - instigated rigidity and arbitrariness at a time when more flexibility and a greater degree of certainty was called for. After all the labor force has been expanding rapidly - and will continue to do so in the coming years - and uncertainties in general - particularly from the outside world - seem to be increasing. Given the fact that policies instituted for other areas of the economy (e.g. investment incentives) tended to discriminate against a more extensive use of the factor labor, it is hardly surprising that employment problems have been exacerbated.

Although many politicians and trade union leaders actually seemed to believe that the major improvement in the terms and conditions of employment would produce beneficial effects for the economically active population, the policies they instituted and followed in fact did the opposite - they severely handicapped the ability of the economy to open up new jobs for the rapidly growing labor force. Albeit the well-meant measures gave employed workers more job security and higher pay, but they prevented new generations of workers from finding jobs and produced additional costs (passed on in the form of taxes), thereby creating social insecurity rather than security.

## 2. An Estimate of Pecuniary Labor Costs Engendered

An examination of how the above described policies have influenced the price of labor, i.e. the amount that has to be paid for employing an average person, reveals that by 1980 a firm had to pay roughly 60% more for an average employee than the employee himself was receiving on a gross basis (Diagram 1). This compares with roughly 30% in 1960 and about 35% before the introduction of the Labor Code. According to these calculations the Labor Code can be generally said to have added about an additional 20% (of gross pay) to the total labor bill (assuming that wages were not otherwise influenced).

But this type of calculation actually does not tell the whole story, i.e. it is incomplete as it only includes the direct costs of labor to firms and not the indirect costs ensuing from other obligations contained elsewhere in the Labor Code (Table 4, col. 5). First of all there are those provisions covering the firing of employees and these embody potential costs which must be taken into account by the firm. That is to say, the decision to employ a given person is accompanied by a potential risk that the new employee will not meet with expectations and will thus have to be released at some point in time. Since this is unknown to begin with an employer must in essence establish a contingency fund which covers the estimated probability of having to pay for an employee being forced to leave the company. Assuming that the risk in the first two years of employment is greater than thereafter (and this seems to be a logical assumption), then it can be determined that by the end of two years another 12% (of gross pay) will have been implicitly added to the wage bill. Once the two year period has passed and employment security is achieved, the drop in the risk causes total labor costs to initially drop not until about eight years later do labor costs (because of the amount that has to be paid for firing for economic reasons) reach this level again. In other words, the fact that the risk of having to fire a person is initially greater the employer is actually confronted with higher potential labor costs in the



% of  
base pay

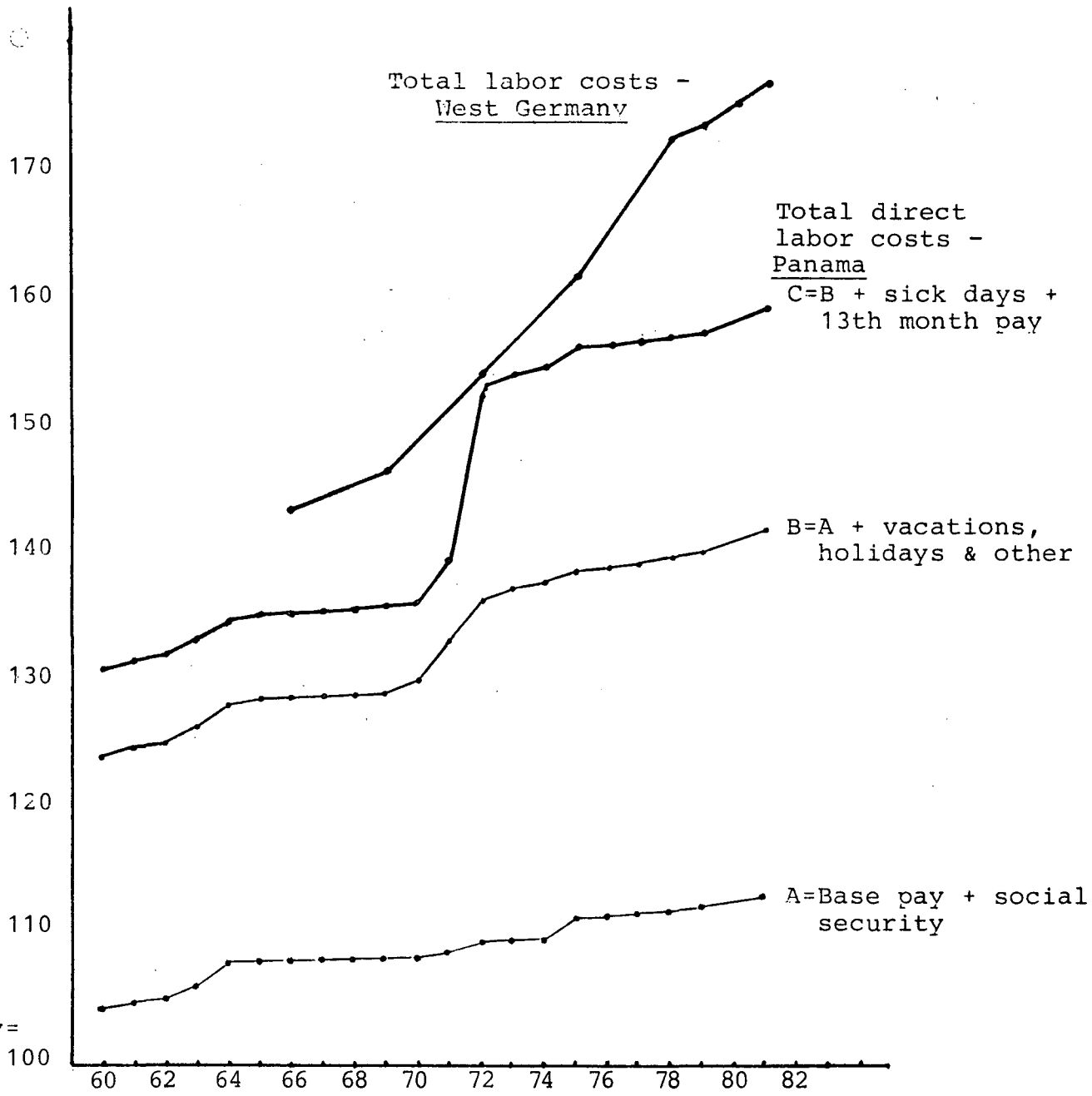


Diagram 1: Development of Total Labor Costs in Panama since 1960 - Compared with Germany since 1966

Source: Own calculations based on data from various national sources.

first two years - a further negative impact on the demand for labor is unavoidable.

As concerns severance pay and long-service bonuses Table 4 (as discussed earlier) quite clearly shows the amount which is due in accordance with the new Labor Code (as opposed to the old Labor Code). After twenty years of service two years of severance and long-service bonuses must be paid out, should an employee be forced to leave - an amount which is increased by 50% should the dismissal be unfair. As socially justified this ruling might seem to be, it places a large financial burden on a firm - a burden which could well lead to economic difficulties, should it have to be shouldered by a small company.

Two behavioral patterns might be induced by this potential financial risk. One alternative could be for a company to nurture relationships with employees so that their loyalty and effectiveness will keep them with the company thus reducing the number of dismissals. In this case job-seekers are put at a disadvantage, at least to the extent that longer service means fewer job openings. The other alternative for a company could be to hire employees only on a short-term basis. While this increases the possibility of finding a job, the jobs turn out to be worth but little when it comes to climbing up the occupational ladder. Hence in both cases we have a negative impact on the demand for labor, be it in terms of quantity or quality.

Given these estimated labor costs, the total of which lies almost 90% above base pay, and the ensuing negative impact on the demand for labor, it is difficult to imagine that the LC was originally contemplated in this manner. What probably happened is that the purported social goals of a given measure were believed to describe the actual impact in the real world (the term social policy illusions is applied in such cases) - negative side affects are considered by definition to be outside the probable set. As in the case of Germany since the end of the 60's, it wasn't realized that by placing the burden of financing the various labor market measures primarily on the

firm they were causing labor costs to increase beyond the rate of growth of total factor productivity. Fortunately, once the negative impact of prevailing regulations is understood, that is, once it is realized that in market economies increasing the relative price of one factor of production will lead to a decrease in the demand for that factor, then the necessary policy measures can be instituted.

### 3. Shaping Panama's Economic Future - some Institutional Assistance

What seems to be missing in Panama to help avoid being afflicted by social policy illusions in the future is an institutional framework, within which the modalities and ramifications of possible policies are examined and discussed. Under the assumption that a basic agreement exists between the main factions of society concerning the necessity to achieve higher employment levels, it is recommended that an official institution be established, in which leading representatives of major interest groups as well as members of the government and selected economists are represented.<sup>1</sup> The basic purpose of such an institution - entitled perhaps The Commission on Panama's Economic Future (CPEF) - would be to provide a closed-door forum, in which the major interest groups could openly argue their cases and respond to misconceptions from the other side, in the hopes of broadening the common base from which policy reforms can be started.

It would be the role of the government in the CPEF to outline the economic parameters, explain current economic policies and sketch its most probable future economic course or merely present the possible options it perceives. The role of the selected (independent) economists would be to analyze the economic situation and carefully portray the impact of alternative policies. It is expected that the ensuing discussion

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<sup>1</sup> As experience (and theory) shows the number of participants in these meetings should be limited to as few as possible.

between the opposing interest groups will then lead to a broader consensus than if the traditional path of hearings or government bilateral consultations with individual groups had been followed. Obviously the CPEF is an institution to be used in connection with the entire spectrum of economic policies, but since its potential usefulness in such a crucial and controversial issue as labor market policies would seem to be considerable, it is only appropriate to begin with such a topic.

One of the first tasks of such an institution would be to face up to an objective and frank picture of the implications stemming from current labor market trends. It must be made unequivocally clear that carrying out economic policies in a country like Panama, which is linked to the United States in a currency union, is subjected to a constraint, i.e. that the possibility to correct domestic imbalances (of short-run nature) via exchange rate policies obviously does not exist. While this situation could possibly be interpreted by some as implying that Panama needs its own separate currency so it can carry out exchange rate policies, this viewpoint is rejected. As a matter of fact the lack of a central bank (or a similar institution) and hence the possibility to issue a national currency actually relieves the country of policy measures which have been applied by most countries - whether more or less developed - in a manner detrimental to domestic economies. It only needs to be recalled that the one area in which Panama far excelled over other countries in the entire period since 1960 was in the area of inflation. The fact that the international economy determines prices in Panama or rather that a central bank (or treasury) does not have the power to let the presses run to produce the money needed, has no doubt led to the relatively low inflation rates in Panama.

#### 4. Some New Approaches to Reducing Employment Problems

##### On the Need for Greater Flexibility

In the wake of the rebirth of the strong U.S. dollar it has become evident - given the currency union set-up - that the Panamanian economy needs to embody a greater degree of flexibility - something which has been thwarted in the labor market by the LC. It goes without saying that the rapid revaluation of the dollar negatively impacts the demand for Panamanian exports of goods and services. Unless domestic cost adjustments allow price reductions, output and employment will fall. Initially the decrease in competitiveness may not have an impact on sectors such as banking and insurance, which profit from the presence of government regulations in other countries - but even these sectors cannot continue to remain immune to the impact of relative price increases. Furthermore, while political stability is an important factor determining the locations of financial services, the opening up of free banking and insurance zones in industrialized countries is bound to mean more competition for Panama's services. But more important - because of the number of persons involved - is the impact of a dollar revaluation on agricultural activities as well as tourist related industries. Particularly in the case of the export-oriented agricultural companies, could high relative costs lead to a long-term shift to foreign sources of supply. At what point all this might occur is difficult to say as the impact of changes in international relative prices is all the less discernible, the greater non-price factors influence demand. Hence the reduction of distortions in the financial service sector<sup>1</sup> as well as the stable political situation in Panama may well compensate for much of the 50 % revaluation of the dollar. However, in the manufacturing industry or other areas where international price changes can induce

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<sup>1</sup> E.g. the fact that unions cannot be formed in the financial sector gives banks definite increased flexibility.

quick demand reactions, the brunt of the currency union parameter is currently severely felt.

From the position of the entrepreneurs the currency union with the United States implies the necessity to be flexible, not only as concerns investment and marketing activities but also vis-à-vis employment policies. Flexibility is also required to allow the Panamanian economy to diversify and to meet the challenges posed by the rapid introduction and dissemination of new technologies. But it became increasingly evident throughout the study that of those distortions keeping productive jobs from being created it was precisely the problem of inflexibility (in the form of hiring and firing conditions) which has caused the most damage. The fear on the part of the firm that a potential employee would prove to be a bad risk once job security has been achieved, seems to have grown to the extent that fewer and fewer people were and are being hired. Not only did this prove to be mentioned most often in the question concerning suggested changes in the Labor Code, but also the shift in the structure of seniority in the firms (i.e. higher share of employees with longer affiliation with the firm in 1983 as opposed to the early 70's) can be interpreted as reflecting the hesitancy to hire new employees. This evidence thus backs up the findings or contentions made in prior investigations.

If more flexibility is needed in the labor market but the Labor Code induced greater inflexibility then one of the Commission's first and foremost task's is clearly defined. Two approaches to this issue would seem worthwhile discussing. One embodies changing the respective sections of the Labor Code on an economy-wide basis, the other aims at eliminating distortions within specially delimited areas where economic activities are freed from all major distortions.

#### Greater Labor Market Flexibility via Economy-wide LC Changes

In pursuing the first approach the Commission would have to examine the various provisions and discuss the pros and cons of amendments, changes or elimination. But this has already

been done in the past, the most recent report being presented in October, 1983, by a tripartite national commission (i.e. with public, private and labor representatives). The conclusions reached in said report, while mentioning the need to change certain parts of the Code, tended to remain more global, placing the blame for unemployment on the Labor Code but also on a wide range of external and internal factors. Although there is surely truth in such findings, they must also be interpreted as basically reflecting the necessity of the tripartite commission to reach agreement on a common denominator. The question must thus be raised as to whether the CPEF would be able to go beyond verbal generalizations and propose the forceful changes needed. Generally speaking this could be doubted. However, it should be recalled that entrepreneurs did express an awareness of the fact that acquiring a greater degree of flexibility implies that they must provide some compensation to their employees. Recalling also that average savings brought about by changing provisions of Labor Code dealing with hiring and firing aspects accounted for about 30% of wages, it becomes evident that there is room for concessions. The types of compensation mentioned in this connection usually embodied incentives aimed at ensuring that changes in pay and performance were interrelated (e.g. profit sharing). Likewise increased participation in decisions affecting the economic environment of the workers was also suggested. Realizing also (see Table A7) that employees in most cases would receive higher levels of remuneration if incentives were allowed to be applied with more flexibility (probably because firms now hesitate to effect extra payments for fear of having them declared to be wages) then it would also seem to be in the employees' interest to allow flexibility in remuneration modalities.

Assuming that these two positions can be construed as representing common ground, then a change could be effected in Article 140 of the LC, which contains the very broad-based and all-encompassing definition of wages. Such a change would not

invalidate present agreements, but rather it could be formulated in such a way so as to open up the possibility of opting individually or in contract negotiations for more flexible wage agreements. Should such suggestions prove to be too difficult to institute for those already employed, then a partial solution could be achieved by applying the revision only to those seeking employment. Since the basic principle behind such a suggestion is to help ensure that remuneration levels reflect productivity, it would therefore seem to be in agreement with the equal pay provisions contained in the Constitution and particularly those in Article 10 of the Labor Code.

Greater Flexibility in Special Areas - the Free Zone Concept Expanded

It is quite conceivable these forceful (because they aim directly at the cost of labor) but efficient (because a better allocation of resources is aimed at) changes - necessary to help ensure that more new jobs are created - will meet with considerable resistance throughout the economy. This is an understandable reaction on the part of those who already have jobs and feel threatened by the proposed changes. Despite the fact that their reaction - on the average - can be interpreted as probably running counter to their own long-term interests, those who are inside the system will usually attempt to ward off those who also want to partake of the benefits by finding a job. Thus in addition to exempting job-seekers from various LC provisions, it would - given the success of export processing zones in Asia - seem worthwhile to provide an area in which it can be demonstrated to those already employed that they too could profit from a loosening of major LC restrictions as well. Such an area actually exists (at least to some degree) in the form of the Colon Free Zone. It would thus only be quite natural to expand this facility - or even consider setting up a new one in Panama City - and ensure that major restrictions and distortions are eliminated from such an area.



The purpose behind opting for an expanded and or new free zone (otherwise called free economic activity zone) is to attempt to profit from a greater and more efficient integration into the international division of labor without subjecting the entire economy to deregulation. Such zones represent a second-best solution and should be seen as but one step along the path to freeing the entire economy from various types of distortions. By doing so the factor intensity of economic activities can be made to correspond more closely with the factor endowment of Panama, thus allowing comparative advantages to be exploited in a more efficient manner. In the case of Panama this would seem to mean that more labor-intensive (but also human-capital intensive) production methods would be engendered. Developing in such a manner should help to override the capital-intensive bias the economy has been given over the last decade. If Schumpeter's contention is true that development evolves mainly from factors within society then a zone will provide room for new or expanding entrepreneurs who might otherwise have been stifled in the domestic economy by restrictions and regulations. But perhaps even more important is that such a zone in Panama - with the existing high level of transportation infrastructure and locational advantages vis-à-vis the North American market - could attract foreign investors in order to provide new impulses for the economy. While it is often argued that such zones provide but little in the way of linkages for the host country, evidence from Asian countries shows that this depends to a large extent on the existence of a conducive economic environment<sup>1</sup>. As a matter of fact Taiwan has profited so much from the spin-offs of electronic companies in their zones, that they are able to produce copies of top-of-the-line brand-name personal computers and now even develop new electronic products in a recently established high-tech zone. Knowing, for instance, that Taiwan has been attempting to reduce its ever increasing trade balance surplus with the United States, a special effort could be made to attract investors from that country.

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<sup>1</sup> See Spinanger (1984).

Once legislation exempts zones from the Labor Code (and other pieces of legislation hindering a more efficient allocation of resources) it would be up to the individual employers and potential employees to agree upon the conditions under which work and pay are carried out. Assuming that employers operating in such a zone act in accordance with the consensus opinion agreed upon in the CPEF, then the relatively undistorted economic environment in the zone will induce additional employment under conditions, where pay incentives make extra efforts worthwhile.

#### Eliminating Wage Floors

What these proposed solutions also imply is that the government should withdraw from its attempt to directly fix the price of labor (minimum wages). A partial withdrawal - for instance reducing or eliminating minimum wages for special groups whose productivity is quite low - is not a solution either, as it merely induces an improvement in the competitive position of one group, thereby putting others at a disadvantage. That is why increased wage flexibility (i.e. no minimum wages) for all job seekers in general would seem to be an efficient approach. Should society decide that minimum income levels should be established, then this could be accomplished via income transfers in the course of a tax reform. The unions themselves should not only eliminate contract minimum wages they should also allow wages to reflect interregional or interfirm productivity differences so that wages can once again correctly signal relative shortages or changes therein.

#### Aiming at Social Goals but not via the Labor Market

As concerns the social goals aimed at by a government the first step must be to ensure that they are formulated in such a way so as to reduce moral hazard effects as far as possible. As concerns health insurance, to the extent that inflexible state controlled organizations are responsible for setting rates, this could be deregulated so as to allow insurance

policies to be structured according to personal preferences. The well-known principle of coinsurance used by private insurers could serve as model. The insurance premiums could be determined by incorporating a deductible initial amount to be paid for by the employee and providing for premiums when insurance is not used. Such a system incorporates the same type of incentive built into automobile insurance to induce safer driving.

In the case of sick pay this would mean that individuals are made more responsible for their own actions in deciding whether a minor health complaint justifies not going to work. This could mean that the existing systems of paid sick-leave would be reformed by introducing a waiting-period of one to three days during which the sick employee does not get his full salary from the employer; to compensate for this, the employee should be allowed to purchase insurance which would charge rates in accordance with the degree to which sick leave has been taken advantage of. For his part the employer might be interested in offering (monetary) incentives to all those who do not take advantage of sick days. Such an arrangement has been incorporated into the recent GM-UAW contract.

Avoiding the negative employment effects of maternity leave - given the general desire of Panamanian society to support population policies - is somewhat more difficult due to given biological constraints. For sure, however, by shifting the costs (e.g. of holding open jobs) of maternity leave away from the firms to the individual (via insurance) and/or society itself at least rids the factor market of one barrier causing females to receive less competitive jobs. Assuming that certain biological limits must be observed so as to ensure that neither the health of the fetus/baby nor of the mother is endangered, then they should be set as guidelines. Should they be extended to cover longer periods of time (as has been done in European societies), the financial and employment costs of such extensions must be made clear to all. In particular the holding open of a job for a longer period of time is a measure which makes childbirth and childcare attractive, but

causes (many) female jobs to become less competitive - as was shown - and thus less secure.<sup>1</sup> Should the full burden be carried by society, then negative incentives could impact via increased tax rates (increased tax avoidance).

Unemployment insurance is an area where wide-ranging changes can be made. To begin with, in order to ensure that those becoming unemployed or already looking for a job can find a job the efficiency of the existing government-controlled employment services can be improved by allowing competition from privately run organizations as well. It can be shown that a sizeable share of the firms were interested in such agencies and most of these would be willing to pay for such services (see Table A6). Obviously they expect the employees hired through such agencies to be better qualified than those they could find themselves. Hence a better allocation of resources will result.

Given improved information parameters in the labor market, it would then be possible to shift part of the financial burden away from the price to be paid for labor. That is, the introduction of unemployment insurance (administered privately, i.e. independent of the government) could be contemplated, assuming certain conditions are observed. First of all the contribution to the insurance fund should be shared between employers and employees. Secondly, the size of the contributions could be determined by the extent to which a company contributes to unemployment - the higher the turnover, the higher the rate, provided that the unemployment is not induced by excessive wage increases. This would act as an incentive for the company as well as the employees to induce a conducive work environment. Third it must be ensured that the policies offer an unemployed person incentives to be successful in finding a productive job as opposed to participating in rent

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<sup>1</sup> While leave in the postnatal period could be shared by both parents usually the male earns considerably more than the female, so that a longer period of leave for the male - unless fully remunerated - would in most cases not be in the probable set.

seeking activities. Should a job comensurate with human capital levels not be found within a certain period of time, then a lower level would have to be accepted. This time period could be changed in line with the general availability of jobs. Finally, it is also important to make sure that the unemployment benefits together with other transfer payments are kept clearly below the disposable income earned while employed. Such corrective measures would promote and increase individual efforts to adjust to structural changes and to search for employment opportunities. As it stands now employment security as provided by the Labor Code, apart from increasing labor costs, tends to acutally reduce labor mobility and perpetuates the existence of inefficient economic structures.

Generally speaking, in an effort to provide definite incentives to behave in a manner interfacing with macroeconomic goals, employers and employees could be made more responsible for the impact of their own actions on employment levels. This could be accomplished by requiring unions and employers' organizations to participate in the costs of financing unemployment compensation. To the extent that wage agreements are reached which exceed the limits set in accordance with macroeconomic goals, by (employment-neutral) productivity increases and by the development of the labor force, thereby causing employment levels to drop, the responsible parties could be made to contribute to the ensuing increased unemployment compensation expenditures. If employment levels increase due to low wage agreements the organizations would accordingly receive money. Since both employees and employers would be interested in avoiding payments there is an enticement to not only agree upon wages within given parameters but also to increase productivity; in both cases the result will create competitive jobs. Obviously, the concept of compulsory contributions implies that the existing legislation on employment security be relaxed.

While government regulations in the above issues were seen as a hindrance to allowing the labor market to adjust with grea-

ter flexibility to changing parameters, there might well be a case for its involvement in policies affecting the job environment (even if questions in this connection were hardly answered). That is, in the case of environmental health hazards, the health costs induced (i.e. to the extent that the risks are not included in the premiums) would probably be carried more by society than by the firm; thus a certain amount of regulation could help keep the firm from attempting to pass along its costs in the form of occupational illnesses. This would also seem to be suggested in light of existing studies (in the United States) indicating that individuals or smaller organizations not only had difficulty in determining what was necessary but also in determining whether those measures instituted were in accordance with legislation.

With job training it is similar (in the opposite direction, however) to the extent that increased productivity stemming from higher human capital levels is something from which society can profit. Thus analogous to health hazards, firms should only have to pay for training to the degree that only they themselves can profit therefrom; the workers themselves can be asked to contribute to the financing (in the form of lower wages) as they will be compensated by higher incomes in the future. General training, however, should not be treated differently than any other policy aimed at increasing human capital levels in the economy at large. This is often the case where university education not only receives generous direct subsidies, but also is given special tax treatment.

#### Keeping Wages and Wage Costs in Line with Productivity Levels

The gist of the impact of all these policy recommendations is to weed out those distortions from the labor market which keep labor costs above levels that would allow higher employment creation to result. As a basic principal average wages must not increase faster than average productivity, adjusted for changes in the terms-of-trade and capital costs. One step that can immediately be taken in this direction without having to

effect new legislation would be to reach - via the CPEF - a consensus between various parts of society to ensure that at the least wage moderation prevails.

It becomes clear, however, that wage moderation needs time to reach a significant impact on the level of overall employment. Therefore, trade unions have to be prepared to exercise restraints on wage claims during various rounds of collective bargaining, if they can be expected to represent the interest of the whole labor force (and not only of the employed). Wage moderation has to be complemented by a removal of the system of contract minimum wages (which lie above legal minimum levels), in order to allow job seekers (particularly youngsters) to find employment at lower wages, which still is better than not to find a job at all. All this would not mean that wages would remain constant or decrease at the economy-wide level. On the contrary, wherever there are specific shortages of labor supply (depending on skills, industries and locations) wages would have to increase. A functioning labor market in which specific supply and demand developments are balanced would thus manifest itself in the wage drift. Existing distortions of the wage structure would thereby be reduced.

## 5. Conclusions

This paper has been written around the hypothesis that Panama is suffering, to a large extent, from classical unemployment. It has its roots in the labor market policies of the government as manifested in the Labor Code. These policies have increasingly come into conflict with the need - or rather necessity - for flexibility in the labor market. It would be quite correct to state that, many of the unemployed were just priced out of the market.

If the problem of mass unemployment is to be solved, fundamental changes in attitudes and policies are required. These changes require reaching a modus operandi in the CPEF and

include removal of the many government-implemented rigidities in the labor market as well as wage moderation, complemented of course by similar policies in other markets beyond the scope of this paper but dealt with in other reports of the Economic Studies Program. There are already numerous examples showing that workers are prepared to accept a reduction of real wages in order to secure their jobs and open the door for new jobs to be created. While it was basically a distrust in the market which led to the institution of the Labor Code, the market - if it is allowed to function smoothly - can indeed adjust smoothly even to rapid changes in demand for and supply of labor.

Just remember that the USA after World War II accomplished the task of releasing and integrating almost 20 million soldiers into the production process, without major difficulties in but a few years. Just as impressive was the rapid absorption of 15 million refugees into economic life in West Germany up through the end of the fifties and a further 4 million guest-workers up through the 60's - that is up to a point in time where labor market interventions in Germany were hardly present. Since then the German government has intervened in factor markets on a broad front and now the once famous "economic miracle" is faced with high unemployment levels which would have been considered to be impossible at the end of the 60's. Thus in Germany - as in Panama - the solution to the employment problems is seen in the removal of distortions keeping the demand for labor from expanding and keeping new entrepreneurs from turning their ideas into competitive ventures.



A P P E N D I X A

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Table A1 : Growth Rates<sup>1</sup> of the Population and Labor Force by Sex and Age Cohorts - 1950-1990

| Age cohorts |       | Population |       |       |       | Labor force |       |       |                    |                    | Labor force participation rate (%) |      |      |      |
|-------------|-------|------------|-------|-------|-------|-------------|-------|-------|--------------------|--------------------|------------------------------------|------|------|------|
|             |       | 50-60      | 60-70 | 70-80 | 80-90 | 50-60       | 60-70 | 70-80 | 80-90 <sup>2</sup> | 80-90 <sup>3</sup> | 50                                 | 60   | 70   | 80   |
| Male        | Total | 3.0        | 2.9   | 2.5   | 2.1   | 2.3         | 2.7   | 1.4   | 4.0                | 3.0                | 55.0                               | 51.4 | 50.2 | 44.9 |
|             | < 15  | 3.4        | 2.9   | 1.5   | 0.7   | 1.7         | 0.2   | -2.8  | 3.2                | 0.7                | 4.8                                | 4.0  | 3.1  | 2.0  |
|             | > 15  | 2.7        | 2.9   | 3.3   | 3.0   | 2.3         | 2.8   | 1.5   | 4.0                | 3.1                | 90.4                               | 87.1 | 85.7 | 72.0 |
|             | 15-19 | 3.5        | 3.2   | 3.7   | 1.9   | 2.8         | 2.6   | -1.1  | 4.6                | 1.9                | 68.2                               | 63.2 | 60.1 | 37.8 |
|             | 20-29 | 2.1        | 3.3   | 3.2   | 2.7   | 1.9         | 3.4   | 1.5   | 3.6                | 2.7                | 96.0                               | 94.2 | 94.8 | 80.2 |
|             | 30-49 | 2.6        | 2.1   | 3.1   | 3.7   | 2.5         | 2.1   | 2.4   | 4.1                | 3.7                | 97.9                               | 96.9 | 97.0 | 90.3 |
|             | ≥ 50  | 3.0        | 3.7   | 3.2   | 2.9   | 2.3         | 3.3   | 1.0   | 4.1                | 2.9                | 85.6                               | 79.9 | 77.1 | 62.0 |
| Female      | Total | 3.0        | 3.0   | 2.5   | 2.2   | 3.2         | 5.4   | 2.2   | 3.5                | 3.1                | 14.1                               | 14.5 | 18.3 | 17.8 |
|             | < 15  | 3.3        | 2.9   | 1.3   | 0.8   | 0.5         | 5.5   | -4.1  | 4.1                | 0.8                | 1.4                                | 1.1  | 1.4  | 0.8  |
|             | > 15  | 2.7        | 3.0   | 3.3   | 3.0   | 3.3         | 5.4   | 2.4   | 3.5                | 3.1                | 23.2                               | 24.7 | 31.2 | 28.6 |
|             | 15-19 | 3.3        | 3.0   | 3.5   | 2.0   | 3.3         | 6.0   | -3.1  | 6.0                | 2.0                | 23.4                               | 23.5 | 31.3 | 16.3 |
|             | 20-24 | 2.0        | 3.4   | 3.0   | 2.7   | 2.9         | 6.3   | 3.0   | 2.7                | 2.7                | 27.5                               | 29.9 | 39.6 | 39.5 |
|             | 30-49 | 2.7        | 2.2   | 3.3   | 3.7   | 3.8         | 4.2   | 4.4   | 3.2                | 3.7                | 24.3                               | 27.1 | 32.6 | 36.1 |
|             | ≥ 50  | 3.2        | 3.7   | 3.4   | 3.2   | 3.2         | 5.6   | 0.5   | 4.8                | 3.2                | 14.1                               | 14.1 | 17.0 | 12.7 |

<sup>1</sup> average annual growth rate    <sup>2</sup> Assuming labor force participation rates of cohorts equal average for the years 1970 and 1980.    <sup>3</sup> Approach as in (2) but estimate based on 1980 rates.

Source: Own calculations based on Censo Nacional (1980), p. 18; Proyecciones de la Población de la República de Panamá, por sexo y grupo de edad (1978), Hipoteses III.

Table A2: If the Above Labor Code Provisions Were Changed, Which Would Cause Most Unrest<sup>1</sup> Among Employees?

| LC provisions                           | 1st  | 2nd  | 3rd  | 4th  | 5th  | Sum  | Share <sup>2</sup> |
|---|------|------|------|------|------|------|--------------------|
| Firing reasons/costs, hiring conditions | 15   | 4    | 4    | 4    | 2    | 29   | 32.6               |
| Union related                           | 5    | 6    | 5    | 4    | 2    | 22   | 24.7               |
| Protect of union members                | 3    | 2    | 0    | 2    | 1    | 9    | 16.7               |
| Organization of unions                  | 1    | 2    | 0    | 0    | 0    | 3    | 3.3                |
| Collective bargaining rates             | 1    | 1    | 5    | 2    | 1    | 10   | 11.2               |
| Inflexibility in wages/conditions       | 6    | 5    | 5    | 3    | 2    | 21   | 23.6               |
| Work behaviour                          | 1    | 3    | 1    | 2    | 1    | 8    | 9.0                |
| Sick/maternity leaves                   | 1    | 1    | 0    | 1    | 2    | 5    | 5.6                |
| Labor contract/relations                | 1    | 1    | 0    | 0    | 0    | 2    | 2.2                |
| Other                                   | 0    | 0    | 2    | 0    | 0    | 2    | 2.2                |
| Total answers                           | 29   | 20   | 17   | 14   | 9    | 89   | 100.0              |
| No answer                               | 25   | 34   | 37   | 40   | 45   | 181  | -                  |
| % responses                             | 53.7 | 37.0 | 31.5 | 25.9 | 16.7 | 33.0 | -                  |

<sup>1</sup>See text for further explanation.      -      <sup>2</sup>Shares calculated for firms answering.

Source: Own calculations based on LCS.

Table A3 - Relative Monthly Salaries between Male and Female Employees 15 Years and Older by Age and Education Level Cohorts - 1970

| Age cohort     | Level of education         |                        |                                     |                        |
|----------------|----------------------------|------------------------|-------------------------------------|------------------------|
|                | Grade school not completed | Grade school completed | Completed one year secondary school | One year of University |
| 15-19          | 1.17                       | 1.34                   | 1.06                                | 1.11                   |
| 20-24          | 1.33                       | 1.43                   | 1.17                                | 1.34                   |
| 25-29          | 1.34                       | 1.44                   | 1.25                                | 1.41                   |
| 30-34          | 1.24                       | 1.46                   | 1.33                                | 1.67                   |
| 35-44          | 1.49                       | 1.59                   | 1.45                                | 1.72                   |
| <u>&gt;</u> 45 | 1.44                       | 1.84                   | 1.56                                | 1.77                   |
| Total          | 1.41                       | 1.68                   | 1.38                                | 1.72                   |

Source: Based on unpublished data from 1970 Census of Population.

Table A4: What Basic Reasons<sup>1</sup> Keep Younger People from Getting Employed?

| Reasons                             | 1st  | 2nd  | 3rd  | 4th  | 5th  | Sum  | Share |
|-------------------------------------|------|------|------|------|------|------|-------|
| Youth traits                        | 12   | 13   | 6    | 7    | 4    | 42   | 37.8  |
| Education/training                  | 10   | 8    | 7    | 4    | 1    | 30   | 27.0  |
| Labor Code                          | 6    | 8    | 5    | 2    | 2    | 23   | 20.7  |
| Economic constraints                | 7    | 3    | 0    | 1    | 0    | 11   | 9.0   |
| No reasons                          | 4    | 0    | 1    | 0    | 0    | 5    | 4.5   |
| Total answers                       | 39   | 32   | 19   | 14   | 7    | 111  | 100.0 |
| No answers                          | 15   | 22   | 35   | 40   | 47   | 159  | -     |
| % responses                         | 72.2 | 59.3 | 35.2 | 25.9 | 13.0 | 41.1 | -     |
| <sup>1</sup> In order of importance |      |      |      |      |      |      |       |

Sources: Own calculations based on LCS.

Table A5 - Overview of Maternity Leave in European Countries<sup>1</sup>

|             | Eligibility <sup>2</sup>       |   | Leave (wks) |                     |                            | Payment<br>(Y = income)    |
|-------------|--------------------------------|---|-------------|---------------------|----------------------------|----------------------------|
|             | min.<br>contribution<br>period | in<br>?<br>time frame                           | prenatal    | postnatal           | extra <sup>2</sup>         |                            |
| Belgium     | 6 m                            | -   | 6           | 8                   | -                          | 100% net Y                 |
| Denmark     | 4 w                            | 6 m prenatal                                    | 6           | 8                   | -                          | 90% aver.wk.Y              |
| France      | 10 m <sup>2</sup>              | -   | 6           | 8                   | Unpd.to 24 <sup>th</sup> m | 90% Y                      |
| Germany     | 12 w                           | 4 <sup>th</sup> -10 <sup>th</sup> m<br>prenatal | 6           | 8(+18) <sup>3</sup> | -                          | 100% insur.Y <sup>4</sup>  |
| Italy       | -                              | -   | 18          | 13                  | 6 m pd.                    | 80%Y/30%<br>for extra      |
| Netherlands | -                              | -   | 6           | 6                   | -                          | 100% Y                     |
| Sweden      | 6 m                            | 180 d   | ← 7 m →     |                     | Unpd.to 18 <sup>th</sup> m | 90% Y, but<br>≤ 7.5 base Y |

<sup>1</sup>Affecting working women; in Sweden working persons with more than 4 500 SK income per year.

<sup>2</sup>m = month; w = week; d = days.

<sup>3</sup>For those working at least 200 hrs./yr.

<sup>4</sup>Payment for extended leave ≤ 750 DM/month.

Table A6: On the Use of Private Employment Agencies

|  |     |       |           |
|--|-----|-------|-----------|
| Interested in using such agencies?         | No  | Yes   | No answer |
|  | 31  | 21    | 2         |
| If yes, willing to pay for their services? | No  | Yes   |           |
|  | 6   | 15    |           |
| How much in % of salary?                   | <5% | 5-10% | No answer |
|  | 4   | 8     | 3         |

Source: Own calculations based on LCS.

Table A7: On the Use of Monetary Incentives

|   |               |               |           |           |
|---|---------------|---------------|-----------|-----------|
| Degree of use:                                      | In most cases | In some cases | No        | No answer |
|   | 7             | 25            | 21        | 1         |
| Problems with LC?                                   | No            | Yes           |           |           |
|   | 51            | 3             |           |           |
| Would LC change mean greater incentive use?         | No            | Yes           | No answer |           |
|   | 22            | 29            | 3         |           |
| Impact of greater use of incentives on starting pay | No change     | Increase      | Decrease  |           |
|   | 46            | 6             | 2         |           |
| Distribution of impact                              | Decrease      |               | Increase  |           |
|   | <-10%         | -10 ≤ 0%      | 0 < 10%   | >10%      |
|   | 1             | 1             | 3         | 3         |
| Do employees want monetary incentives?              | No            | Yes           | No answer |           |
|   | 6             | 44            | 4         |           |

Source: Own calculations based on LCS.



## Appendix B

### Background Information on the Panamanian Labor Code Survey

The Labor Code Survey (hereafter referred to as LCS) was initially conceived to cover about 250 firms in all major sectors of the economy - aside from the unimportant mining sector only the public sector (inclusive of the Canal Zone) was not intended to be included. The sample for the LCS was accordingly structured so as to broadly reflect the economic structure of the economy (see Table B1 for an overview and comparison between survey and total economy) - given the above deletions - with three exceptions:

- the financial sector, because of the assumed comparative advantages which have evolved, was overstressed;
- the manufacturing sector, which is relatively small, but because of its potential was overstressed;
- firms located in the Colon Free Zone - which was considered to be a relatively undistorted environment - were overrepresented so as to be able to attempt to use them as a control group.

However, not only was the sectoral structure of the economy taken into consideration in setting up the sample for the LCS, also the geographical location (i.e. firms located outside Panama City and Colon were selected), the size of the firm as well as the nationality of the owners were given attention in structuring the LCS.

Given these criteria the names of the companies were then - in most cases - selected from lists used by government ministries for preparing sectoral surveys/censuses. In the case of banks a raw listing of all banks was used. Information on companies with foreign participation was culled to some extent from materials originating from the United States Chamber of Com-

Table B1: Structure of Labor Code Survey and Domestic Economy

|                                  | Survey       |       |                  |       |                         |                    |       | Total economy <sup>1</sup> |       |                    |       |
|----------------------------------|--------------|-------|------------------|-------|-------------------------|--------------------|-------|----------------------------|-------|--------------------|-------|
|                                  | Total survey |       | Those responding |       |                         |                    |       | Labor <sup>2</sup>         | %     | Value <sup>3</sup> | %     |
|                                  | Number       | %     | Number           | %     | Response rate - (3)/(1) | Employment (thds.) | %     | (thds.)                    |       | (mill.)            |       |
| (1)                              | (2)          | (3)   | (4)              | (5)   | (6)                     | (7)                | (8)   | (9)                        | (10)  | (11)               |       |
| Primary sector <sup>4</sup>      | 24           | 8.5   | 2                | 3.7   | 8.8                     | 11.77              | 68.4  | 147.3                      | 27.9  | 173.7              | 9.9   |
| Manufacturing                    | 73           | 26.0  | 10               | 18.5  | 13.7                    | 1.56               | 9.1   | 55.9                       | 10.6  | 182.1              | 10.4  |
| Construction                     | 12           | 4.3   | 2                | 3.7   | 16.7                    | 0.72               | 4.2   | 32.6                       | 6.2   | 124.3              | 7.1   |
| Commerce                         | 62           | 22.1  | 15               | 27.8  | 24.2                    | 0.70               | 4.1   | 54.6                       | 10.3  | 256.4              | 14.7  |
| Hotels/restaurants               | 20           | 7.1   | 4                | 7.4   | 20.0                    | 0.25               | 1.5   | 17.0 <sup>5</sup>          | 3.2   |                    |       |
| Transportation/<br>communication | 25           | 8.9   | 6                | 11.1  | 24.0                    | 0.35               | 2.0   | 30.4                       | 5.7   | 207.6              | 11.9  |
| Financial/business<br>services   | 27           | 9.6   | 9                | 16.7  | 33.3                    | 1.31               | 7.6   | 19.9                       | 3.8   | 227.2              | 13.0  |
| Other services                   | 38           | 13.5  | 6                | 11.1  | 15.8                    | 0.56               | 3.3   | 136.2                      | 25.8  | 142.6              | 8.2   |
| Total                            | 281          | 100.0 | 54               | 100.0 | 19.2                    | 17.22              | 100.0 | 528.9                      | 100.0 | 1745.8             | 100.0 |

<sup>1</sup>Individual positions do not add to total because of missing sectors. - <sup>2</sup>Economically active population 10 years and older. - <sup>3</sup>1980 gross domestic product in constant (1970) prices. - <sup>4</sup>Excludes mining. - <sup>5</sup>Estimated.

Source: Census of Population (1980), Panamá en Cifras (1984), p. 147.

merce in Panama. Once the name of the responsible party at each of the companies was established the survey was sent out by mail to all the selected companies. For reasons unknown to us the mail system - as revealed in the ensuing telephone check of receipt of the survey - proved to be a black hole into which about 100 surveys disappeared, thus necessitating the hand-carrying of a 100 additional surveys to these companies. To the extent that the telephone check of receipt of the survey resulted in a downright refusal to fill out the survey, additional companies were added to the list. The final tally of 281 (as shown in the table) thus reflects the initial set-up plus the replacements. Every attempt was made to ensure that the companies added to the list corresponded to those removed.

As can also be seen from Table B1 the structure of the final sample - which contains only about 20% of the original firms - differs from the initial set-up; i.e. the response rate of the firms differed across sectors and across the other selection criteria. Given the reduced size of the final sample no attempt was made to realign it according to the initial constraints. Furthermore, the sample will obviously not allow the planned degree of differentiation between the various economic criteria. However, it is assumed that the total number of observations still allows sufficiently significant generalization on the impact of the labor code to be made.

As concerns the structure of the survey, it was comprised of two major sections, first (I) a subjective and then (II) a factual part. The two sections were designed to be answered by different persons - one with more of an overview of company policies (i.e. at the management level) and the other with comparative advantages in dealing with company data (i.e. in accounting or personnel dept.). This division of labor was not only supposed to ensure that the most capable persons would be involved in filling out the questionnaire, but just as important it was thought that the splitting up of the work would perhaps help ensure that surveys were filled out as completely

as possible. As it turned out one person usually usurped the survey and the surveys that were returned often were not filled out to the degree hoped for.

The first part contained questions on the major areas covered by the labor code or on economic environment issues relevant to the labor market. The answers given to these questions - to a large degree subjective - provide the core of the analysis of the labor code. The areas covered in this part were as follows:

- IA: issues surrounding the payment of monetary incentives and problems evolving therefrom;
- IB: questions about the impact of health and/or safety regulations on employment and production activities, particularly with regard to costs involved;
- IC: information concerning hiring methods and potential interest in as well as willingness to pay for private employment agencies;
- ID: estimates on impact of changes in minimum wages on employment in the firm, as well as on quantity/quality of new hires;
- IE: queries about barriers keeping young people from being employed;
- IF: questions on the impact of training, education and experience vis-a-vis hiring, employment and remuneration practices/preferences/differentials;
- IG: inquiries about the impact of laws protecting women at work and during pregnancy as well as other barriers keeping more women from being employed;

IH: opinions on necessary changes in labor code and estimates of what they would mean in terms of financial benefits to the company and the opinion of employer on probable employees' reactions to proposals and suggestions as to how employees' consent can be achieved;

II: perception of major economic factors limiting exports and imports (pertained to manufacturing companies only).

The factual questions posed in the second part were centered around the economic situation of the company and its interactions with employees, unions and the labor code. This information was intended to provide the framework within which the answers to the first part were to be interpreted. Data was collected wherever possible for 1983, 1980 and 1970. The following broad categories were covered:

IIA: background data on firm - i.e. on age, nationality of ownership and sector;

IIB: information on sales, salaries, expenses, number of employees, years of service and skill structure of employment;

IIC: questions on time worked, days of vacation/holidays and sick days;

IID: questions on unions represented, membership therein, strikes, impact of unions on pay/benefit levels, employees protected/on leave/given paid absence because of union membership;

IIE: information on extent and amount of fringe benefits as well as on problems connected with overtime payments;

IIF: listing of labor code cases, amounts paid for cases lost; types of cases confronted with (i.e. labor code number), lawyers fees and time spent by company officials on cases;

IIH: data on size, cost and activities of personnel department in finding qualified employees as well as number of employees joining/leaving company;

III: questions for manufacturing companies only on production processes, exports and inputs.

After initially drawing up and formulating the LCS it was put through a brief testing period in Panama<sup>1</sup>, tapping thereby the knowledge of those directly involved with the code. Both in the case of the firms as well as with the other persons consulted the survey was deemed to touch on most of the essential labor market issues. Aside from small changes made in the presentation of the survey for tactical reasons, these discussions resulted in the initial version of the survey being complemented in three points. First of all the inclusion of a question on monetary incentives was felt to be essential, since some of the difficulties with the code are seen to stem from attempts to have incentives be made permanent parts of the salary. Secondly the question concerning overtime payments was prompted, since the code seems to be open to misinterpretation with regard to commencing and terminating overtime pay. Third, a question on the granting of protection for union members and granting leave for union activities/activities in accordance with Article 160 was - because of the potential implicit/explicit costs - also included.

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<sup>1</sup> While it is true that a more thorough prechecking of the survey could have tightened it up and shortened it by concentrating on but a very few issues, time and personnel constraints kept this path from being taken. The cost of not doing so must be seen to some extent in the low response rate. On the other hand the in-depth information provided by about half of the companies answering the survey must also be taken into consideration.

While it was realized that some questions would/could probably not be answered by smaller companies and requests for data from 1970 would also not draw a large response rate, the importance of trying to find out about certain attitudes/economic behavior patterns and the importance of trying to delineate between a before and after situation seemingly dictated their inclusion. In only one case did a question not prove to induce a required level of responses; i.e. in the area of health and/or safety regulations. However, this result as such probably does reveal the actual impact of said regulations<sup>1</sup>, namely that it does not basically negatively affect companies, neither with respect to employment nor as concerns production costs.

The biggest problem encountered in carrying out the survey was not embodied in answering the questions nor in interpreting them, but rather in the behavior of the companies themselves. This manifested itself in various ways, but two response patterns are discernable:

No response

- Companies basically refused to answer the survey right from the start. Most of the time no reason was given for this reaction and since it was usually communicated via a secretary there was no possibility of attempting to overturn the decision<sup>2</sup>;

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<sup>1</sup> Since this question was second on the list it is unlikely that it was not answered because the person filling out the survey was too fed up with answering the questions.

<sup>2</sup> Usually no reason was given, but in those cases where one was offered it was either (1) lack of time; (2) lack of faith in the confidentiality. As noted earlier every initial refusal to answer the survey resulted in an additional questionnaire being sent out - thus no "damage" was done.

- after initially agreeing to answer the survey, they then failed to respond to further phone calls (e.g. to arrange an appointment to explain the survey in order to ensure correct interpretations) and finally - after numerous, increasingly more insistant phone calls - merely stated that they had changed their mind;
- companies merely lost surveys (sometimes more than once).

Inaccurate/incomplete response

- the questionnaire was not given to a person whose position allowed him to have access to the necessary information to correctly answer the question;
- the correct persons answered the surveys but they refused to arrange for a meeting in order to discuss the questions.

Based on this evidence and given the openly expressed desire of the business community in Panama to have changes effected in the labor code, their behavior at first would seem to be inconsistent or at best incomprehensible. This is probably not the case. More than likely the reaction of the firms is just logical behavior based on years of experience with other surveys, all of which aimed at inducing important changes in economic policies and most - if not all - of which accomplished but little. Rational expectations thus prevailed since no benefit was perceived to be forthcoming to compensate even for the small marginal costs invested in answering the survey.

Furthermore, the survey was carried out at a time when elections were up-coming, the outcome of which was unknown. Thus the question was no doubt posed as to why a survey should be answered which might well not produce even a small ripple once the election was over. And after the election was over the slim margin by which it was won probably did not help convince many to respond to the repeated requests to answer the survey



or to answer the survey in its entirety. Contributing to this last attitude was also the fear that some of the information might be released to competitors or unions - hence the subjective part was often quite fully answered, but not the objective section<sup>1</sup>.

As concerns the first part, the response information is contained in the various tables in the study. In Table B2 a complete overview of the number of firms (out of 54) not responding to each question in the factual part (Part II) of survey is given. (The reader is referred to the actual survey for the exact wording of each question, designated here by only a brief wording.) The tables covering the important first part reveal that the essential questions - despite the above difficulties - were answered to a large enough degree to allow them to be analyzed. In the case of the second part, at least enough general information was given for 1983 and to some extent for 1980 to provide a rough framework within which the answers to part one can be further evaluated.

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<sup>1</sup> It might be added that some companies had difficulty comprehending why such information was being requested, since they know after all that most of it existed in some ministries already.

Table B2

Response Rate for 54 Firms  
vis-à-vis Questions on Firm Data  
from Years 1983, 1980 and 1970

| <u>No.</u> |   | <u>No. not answering</u> |             |               |
|------------|---|--------------------------|-------------|---------------|
| IIA 1      | Year firm founded                                     |                          | -           |               |
| 2          | Nationality of firm                                   |                          | -           |               |
| 3          | Sector  |                          | -           |               |
| IIB 1      | Sales   | <u>1983</u>              | <u>1980</u> | <u>1970</u>   |
|            |   | 27                       | 30          | 44            |
|            | Expenses  | 28                       | 31          | 44            |
| 2          | Paid full-time  |                          |             |               |
|            | Total   | 12                       | 19          | 41            |
|            | Male  | 16                       | 25          | 41            |
|            | Female  | 18                       | 26          | 43            |
|            | Paid part-time  |                          |             |               |
|            | Total   | 39                       | 40          | 52            |
|            | Male  | 42                       | 43          | 52            |
|            | Female  | 46                       | 45          | 54            |
| 3          | Employees - length of service                         | <u>total</u>             | <u>male</u> | <u>female</u> |
|            | < 2   | 22                       | 27          | 30            |
|            | 2-5   | 20                       | 26          | 29            |
|            | 5-10  | 22                       | 28          | 30            |
|            | > 10  | 22                       | 27          | 30            |
| 4          | Wages and salaries paid                               | <u>1983</u>              | <u>1980</u> | <u>1970</u>   |
|            | Total   | 20                       | 27          | 45            |
|            | Male  | 29                       | 34          | 47            |
|            | Female  | 31                       | 35          | 47            |
| 5          | Structure of employment                               |                          |             |               |
|            | Managers  | 16                       | 25          | 44            |
|            | Skilled   | 19                       | 25          | 44            |
|            | Unskilled   | 22                       | 29          | 46            |
| IIC 1      | Average hours per workday                             |                          | 10          |               |
| 2          | Average length of workweek                            |                          | 9           |               |
| 4          | Holidays per year                                     |                          | 10          |               |
| 5          | Number of sick days                                   | <u>1983</u>              | <u>1980</u> | <u>1970</u>   |
|            | Total   | 28                       | 37          | 51            |
|            | Male  | 31                       | 38          | 51            |
|            | Female  | 33                       | 40          | 52            |
| 6          | In last 2 full weeks how many employees were sick on: |                          |             |               |
|            | Mondays   |                          | 33          |               |
|            | Tuesdays  |                          | 34          |               |
|            | Wednesdays  |                          | 36          |               |
|            | Thursdays   |                          | 38          |               |
|            | Fridays   |                          | 35          |               |
|            | Saturdays   |                          | 43          |               |
|            | Sundays   |                          | 51          |               |

| <u>No.</u> |  | <u>No. not answering</u> |             |             |
|------------|--|--------------------------|-------------|-------------|
| IID 1      | Which unions in company  |                          |             |             |
|            | Union A  | 28                       |             |             |
|            | Union B  | 52                       |             |             |
| 2          | No. of employees in union  | <u>1983</u>              | <u>1980</u> | <u>1970</u> |
|            | Union A  | 28                       | 40          |             |
|            | Union B  | 52                       | 52          |             |
| 3          | No. of strikes and man-days lost and reasons   |                          |             |             |
|            | Strikes  | 50                       | 49          |             |
|            | Days lost  | 50                       | 49          |             |
|            | Reasons  | 51                       | 50          |             |
| 5          | No. of employees<br>Granted protection<br>Certified leaves<br>Man-days/man-years leave | 32                       | 44          |             |
|            | Re Article 160 -   |                          |             |             |
|            | number of employees  |                          |             |             |
|            | Affected by  | 43                       | 48          |             |
|            | Man-days leave   | 43                       | 46          |             |
|            | Salaries paid  | 46                       | 48          |             |
| IIE 1      | Which fringe benefits included in total pay  |                          |             |             |
|            | Pensions   | 22                       |             |             |
|            | Vacations  | 52                       |             |             |
|            | Holidays   | 50                       |             |             |
|            | Sickness   | 51                       |             |             |
|            | Health insurance   | 36                       |             |             |
|            | Severance pay  | 39                       |             |             |
|            | Training   | 30                       |             |             |
|            | Other benefits   | 34                       |             |             |
|            | Amount calculated for each item  | <u>1983</u>              | <u>1980</u> | <u>1970</u> |
|            | Pensions   | 53                       | 53          | 54          |
|            | Vacations  | 36                       | 42          | 50          |
|            | Holidays   | 43                       | 44          | 51          |
|            | Sickness   | 42                       | 45          | 52          |
|            | Health insurance   | 40                       | 43          | 50          |
|            | Severance pay  | 41                       | 49          | 53          |
|            | Training   | 50                       | 52          | 54          |
|            | Other benefits   | 45                       | 50          | 54          |
| 2          | Difficulties with overtime regulations   | 32                       |             |             |

| <u>No.</u> |  | <u>No. not answering</u> |             |             |
|------------|--|--------------------------|-------------|-------------|
| IIF 1      | Court cases based on LC  | <u>1983</u>              | <u>1980</u> |             |
|            | Total submitted  | 38                       | 46          |             |
|            | Won by employer  | 43                       | 50          |             |
|            | Costs of cases lost  | 42                       | 51          |             |
|            | Back pay   | 50                       | 53          |             |
|            | Severance pay  | 45                       | 52          |             |
| 2          | No. of cases receiving severance pay                                 | 32                       | 49          |             |
|            | Amount paid - Total  | 32                       | 49          |             |
|            | After 1 year's service   | 40                       | 50          |             |
|            | After 5 year's service   | 48                       | 52          |             |
|            | After 10 year's service  | 45                       | 53          |             |
| 3          | No. of court cases giving basic reason (code)                        |                          |             |             |
|            | 1.No. of cases/reason  | 39                       | 46          |             |
|            | 2.No. of cases/reason  | 48                       | 52          |             |
|            | 3.No. of cases/reason  | 50                       | 52          |             |
|            | 4.No. of cases/reason  | 53                       | 53          |             |
| 4          | Lawyer's costs for cases   |                          |             |             |
|            | Company lawyers  | 39                       | 48          |             |
|            | External lawyers   | 49                       | 50          |             |
| 5          | Management and supervisory personnel involvement in Labor Code cases |                          |             |             |
|            | No. of man-days  | 38                       | 48          |             |
| IIH        | Information - Personnel Dept.  | <u>1983</u>              | <u>1980</u> | <u>1970</u> |
| 1          | No. of persons engaged in hiring/search matters                      | 22                       | 36          | 48          |
| 2          | Total No. of persons in personnel dept.                              | 29                       | 38          | 51          |
| 3          | Wages and salaries paid to all personnel dept.                       | 35                       | 42          | 53          |
| 4          | No. of persons starting and stopping work                            |                          |             |             |
|            | No. started  | 26                       | 42          | 48          |
|            | No. stopped  | 27                       | 41          | 51          |

Letter Accompanying Survey

March 7, 1984

Dear:

Your company has been selected to be questioned with respect to the impact of labor market regulations on your business. That is, in order to be able to thoroughly and adequately analyze the degree to which labor market regulations in the Republic of Panama have induced problems for both employees (including those wanting to be employed) and employers (including those who want to start businesses) a survey of selected companies from all sectors of the economy is being carried out.

These problems for employees and employers are seen as probably stemming from various measures which keep job seekers from finding jobs (or at least adequate jobs), since regulations - although meant to be socially beneficial - can actually reduce the employers' demand for workers. The problems manifest themselves in the working age population bearing the burden in the form of higher unemployment or underemployment, and the employers being kept from efficiently structuring their activities. Assuming this to be the case it can easily be seen that all can profit from a better functioning of the labor market. How to best do this is the goal of this survey. The essential results of the study will then be presented to the Government of the Republic of Panama as policy recommendations.

The sample is structured to be representative of the entire economy. Since it is a small sample the cooperation of each and every company selected is essential, should the results be able to be analyzed and then used to suggest areas where improvements can be made for the benefit of all concerned. It is hoped that every effort will be made to help us in this endeavor.

In accordance with internationally accepted scientific standards all answers to questions on this survey will be treated confidentially. Although the name of the company and address are initially required in order to ensure completion of forms, they will be deleted when the data are fully completed.

.../...

One final point: if you have difficulties with any questions, do not hesitate to call us or otherwise let us know. You can contact us anytime at the following telephone number in Panama City: 69-4878. Likewise our postal address is Apartado 6-6975, El Dorado. If you have the urge to provide us with data or standpoints beyond what we have requested, please feel free to do so. Although this survey was carefully prechecked, this does not mean it is perfect. As a matter of fact only through a fruitful interchange with each and every company will the survey be able to achieve the standards set for itself.

We sincerely hope we can reckon with your cooperation in filling out this questionnaire by the 28th. of March. We will let you know shortly whether we will pick up your survey or if it should be sent to a designated P.O. Box. May we thank you in advance for your perseverance and cooperation.

Respectfully yours,

Isabel Atencio

Andrea Butelmann

P.S.: A Spanish version of the survey is available if desired.

QUESTIONNAIRE ON THE  
LABOR MARKET  
AND THE  
IMPACT OF LABOR MARKET REGULATIONS  
PANAMA CITY                      MARCH, 1984

Carried out by the INSTITUTE OF WORLD ECONOMICS (Kiel, West Germany) in cooperation with SERVICIOS TECNICOS DEL CARIBE (San Juan, Puerto Rico)

Important: This questionnaire has been kept as short as possible to hopefully make sure that your company will be able to find the necessary time to diligently fill it out. Unfortunately a shorter survey would have meant the loss of information essential to fulfill the goals we have set. Thus to simplify your task of working through the following pages, the questionnaire has been divided into two sections - this should allow you to split up the work according to responsibilities in your company.

First and foremost in the initial section we need your well thought-out viewpoint on questions concerning the interaction between your company and the labor market. These answers will provide the core of the statistical analysis.

Second and hardly less important is the second section, which provides us with a data constellation to allow your answers in the first part to be put into proper perspective.

Finally some questions may not interface with the organization in your company. If so please either note this or revise the question and then answer accordingly.



QUESTIONNAIRE ON THE  
LABOR MARKET  
AND THE  
IMPACT OF LABOR MARKET REGULATIONS

PART I

Your Viewpoints and Specific  
Opinions on the Labor Market  
Interacting with Your Company

Name of Company:

Address:

Person filling out this part:

Position

Telephone N°.

Please direct all inquiries to Isabel Atencio/Andrea Butelmann  
Tel:

PART I

IA Giving your employees monetary incentives can help improve productivity and create a better atmosphere in the company. As you well know, however, doing so is complicated by the Labor Code to the extent that the incentives can lose their incentive character once they are paid. That is, employees have the right to ensure that such payments become a permanent part of their remuneration.

(1) Does your company use such monetary incentives?

Quite extensively  In some cases  No

(2) If you have had Labor Court cases with this issue, how much was involved on the average in each case? \_\_\_\_\_\$

(3) If this part of the Labor Code were to be changed to allow these incentives to remain incentives, would your company increase use of them?

Yes  No

(4) Assuming the Labor Code were to be changed accordingly, would the starting pay for jobs (where incentives would be introduced) be changed?

Yes  , it would be increased by \_\_\_\_ %.

Yes  , it would be decreased by \_\_\_\_ %.

No change  .

(5) Do you feel that most employees in your company would be in favor of such benefits, i.e. in favor of receiving remuneration more in line with their individual productivity levels?

Yes  No

Other (please specify) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

IB (1) What particular health and/or safety regulations do you feel most negatively influence operations in your company and why?

(2) If these specific regulations were accordingly changed or eliminated what costs of operations (annual basis) and capital costs would have been avoided?

(3) What would such changes in the above regulations (i.e. without any other changes in the Labor Code) cause your company to do today vis-a-vis the following (give % change if possible)?

|  | Increase | Decrease | No change |
|--|----------|----------|-----------|
| Employment                               |          |          |           |
| Investment                               |          |          |           |
| Prices of services offered/products sold |          |          |           |

IC If private employment agencies were permitted, they could assume the important responsibility of screening employees for the appropriate jobs - a service now provided by your personnel department.

(1) Would you be interested in such services?

Yes  No  we prefer to do it ourselves.

(2) If yes, would you be willing to pay for such services?

Yes  No  the employee should pay.

(3) How much would you be willing to pay (% of expected annual wages/salary)? \_\_\_\_\_ %

ID If legal minimum wages were increased today by 10% or 50%, how would this affect (1) those already employed by the company (i.e. would anyone - how many? - be released?) and (2) hiring policies (i.e. fewer people - how many? - hired?; more productive people hired?; more time spent looking for better employees?; no change?; etc.)?

|                                     | 10% increase | 50% increase |
|-------------------------------------|--------------|--------------|
| (1) Impact on employment in company |              |              |
| (2) Impact on hiring policies :     |              |              |
| Quantity                            |              |              |
| Quality                             |              |              |

IE The problem of youth unemployment is quite serious, as it has often been shown that longer periods of unemployment severely affect employment chances later on. Hence providing training and appropriate jobs for youth is quite crucial.

If it weren't for what basic reasons (list up to five in order of importance) you would employ more younger people (up to age 20)?

1. \_\_\_\_\_  
\_\_\_\_\_
2. \_\_\_\_\_  
\_\_\_\_\_
3. \_\_\_\_\_  
\_\_\_\_\_
4. \_\_\_\_\_  
\_\_\_\_\_
5. \_\_\_\_\_  
\_\_\_\_\_

IF Vocational, technical and clerical training provide a basis from which higher productivity can result.

(1) For prospective skilled employees of your company (i.e. excluding managerial, supervisory, professionals and unskilled jobs) what characteristics (given a person with otherwise the same capabilities) would you prefer?

A A good general educational background (e.g. some secondary school education) which can be used as basis for company training programs.

B A good general educational background followed by completion of a vocational, technical or clerical training school.

(2) How much roughly would the initial pay difference (in %) be for an average job between a person hired according to A and one hired according to B?

Pay difference  %

(3) If A also had prior experience how would this affect the pay difference (in %)?

(4) How many employees were hired in 1983 for skilled jobs?

(5) How do you presently find employees to fit into skilled jobs? (Use 1983 as reference year. More than one box can be checked off.)

|  | <input type="text"/> | % of cases           |
|--|----------------------|----------------------|
| We train them ourselves                      | <input type="text"/> | <input type="text"/> |
| We hire trained employees with no experience | <input type="text"/> | <input type="text"/> |
| We hire trained, experienced employees       | <input type="text"/> | <input type="text"/> |
| Other (specify)                              | <input type="text"/> | <input type="text"/> |

(6) In hiring unskilled workers what are the three most important characteristics you look for (in order of importance)?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

(7) How much more (in %) does a newly employed average skilled worker receive over an unskilled worker?

Pay difference  %

IG

Women are granted protection by law which keeps them from working under certain conditions and in certain occupations. If these restrictions did not exist how would the employment, hiring and pay policies of your company change?

(1) Employment: No change   
in company More/better positions open to women   
Other (please specify)

(2) Hiring : No change   
More women hired   
Other (please specify)

(3) Pay : No change   
Decrease in pay   
Increase in pay   
Other (please specify)

(4) Women are also granted special protection during and after pregnancy. It has been argued that such protection causes firms to employ fewer females in childbearing age.

Do you feel that employers agree   
or disagree   
with this statement?

(5) If you feel agreement exists in question (4), what changes could be made in the legislation and what affect would such changes have with respect to the number of females employed (% change or absolute number - state which one)?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(6) If it weren't for what basic reasons (list up to five in order of importance) you company would hire more women?

1. \_\_\_\_\_  
\_\_\_\_\_  
2. \_\_\_\_\_  
\_\_\_\_\_  
3. \_\_\_\_\_  
\_\_\_\_\_  
4. \_\_\_\_\_  
\_\_\_\_\_  
5. \_\_\_\_\_  
\_\_\_\_\_

Two final questions

IH

(1) If your company were to suggest specific changes in the Labor Code, which five changes would it have made (in order of importance) and how would these affect costs of operations (please give rough estimate in dollars)?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

(2) Which of these changes do you see as likely causing the most resistance or unrest among the employees (refer to rank indicated in previous question) and what possibly could be offered to the employees to win their support?

| Rank above | Action to win employees support |
|------------|---------------------------------|
| 1. _____   | _____                           |
| 2. _____   | _____                           |
| 3. _____   | _____                           |
| 4. _____   | _____                           |
| 5. _____   | _____                           |

II

An extra question for manufacturing companies

Many complaints have been made not only about the negative impact of labor market regulations, but also about import restrictions and domestic regulations in other areas. If you export, what three factors do you feel would be a problem if you wanted to expand capacity to increase exports? In doing the same to supply the domestic market what three factors would apply (in order or importance)?

| Factors causing problems |                 |
|--------------------------|-----------------|
| For exports              | For local sales |
| 1. _____                 | _____           |
| 2. _____                 |                 |
| 3. _____                 |                 |

PART II  
IMPORTANT BACKGROUND DATA  
ON YOUR COMPANY

Name of Company:

Address:

Person filling out this part:

Position:

Telephone:

Please direct all inquiries to Isabel Atencio/Andrea Butelmann  
Tel.:



IIA (1) In what year was firm founded in Panama? \_\_\_\_\_

(2) Nationality of firm \_\_\_\_\_

% foreign owned \_\_\_\_\_

(3) Type of business (check appropriate sector)

Agriculture

Manufacturing

Construction

Transportation

Utility

Wholesale/retail trade

Finance

Insurance

Hotels and restaurants

Other (please specify)

(4) If manufacturing, what are major products produced (e.g. electrical machines, non-electrical machines, transportation equipment etc.)

|       |       |
|-------|-------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

IIB (1) Annual sales and expenses (including wages and salaries):

|          | 1983 | 1980 | 1970 |
|----------|------|------|------|
| Sales    |      |      |      |
| Expenses |      |      |      |

(2) N°. of employees: (average for year)

|                      | 1983 | 1980 | 1970 |
|----------------------|------|------|------|
| Paid fulltime: male  |      |      |      |
| female               |      |      |      |
| Paid parttime: male  |      |      |      |
| female               |      |      |      |
| Unpaid/family: total |      |      |      |

(3) How many of the employees have been with the company for the following years?

|        | Length of service (years) |     |      |     |
|--------|---------------------------|-----|------|-----|
|        | <2                        | 2-5 | 5-10 | >10 |
| Total  |                           |     |      |     |
| Male   |                           |     |      |     |
| Female |                           |     |      |     |

(4) Wages and salaries paid:

|        | 1983 | 1980 | 1970 |
|--------|------|------|------|
| Total  |      |      |      |
| Male   |      |      |      |
| Female |      |      |      |

(5) Structure of employment:

|   | 1983 | 1980 | 1970 |
|---|------|------|------|
| Managers, supervisors and professionals.            |      |      |      |
| Skilled production, technical and clerical workers. |      |      |      |
| Unskilled workers.                                  |      |      |      |

- IIC
- (1) Average length of workday for a fulltime employee \_\_\_\_\_
- (2) Average length of workweek \_\_\_\_\_
- (3) Number of days of vacation per year:  
 Average \_\_\_\_\_  
 After 1/5/10 years with company \_\_\_\_\_
- (4) Number of holidays per year \_\_\_\_\_
- (5) Number of sick days (do not include maternity leave) \_\_\_\_\_

|                  | 1983 | 1980 | 1970 |
|------------------|------|------|------|
| All employees    |      |      |      |
| Female employees |      |      |      |
| Male employees   |      |      |      |

- (6) In the last 2 full weeks (i.e. from March 14 - March 27) how many employees were sick on the following days?

| Mon. | Tues. | Wed. | Thurs. | Fri. | Sat. | Sun. |
|------|-------|------|--------|------|------|------|
|      |       |      |        |      |      |      |

- IID
- (1) Which unions are represented in your company?

- A \_\_\_\_\_
- B \_\_\_\_\_
- C \_\_\_\_\_

- (2) Number of employees in unions:

|         | 1983 | 1980 | 1970 |
|---------|------|------|------|
| Union A |      |      |      |
| B       |      |      |      |
| C       |      |      |      |

(3) Number of strikes and man-days lost to strikes and reasons:

|           | 1983 | 1980 | 1970 |
|-----------|------|------|------|
| Strikes   |      |      |      |
| Days lost |      |      |      |
| Reasons   |      |      |      |

(4) How have unions influenced pay levels and the amount of fringe benefits in your company? (That is % difference between what is now paid and what would have been paid without unions.)

|  |
|--|
| Impact on average pay levels   |
| Impact on lowest pay levels  |
| What was lowest pay level in 1983  |
| Impact on fringe benefits<br>(please specify, e.g. 3 days less vacation) |

(5) How many employees in your company

- (1) are granted protection because of their union status within the company?
- (2) received certified leave to perform union functions outside the company and for how long/often?
- (3) received certified leave in accordance with Article #160 and for how long/often?

|                                | 1983 | 1980 |
|--------------------------------|------|------|
| (1) number granted protection  |      |      |
| (2) a. number certified leaves |      |      |
| b. man-days/man-years leave    |      |      |
| (3) a. Article #160-number     |      |      |
| b. man-days of leave           |      |      |
| c. salaries paid therefore     |      |      |

IIE (1) Are following fringe benefits included in total pay and how much do you calculate/impute for each item?

|                     | Included |    | Amount |      |      |
|---------------------|----------|----|--------|------|------|
|                     | Yes      | No | 1983   | 1980 | 1970 |
| 1. Pensions         |          |    |        |      |      |
| 2. Vacations        |          |    |        |      |      |
| 3. Holidays         |          |    |        |      |      |
| 4. Sickness         |          |    |        |      |      |
| 5. Health insurance |          |    |        |      |      |
| 6. Severance pay    |          |    |        |      |      |
| 7. Training         |          |    |        |      |      |
| 8. Other benefits   |          |    |        |      |      |

(2) Overtime regulations are stipulated in Chapter III of Part One of the Labor Code. What difficulties have you specifically encountered in their application? Please be specific with respect to conflicting interpretations of regulations for overtime during the week, work on Saturdays and Sundays.

IIF (1) Please give information on cases brought to court based on the labor code:

|                                  | 1983 | 1980 |
|----------------------------------|------|------|
| N° of cases: Total               |      |      |
| Submitted by employee            |      |      |
| won by employee                  |      |      |
| Submitted by employer            |      |      |
| won by employer                  |      |      |
| Costs of cases lost by employer: |      |      |
| of which:                        |      |      |
| back pay                         |      |      |
| severance pay                    |      |      |
| other (specify)                  |      |      |

(2) What was the average amount of severance pay paid during 1983 and 1980 by years of service?

|                         | 1983 | 1980 |
|-------------------------|------|------|
| Amount of severance pay |      |      |
| After one year          |      |      |
| After five years        |      |      |
| After ten years         |      |      |

(3) Please list number of cases brought before labor courts by basic reason referring thereby to specific article cited in labor code:

| 1983         |                                    | 1980         |                                    |
|--------------|------------------------------------|--------------|------------------------------------|
| Nº. of cases | Basic reason (code and references) | Nº. of cases | Basic reason (code and references) |
|              |                                    |              |                                    |

- (4) What costs are incurred in paying lawyers for the cases? If company lawyers are used, include all complementary costs (e.g. for secretary).

|                              | 1983 | 1980 |
|------------------------------|------|------|
| Lawyers' costs               |      |      |
| Of which outside the company |      |      |

- (5) If management and supervisory personnel are involved in the Labor Code cases - either in the company, in connections with ministries or in the courts - how many man-days a year would you estimate this accounts for?

|                 | 1983 | 1980 |
|-----------------|------|------|
| N°. of man-days |      |      |

IIG

We know the legal minimum wage was increased in the following years. What was, after the increase, the legal minimum wage in your firm? How many employees had to have their wages increased because they otherwise would have been below it and how many employees had their wages adjusted just to maintain their position relative to those directly affected?

|                     | 1982 | 1979 | 1974 | 1970 |
|---------------------|------|------|------|------|
| Minimum wage level  |      |      |      |      |
| skilled workers     |      |      |      |      |
| unskilled workers   |      |      |      |      |
| N°. of employees:   |      |      |      |      |
| directly affected   |      |      |      |      |
| indirectly affected |      |      |      |      |

IIH

To find qualified personnel much time and effort must be invested in search procedures. Since private employment agencies are not permitted in Panama the personnel department shoulders the burden. Please provide the following information about your personnel department.

- (1) Persons directly engaged in hiring/search matters:

|        | 1983 | 1980 | 1970 |
|--------|------|------|------|
| Number |      |      |      |

- (2) Total number of persons in personnel department:

|        | 1983 | 1980 | 1970 |
|--------|------|------|------|
| Number |      |      |      |

- (3) Wages and salaries paid to all personnel department employees:

|     | 1983 | 1980 | 1970 |
|-----|------|------|------|
| B/. |      |      |      |

- (4) How many persons started working and stopped working for your company in the following years?

|                | 1983 | 1980 | 1970 |
|----------------|------|------|------|
| Number started |      |      |      |
| Number stopped |      |      |      |



-Extra questions for manufacturing companies-

N° of employees in production processes:

|          | 1983 | 1980 | 1970 |
|----------|------|------|------|
| Fulltime |      |      |      |
| Parttime |      |      |      |

Value of physical capital assets (if possible economic value i.e. insured value, not book value - please indicate which one used):

|                 | 1983 | 1980 | 1970 |
|-----------------|------|------|------|
| Value of assets |      |      |      |

Value of intermediate inputs (raw material, components, parts, etc.) and sales:

|                           | 1983 | 1980 | 1970 |
|---------------------------|------|------|------|
| Inputs: Imported<br>Local |      |      |      |
| Sales : Exports<br>Local  |      |      |      |

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