

Editorial

Unemployment in Colombia: An Approach

One of the most pressing issues currently in Colombia is the high unemployment rate. Although, actually, this is not just a problem for the country, because one of the fundamental macroeconomic objectives of any nation is to contain unemployment. While it is true that the level of unemployment must conform to the size and the composition of the economy analyzed, the unemployment rate should not exceed certain levels, because this could undermine political stability. In fact, the costs of high unemployment in a country have to do, among others, with the following: 1) decreasing of aggregate demand, because to the extent that the income of the population declines, purchasing power of people decreases, 2) increasing in poverty levels, because a part of the economically active population does not receive income. In addition, depending on the level of unemployment and of its duration, unemployment can become not only a social problem but also of public health.

The desirable thing would be to have “full employment”, but this is an economic concept not physical, so it is impossible that the entire workforce is fully occupied. Therefore, it refers to unemployment of full employment or structural, to differentiate it from cyclical unemployment.

Unemployment in Colombia has been rising since 2015. In October of 2019, unemployment rate was 9.8 %, while for the same month of 2018 it was 9.1 %. According to the DANE, the national unemployment rate for the period August-October 2019 was 10.3 %, while in the same period of 2018 it was 9.2 %, i.e. an increase of 1.1 percentage points was recorded. On the other hand, the economy growth rate for the third quarter of the year was 3.3 %, while during the same period of 2018 it was 2.6 %.

In addition, it might be expected that as economy grows, unemployment decreases. This relationship explains economic theory through the Okun law, named in honor of Arthur Okun, President Kennedy’s economics adviser, who was the first one to describe and interpret it. This relationship postulates that if the economy grows, i.e., if production of goods and services increases, more productive factors are needed, including labor; however, in the Colombian case, especially in the last year, what has happened is contradictory: a slow growth with job destruction.

For the director of DANE, the lack of correspondence between higher growth and lower unemployment is due to the “greater technification of the country’s productive structure”. According to this entity, to produce one billion pesos in the industrial GDP in 2015, 23,5 jobs were required, while in 2018 those requirements had dropped to 21,9 jobs. The situation described is presented in all economic sectors, being more noticeable in the agriculture, information and communications, and trade sectors.

A plausible explanation is that technological innovations lead to save labor, but those changes are derived from processes rather than immediate facts and therefore it is valid as posed by some analysts of the labor market, as Stefano Farné and Juan Carlos Guataquí, who believe that

technological changes affecting the labor market, but stressing that such changes occur in the long term and not in a few years or months.

The question to solve is how to reduce unemployment. According to the Minister of Labor, this problem is solved by means of the “labor flexibility, hourly workers, training with relevance, gender equity initiative, state employs, labor inclusion, orange economy and entrepreneurship, among others”. If we analyze some of the initiatives proposed by the Minister, we find that, in the past, they did not get the expected results.

Labor flexibility has started since 1990 with the change of economic model. In that year labor law was reformed that, in one way or another, was expressed in the Law 50 of 1990. By means of said law severance and dismissal regime was modified; also, it allowed employers to dismiss a worker at any time, provided that the employer paid the compensation. Another aspect that changed with the labor reform was the retroactivity of severance pay, which enabled the creation of severance and retirement fund managers. With the new regulations, companies were obliged to deposit severance payments of the year in a severance fund in financial institutions, which would recognize the worker’s commercial interest on the balances. Once a withdrawal is made, this is final and the balance is reduced by the same amount.

In the administration of President Uribe, policies were designed that made the labor market more flexible. These initiatives had to do with the elimination of surcharges for overtime, it stated that if they were excluded, more jobs would be generated. To achieve this purpose, the workday was modified and it was allowed to be extended. And some studies have shown that this initiative did not contribute to increase employment, because it was done against workers and for the benefit of employers.

On the other hand, the proposal to hire hourly workers was incorporated in President Duque’s development plan. This is stated in article 193 by linking to the social protection floor workers who have a contractual employment relationship or who are hired for the provision of services, or part-time, and who receive a monthly income less than a minimum wage. For the Minister of Labor, this policy would help to increase employment, with the argument that “the world changed, people work hourly, young people do not even like going to the office, they work from home. Digitally”.

It is possible that Duke administration, given the high informal unemployment, which represents approximately 60% in the urban sector and 80% in the rural sector, has good intentions to reduce it by hourly hiring (“giving rights to those who do not have them”), so that workers can have access to social benefits. However, by legalizing hourly hiring or below the minimum, employers may increase these types of contracts and ignore what is regulated on the minimum wage and, ultimately, affect the income of the most vulnerable people.

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Como citar: Vallejo Zamudio, L. (2020). Unemployment in Colombia: An Approach. *Apuntes Del Cenes*, 39(69). Págs. 9 - 10 <https://doi.org/10.19053/01203053.v39.n69.2020.10738>