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Revista Finanzas y Política Económica, vol. 5, núm. 2, julio-diciembre, 2013, pp. 11-14
Universidad Católica de Colombia
Bogotá D.C., Colombia

Available in: <http://www.redalyc.org/articulo.oa?id=323529880001>



Revista Finanzas y Política Económica,
ISSN (Printed Version): 2248-6046
revistafinpolecon@ucatolica.edu.co
Universidad Católica de Colombia
Colombia

How to cite | Complete issue | More information about this article | Journal's homepage

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Editorial

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Relationships between productivity and wages in Colombia

One of the questions raised by some academics and researchers, economists and economic policy makers of different governments today is what criteria should we use to share benefits from economic growth, driven by increases in the productivity of production factors? This has led governments in different regions to set agendas of integration and to adopt economic policies that have affected both, the economy and the population in terms of equity and justice.

Clavijo (2003) distinguishes three important moments in the issue of productivity in Colombia. The first one in June 1988 and in charge of the administration of Virgilio Barco laid the foundations for the economic aperture. A second momentum was in the administration of César Gaviria, in the mid 1990's, which accelerated the process of trade liberalization, was characterized by an increased free import regime and thus a reduction of protectionist policies, which was evidenced by clearing the import surcharge. The third stage occurred in the administration of Ernesto Samper, where the subject of trade openness was replaced by the Social Pact, inspired in the wage and income policies, applied in the U.S.A. in the seventies, and in Mexico in the eighties. At that time, a Presidential Commission was created in order to reconcile the wage issues in regards to productivity.

In relation to economic growth, production in Colombia grew at an average rate of 2.6% in the period 1990-2002, between 2004 and 2011 it has grown at a rate of 4.8% (CEPAL, 2012), which according to Clavijo (2003), represents a poor performance of the national economy, in comparison with the average growth of 5.1% between 1950-1980. This shows

the deceleration phase suffered by the Colombian economy through 2002 and the apparent recovery since then, until 2011. This recovery has been increased by means of trade agreements with different countries and regions, such as the one between the U.S.A. and the European Union, and at the regional level, with the countries of the Andean Community, MERCOSUR and ALADI, which have increased imports of manufacture and technology, as well as exports of mineral and energy resources to said countries.

Labor and multifactor productivity in Colombia between 1950-1966 has been of the order of 1.6 %, between 1967-1974 increased to 3.2%, then began to slow down arriving between 1975 to 1980 to 0.3 %, even falling during the eighties to -3.0%. In the period 1990-2002, labor productivity was only 0.4 % per year, one of the lowest in Latin America. Meanwhile, between the decades 1950 and 1980 the multifactor productivity in Colombia was 0.8 % per year, and fell to an average of -1.5%, between 1981 and 2002. According to Clavijo (2003), this is evidence of poor performance of national productivity performance compared with 1.3% in Taiwan, South Korea, Singapore and Hong Kong and 1.2% in Indonesia, Malaysia, and Taiwan where educational policies play a key role.

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With respect to wages in Colombia, studies carried out by Arango et al. (2004) have shown that the relative wage in Colombia has had significant increases for workers better trained and with more experience, and has shown detriments in the wages of workers with lower levels of education. Likewise, Colombian reality shows how the industrial sector has not generated improvements in the working conditions, while labor flexibility, which main background is Law 50 of 1990, has increased the number of freelance and temporary workers, who observe how their salary decreases, having to personally assume their social security payment. With the application of Law 789 of 2002, workers reduced their income due to the reduction of overtime payments, holidays, Sunday and cut of the night shift. With Law 797 of 2003, contribution weeks to the pension system² were increased, a fact that extended the retirement age of many workers.

The individual contribution, in addition to reduce the real income of the population sets more distant their access to a pension, while those amounts benefit private pension funds and the financial sector, which despite the global crisis accumulate multimillion profits. On the other hand, the reduction of labor contracts and the increased precarious forms of employment relationship, such as worker cooperatives, have deteriorated the quality of employment in Colombia; 1,923 new cooperatives have been created since 2002 with about 350,000 employees. In 14 years, between 1992 and 2006, a reduction of 40% in the number of permanent jobs in the industrial sector was observed; in contrast, within the same period, temporary contracts increased by 192%. In the manufacturing sector, in just six years, between 2001 and 2007, permanent labor fell down to 10%. (Colombian human rights, democracy and development, and technical secretariat corporation cactus Platform, 2010).

The high rate of informal employment was evident in 2009, at 57.7%, which caused instability in income and lack of access to rights such as social security. There are worries regarding some situations that violate the right to work reported by the International Labor Organization, the wage gap between men and women, which violates the principle of equal pay for work of equal value, and discrimination in access to employment by race conditions, color, and social background. The report makes it clear that in some departments these indicators are alarming.

Although the minimum wage in Colombia in 1991 was COP \$51,720, in 2001, COP \$286,000, and in 2013 is COP \$ 589,500, it went from having an increase of 26.07% in 1991 to 4.02% in 2013. If we analyze these figures in a real way, in relation to inflation and devaluation of the Colombian Peso in the past two decades, real wages have remained and it is even lower than in previous periods.

The above data show that the factor productivity in Colombia was not significant in comparison with other countries, and that it has not generated the social equal conditions promulgated in trade agreements, since no production profits have been distributed to the entire population. This aspect is evident in the profits increase of companies that export to Colombia, obtained by the benefits granted under the Free Trade Agreements. While foreign investment has not been a major factor in the innovation

2 In order to qualify for Old Age Pension in Colombia, the citizen must fulfill the following conditions: 1. Be at least fifty-five (55) years old, for women, or sixty (60) years for men. As of January 1, 2014, the age will increase to fifty-seven (57) years of age for women, and sixty-two (62) years for men. 2. Have contributed a minimum of one thousand (1000) weeks at any time. From January 1, 2005, the number of weeks will increase by 50 and from January 1, 2006 it will increase by 25 each year up to 1300 weeks in 2015 (See: Act 797, 2003).

of companies (Echevarría *et al.*, 2006), many multinational companies are exploiting large amounts of mineral and energy resources, which are returned to Colombia in the form of products with high added value, increasing profits in large proportions, to detriment of the workers' income.

This situation shows us how the levels of labor productivity and multifactor in Colombia, along with trade, labor and wages, were not sufficient to generate social equality and therefore a respect for human rights, in this case most of the country's working population. Since 2008, with the design of CONPES 3527³, the National Competitiveness and Productivity Policy was approved for Colombia, which is in the implementation process and the best results are expected. This policy is presented as a challenge in order to improve both, the labor conditions of workers, and the development of the national economy and its global competitiveness, taking into account the environmental sustainability as a key factor.

To this extent, achieve productivity gains that generate equal conditions for the Colombian society is a job that has to be built by different sectors and actors of the national economy, and in which the importance should be given to national sovereignty, and in the context of free trade agreements, renegotiate at stake so as to benefit further the Colombian economy and especially its people.

3 This document prepared by the National Economic Council, has the following 15 action plans to develop the National Competitiveness Policy proposal under the National Competitiveness System: (1) worldwide class sectors, (2) jump in productivity and employment, (3) competitiveness in the agricultural sector, (4) business formalization, (5) labor formalization, (6) science, technology and innovation, (7) education and job skills, (8) mining and energy infrastructure, (9) transportation and logistics infrastructure, (10) financial deepening, (11) tax simplification, (12) ICT (13) contract compliance (14) environmental sustainability as a competitive factor, and (15) institutional strengthening competitiveness.

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