4-1-2011

Uruguay Experiences Downside of Low Unemployment

Andrés Gaudán

Follow this and additional works at: https://digitalrepository.unm.edu/notisur

Recommended Citation

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in NotiSur by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
Uruguay Experiences Downside of Low Unemployment

by Andrés Gaudín

Category/Department: Uruguay

Published: Friday, April 1, 2011

The Uruguayan economy achieved an unprecedented milestone in the country and the region. The 2010 unemployment rate, which fluctuated between 6.2% and 5.5%, is the lowest in its history. Experts say that the figure represents a structural-unemployment level difficult to reduce any further; society is celebrating the figures as very good news; business owners are concerned because they are already experiencing a labor shortage and think it will be lead to rising labor costs; and from the cold perspective of economists, the phenomenon is an unexpected inflationary factor.

The government views the data as the opening of a period in which it must design policies to improve employment quality and, at the same time, act quickly to avoid a shortage of qualified workers in sectors with the greatest demand for labor. Unions agree with the government assessment and call, as well, for changing education plans to provide workers with better professional training and end job informality, which affects between 34% and 36% of the work force.

With an economically active population (EAP) of 1.5 million (out of a total population of 3.3 million), the country's unemployment level was close to 7% at the end of 2009, before dropping steadily and stabilizing at 6.2% beginning in August 2010. In November 2010, it fell to 5.4%, but, since December 2010, the monthly rate has stayed at 6.1%.

The news was accompanied by other positive data: the average length of unemployment is less than nine weeks. Economist Florencia Carriquiry, an analyst with the multinational consulting firm Deloitte, says the figures would not be considered as important if they were for only one month, "but what is significant here is that the labor market shows very favorable unemployment since 2006, and, while the specific August 2010 data was particularly good, since then we find that unemployment has stabilized at minimal structural values and formal employment has reached record levels of between 58% and 60% of the working-age population."

The improvement in these indices, basic in measuring the quality of life in a society, have come since the advent of the first two progressive governments in the history of the country, those of former President Tabaré Vázquez (2005-2010) and his successor, President José Mujíca. In 2002, unemployment was about 20%, and in late 2004 it stood at 12%.

The downside of good news

"For many the data may be auspicious, but this drop in unemployment has reached the point where businesses are starting to be unable to find workers. In Uruguay today it is complicated to find workers, not just skilled ones but people who can really do the work," said labor-resources consultant Alfonso Capurro in response to a question from the British news agency BBC.

Without assessing the social consequences manifested in improving the quality of life, the economist added, "The other problem that arises from low unemployment is that it can bring inflationary pressure because the inability to incorporate unemployed people will lead to a salary war in which businesses are going to begin to fight for workers, and the increased labor costs will be transferred to prices, generating inflation."
Federico Muttoni, a human-resources expert questioned by the BBC, cited another aspect of this new reality. "The sustained economic growth in recent years [an average of 6.5% annually in the most recent five-year statistical period], an increase in foreign investment and in agriculture and forestry has created many new jobs, and now it is hard to satisfy the demand for adequately skilled workers."

Juan Manuel Rodríguez, director of the state Instituto Nacional de Empleo y Formación Profesional (INEFOP), said, "The situation will worsen in coming years, as several very important projects get underway that will require between 8,000 and 10,000 new workers." Rodríguez was referring to a pulp mill, with a US$1.9 billion investment, to be carried out through a joint venture with Swedish-Finnish company Stora Enso and Chile's Arauco, and the initiation of the British Swiss group Aratiri's operation, which will invest US$2.8 billion to explore iron deposits in three east-central departments of the country.

The situation is, however, not equally favorable for all. There are groups for whom demand is less, precisely those sectors where the unemployment rate is higher than average, such as youth and women. "The turnover rate among young people is higher; they find work but they don't have the basic skills to keep it. We have seen cases, for example in the auto industry, where young workers were hired who have no work habits and the experience was very negative," said the INEFOP director. That is why "the Instituto emphasizes transmitting not only knowledge but also basic skills, such as the importance of working in teams, adjusting to workplace rules, developing the habit of receiving and accepting orders."

All the specialists consulted agreed that the education system should be reformed immediately to improve the quality of teaching, an issue that has been the subject of debate in recent years and that President Mujica promised to address during his term, which ends in 2015.

Experts point out the need for the reform to include making programs more flexible, to favor reorienting students toward careers in which they know they will have a rapid and good entry into the job market. Currently, for example, Uruguay has zero unemployment among engineers, and, while a new generation is being educated, it will have to begin "importing" this type of professional.

**Generous offers to ex-pats to come home**

In this context, the government is willing to employ a battery of measures to promote the return of workers who emigrated during the 2002 crisis, and the Cámara de la Industria de la Construcción proposed an immediate measure that authorities are studying. The construction sector has the most difficulty finding workers, and it proposed that the Ministerio de Defensa finance the training of soldiers to work in the industry as long as needed and then return to their barracks.

Both the government and businesses point to Uruguayans who moved to Spain at the turn of the century and are now suffering the consequences of a crisis that has brought the European country unemployment levels of around 20%, with significantly higher rates among immigrants.

Thus, on Feb. 22, Foreign Relations Minister Luis Almagro began a five-day visit to several Spanish cities—Madrid, Barcelona, Santiago de Compostela, Pontevedra, Cambre, Valencia, Vigo, Palma de Mallorca, among others—to inform Uruguayans living abroad about government incentives to return to the country.
Almagro found the Spanish authorities very helpful, even to the point of helping finance part of the moving costs for immigrants who repatriate. If the plan is successful, the European country will be relieved of the burden of caring for unemployed Uruguayans, the majority victims of the crisis battering the construction industry.

Estimates indicate that, between 2002 and 2003, some 90,000 Uruguayans moved to Spain. Since 2009, an average of 140 return every month, driven by the crisis, some to look for work and others to open their own business.

"More and more people are going and not only to work but also young people, some Spanish-born children of Uruguayans, who go to study. It is a permanent trickle of returning people, some who leave with nothing, intending to try their luck, others who sold their homes and their businesses and decided to invest in Uruguay, creating jobs, and also those who send their children to study," Juan Sotelo, president of the Centro de Residentes Uruguayos de Madrid, told the Montevideo daily.

The incentives the Uruguayan government is offering are tempting and include, among other things, paying or financing part of the moving costs, adjusting customs taxes to allow people who return to bring in their household goods and the machinery and tools necessary to carry out their work, providing health insurance for one year, facilitating immediate enrollment of minor children in school, incorporating them into the social security system and crediting the years worked abroad, and guaranteeing housing rentals.

-- End --