Structural changes in the Venezuelan labor markets
As a consequence of labor regulations

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1- Introduction

The objective of this research is to discuss and test the hypothesis that the depth crisis that the Venezuelan labor market is experiencing is a result of a system of very restrictive and costly labor regulations that has been set through most of the 90’s. The existence of a crisis is shown by the main indicators: an increasing rate of unemployment, especially for women and the young; an increasing rate in the informal sector, mainly self employees; and for those who are working a decreasing rate in the number of workweek hours.

The case of Venezuela should be interesting to labor economists worldwide as it represents a case where the structural changes in regulations have been more intensively used than in other countries, and also because they have not been applied to all sectors or firms at the same time, which give us an ideal experiment where we have changes through time and through sector and firm size.

In order to do this test we need to understand the nature of the regulations. Section 3 describes the most important aspects of the labor regulation in Venezuela, especially those that determine labor cost and cost of adjustment of employment levels through time. We will focus only on those regulations that affect hiring and firing private decisions. This an important step before we do any econometric analysis trying to explain the main results that we have seen, given that there are very few studies done for the Venezuelan case and especially with the long horizon aspect that we are trying to achieve in order to explain the Venezuelan collapse.

In section 4 we will exploit the knowledge of the aspects of the labor statutes to create a quantitative indicator of the mandated labor cost for different size of firms. At this stage this labor cost is not complete given that it is missing an important part related with the severance and seniority payments. However it gives us an important picture of the potential implications of the regulations for different kind of firms and for different type of workers.

In order to study the effect of some of the labor regulations described above, we use the Venezuela’s Industrial Survey (VIS) from 1975 to 2002. In section 5 we will describe the historical reported series of the industrial sector as is reported by the survey and then proceed to do an econometric test.

Finally in section 6 we will discuss the evolution of the informal sector in Venezuela.
2 - Some stylized facts about the Labor Force in Venezuela

THIS SECTION IS NOT DEVELOPED YET, BUT WE PRESENT THE SERIES SO THAT THE READER CAN GET AN IDEA OF THE VENEZUELAN LABOR MARKET

THESE ARE THE FACTS THAT WE ARE TRYING TO EXPLAIN

1- A drastic increase women participation rate
2- An apparent structural change in the rate of unemployment for both men and women after 93
3- The increase in women participation rate was the same across different ages
4- By age structure it appears to be a structural change of unemployment rate between men and women after 1993
5- There appears to be 3 different periods for the informal sector 71-79; 79-93; and 94-2006

6- There appears to be an structural change so that most of the informal sector is self-employed TPCP

7- That tendency is mostly explained by the behavior of the self-employed women
8. Both public and private sector have reduce the rate hiring of women

9. Between those who are working it appears that they are working fewer hours per week, especially after 1994

10. The structural change in the behavior of the unemployment and hours/week affected all workers
11- The macroeconomic instability may have been a big part of the problem

12-
3 - Labor Regulation in Venezuela

The objective of this section is to describe the most important aspects of the labor regulation in Venezuela, especially those that determine labor cost and cost of adjustment of employment levels through time. We will focus only on those regulations that affect hiring and firing private decisions. This an important step before we do any econometric analysis trying to explain the main results that we have seen, given that there are very few studies done for the Venezuelan case and especially with the long horizon aspect that we are trying to achieve in order to explain the Venezuelan collapse.

The case of Venezuela should be interesting to labor economists worldwide as it represents a case where the structural changes in regulations have been more intensively used than in other countries, and also because they have not been applied to all sectors or firms at the same time, which give us an ideal experiment where we have changes through time and through sector and firm size.

The main structure of the labor regulation in Venezuela are established in the Organic Labor Law and its ruling statutes, but there are quite a bundle of other regulations that affect labor cost, just to name a few we have:

- The National Constitution
- Organic Labor Law and its ruling statutes
- The Statutory law of prevention and conditions of the workplace environment
- The Statutory law of the social security system
- The Law that regulates the system of unavoidable unemployment and labor instruction
- The Law that regulates the housing subsystem
- The Law that regulates the health subsystem
- The Law that regulates the pension subsystem
- The social insurance statute
- Law of housing policy
- The INCE statute
- The Statutory law of children and adolescents protection
- The worker’s feeding statute program
- The annual minimum wages decrees.

The process that we have been followed in this research has been to obtain all decrees, statutes and regulations published in the Official Gazette since 1970 up to date that affect private labor cost or adjustment cost, and from them to elaborate a time series of mandated labor cost, both quantitative and qualitatively. At this stage of the investigation we have been able to elaborate a time series of mandated quantitative labor cost by plant size which are not complete yet, but which have the most important elements of the regulations included. For the next draft we pretend to continue analyzing the remaining of the labor statues that we did not have a chance to review for this first draft to have a better picture of what happened at the Venezuelan labor market. With that caveat in mind we will continue with a description of the main elements of the labor regulations.

3.1 – Wages

In Venezuela the wages setting through decrees have been rarely used between 1974 and 1985, but it is not until 1985 that it has been used annually, as it is shown in Table No A.1 in the appendix. In the case of minimum wages we found that it have been set at different levels for different kind of workers (apprentice, concierges, vs. the rest), and also that it have been set different for different kind of sectors (urban vs. rural sectors). Lately it has been also differentiated by firm size so that firms that employ 1-20 workers pay a minimum wage that is lower.
than the one fixed for firms that employ 21 or more workers. The table also shows the points in time where the Government also established minimum percentage increases for wages in general, following a decreasing step function, that is for workers earning lower wage levels it established a higher rate of increase than that for workers earning higher levels of wages (see Figure 3.1). In some instances – but not all - this policy also affected the level of the minimum wage.

The setting of the minimum wages have been done in some instances with the participation between the employers, unions, the Central Bank and the Government, for example most of the cases between 1991-2001, but in other cases it has been done without any participation whatsoever from the employers and employees. Since 2001 it has not been used at all, despite that the Labor Code approved in 1990 established the Tri-party Commission requirement in order to establish new minimum wages each year.

Figure No. 3.1

The setting of the minimum wages in Venezuela rather than being established as a minimum wage per worked hour it is established as a minimum wage per month, and from it is derived the minimum per day (minimum wage per month/30 days) and the minimum wage per hour (minimum wage per day / regulated hours per work day). This could have an important implication for the relative cost of the younger workers versus the older ones since the maximum duration of the work week for the younger is shorter than that of the older, thus making it more expensive the hiring of the younger relative to the older workers, as we will see later.

From Table No. A.1 we derived the time series for the minimum mandated wages for different sectors and workers and then derived the series in real terms which is represented in Figure No. 3.1. If most of the working population earn mandated minimum wages (or below it), and if they do not receive any other kind of income bonuses this measurement shows a real deterioration of the workers’ purchase capacity since 1974, with a change...
in the tendency from 1997. However if the worker receive other mandated income compensating bonuses this conclusion could be totally reversed for some “privileged” workers as we will see later.

Policies that try to increase the worker’s purchase power such as the mandatory minimum wage could have a negative effect on the hiring of workers in the formal labor market, whereas at the same time they could be pressing the wages down in the informal labor markets as a result of an excess of labor supply in the formal sector. Usually the increase of minimum wages is a legal limitation in the formal market of the economy, but it is not necessarily true in the informal market. The magnitude of the impact of an increase of minimum wage on an economy will depend on the magnitude of the workforce occupied that perceives wages underneath or equal at the new level of minimum wage. It is expected that an increase of the minimum wage will produce a worsening of the conditions of the labor market much more noticeable in those economies where an important proportion of the work force earn wages underneath (or equal) at the level of the new minimum wage than in other economies where this portion of workers is much smaller. Then two factors will be determining the result of a policy of minimum increases of wage: how restrictive it is (or how much it is enforced), and what percentage of the occupied population would be affected by the modification of the wages. In a work of the Inter-American Bank (1999) it is reported that the proportion of minimum wage with respect to the average wage in Venezuela for year 1995 was near 90% (see Figure 3.2), a high level compared to that of the developed countries, whereas for the Latin American countries it represented less than half of the wage average. This element is indicative of that an important proportion of the Venezuelan employees perceived equal or smaller wages than the mandated minimum wage.

Figure No. 3.2

Minimum Wage / Mean Wage early nineties

Source: IDB, ILPES 1999

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1 By privileged worker we mean those who are lucky enough to get a job in a firm with more than 51 employees, especially those with children under 5 years old.
3.2 - Mandated Food, transportation and income compensating bonuses

In addition to mandated minimum wages the Venezuelan governments through time have used intensively the policy of mandated bonuses as it is shown in Table A.2 in the appendix. The government intention with the use of those bonuses was to complement the wage income with another type of income to be used to finance expenses such as transportation fees or one lunch per workday, especially following those times where there took place deep macroeconomic crisis such as the currency crisis in 1983, the deep macroeconomic reforms in 1989 followed by the social unrest in February 1989, or the financial crisis in 1994.

This policy was designed in this way instead of through additional mandatory increases in nominal wages because it did not have any impact on the severance payments, seniority premiums, or any other payroll tax, or any other labor cost directly related to the wages (such as vacation bonus, workers participation in firm’s profit, etc). Furthermore, the same decrees in most of the instances clearly specified that the new bonuses that were being established would not have any impact on these payments. In fact, it was a frequently used policy by the private sector no to increase nominal wages because of the same reasons but rather to make intensive use of the bonuses system to increase the workforce income.

Using the information contained in Table No. A.2 we proceed to estimate one first measure of gross monthly real labor income defined as the sum of the non-automatically indexed bonuses plus the mandatory minimum wage. Automatically indexed bonuses are those bonuses that by design are adjusted automatically each time that a new mandatory minimum wage is set, or each time that a new tributary unit (ut) is reset at the beginning of each year - using the inflation of the previous year - without any requirement to modify or to publish a particular decree. Examples of such bonuses are the worker’s feeding statute programs published in September 98 and December 2004 (bonuses 9 and 10 in Table A.2) or the children daycare bonuses program which we will explain in the next section.

Figure No. 3.3

Figure No. 3.4

Figures No. 3.3 and 3.4 shows the behavior through time of this gross monthly real labor income by firm size and compare it with the mandatory minimum wage established for each firm size. As it is shown the real gross

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2 A tributary unit is a measurement that was created in 1994 by the Tax Code in order to adjust automatically the income brackets used to establish the marginal tax rate, and consequently the personal and business income tax. Also it is used in almost all current decrees to set penalties for violations of the different laws. This is a mechanism to adjust each decree automatically with inflation so that the penalties do not loose their enforcement (or encouragement) power to follow the law. It is adjusted almost automatically at the beginning of the year once the inflation of the previous year is known.
income did not drop as sharply as the mandatory minimum wages, and in some instances it did not follow the trend from the minimum wages, such as the years between 1993 and 1998. Another important remark to be made at this point is that these bonuses created different cost structures for different firm sizes thus potentially creating incentives to reduce workforce.

The worker’s feeding statute program published in December 2004 modified the one published in September 98, and this in turn modified the program established in September 1988 just because the inflationary reasons that we just explained. In fact the one from September 1988 had to substitute one from 1984 because of the obsolescence of the law due to the inflationary pressures. All of these programs established the income compensation mechanism as a coupon exchangeable for food to be paid to the beneficiary workers (those who comply with the wage earnings limits for inclusion). For firms that employ 100 or more workers the 1988-1984 programs established in addition to that coupon an obligation to set up or to sub-contract a lunch space at the workplace (or nearby) where the workers would use the coupon exclusively to pay for the food that was provided. Additionally, the establishment could not charge an amount higher than the limit established in the decree in terms bolivars per food served. For those firms that had chosen to install and to run the lunch space this implied that they would have had to hire more personal to run and maintain the kitchen and possibly to subsidize even more the workers if the cost of the food was higher than the maximum Bs/food allowed.

There are important differences between the September 98 and the September 88 -84 decrees. First, the 1998 not only adjusted automatically the nominal amount of the coupon but also the wages levels that set up the limits to be a beneficiary or to be excluded from the program. Second, the size of the firms affected by the policy, while the 1988-84 decrees established the obligation for firms with more than 10 workers, the 1998 decree created the obligation just for firms with 51 or more workers.

Third, the 1988 decree did not say anything about if the coupon will be taken into account for the calculations of severance payments, and other payroll taxes, and because of that the Supreme Court in many instances ruled that this bonus should be included for the estimation of those payments. The 1984 and 1998 decrees on the other hand, clearly established that the bonus should not be included for the calculation of severance payments, payroll, etc., and even that this bonus could be used by firms with fewer numbers of workers. Furthermore, the decree set up this coupon with a minimum value of 0.25 tributary units and a maximum value of 0.50 tributary units, thus opening a window of opportunity for firms to use this bonus as an income compensation mechanism without direct implications on the payroll taxes rather than through wages increases.

Fourth, the 1998 decree allowed many forms of compliance with the regulation for all firms subjected to it. The employer could choose between: the installation of their own restaurant, or contracting the service from a third party, or by the provision of interchangeable coupons (exclusively for payments of food at restaurants and food markets), but in not case the provision of cash directly to the worker was allowed.

Turning now to the 2004 modification the main spirit remains the same but now the bonus was extended as an obligation for firms with 20 or more workers, and additionally it limited the use of this bonus by firms as a mechanism to increase labor income without affecting the rest of the payroll taxes and payments because it established that the monthly payment for this bonus as a percentage of the summation of the monthly food bonus with the wage actually being paid to each worker should not exceed 30%, or said differently the total monthly amount given through this policy should not exceed the 50% of the wage being paid.

Tables 3.2.1 and 3.2.2 show the historical behavior of the nominal values of the important variables that are necessary to determine the magnitude of this bonus, while Tables A.1 and A.2 in the appendix will determine the wage levels of the beneficiary workers.
Table No. 3.2.1

<table>
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<th>G.O. No.</th>
<th>Date</th>
<th>Bolívares per tributary unit</th>
<th>From</th>
<th>Up to</th>
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</thead>
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<td>5.400</td>
<td>04/06/1997</td>
<td>13/04/1998</td>
</tr>
<tr>
<td>36.673</td>
<td>05/04/1999</td>
<td>9.600</td>
<td>05/04/1999</td>
<td>23/05/2000</td>
</tr>
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<td>11.600</td>
<td>24/05/2000</td>
<td>23/04/2001</td>
</tr>
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<td>37.183 y 37.194</td>
<td>24/04/2001 y 10/05/2001</td>
<td>13.200</td>
<td>24/04/2001</td>
<td>04/03/2002</td>
</tr>
<tr>
<td>37.397</td>
<td>05/03/2002</td>
<td>14.900</td>
<td>05/03/2002</td>
<td>04/02/2003</td>
</tr>
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</tr>
<tr>
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<td>04/01/2006</td>
<td>33.600</td>
<td>04/01/2006</td>
<td>current</td>
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</table>

Table No. 3.2.2

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<th>Bonus Payment per working day</th>
<th>Bonus Payment per month</th>
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<tbody>
<tr>
<td>From</td>
<td>Up to</td>
</tr>
<tr>
<td>min - max</td>
<td>min - max</td>
</tr>
<tr>
<td>1.850 - 3.700</td>
<td>40.700- 81.400</td>
</tr>
<tr>
<td>2.400 - 4.800</td>
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<td>63.800 - 127.600</td>
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<td>3.700 - 7.400</td>
<td>81.400 - 162.800</td>
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<td>4.850 - 9.700</td>
<td>106.700 - 213.400</td>
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<tr>
<td>8.400 - 16.800</td>
<td>184.800 - 369.600</td>
</tr>
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</table>

Figure No. 3.5

Figure No. 3.5 shows the minimum mandated indexed food bonus program as a proportion of the mandated minimum wage that applies for each type of firm. As it is shown it represents an important percentage of the minimum wage –between 36% and 56% for firms with 50 or more workers, and around 43% and 54% for firms with 20-49 workers up to now.

3.3 - Child day-care bonus

Until the approval of the 1990 Organic Labor Law, the 1983 Labor Law established that those companies that occupied more than 30 female workers had to maintain a room annexed and independent of the work premises where women could nurse their children under 1 year of age and leave them there while they were at the workplace. The new Law of 90, published on the 12/20/1990 but which enter in action since 05/01/2001 established that the companies which occupied more than 20 workers had to maintain a child day-care center where their workers could leave their children. Nevertheless, the law of the 90 did not establish a clear mechanism for the fulfillment of this provision, aside from the installation of the child day-care center, but it did not establish...
any reference as to which workers would have the benefit of the day-care center, what age should have the recipient children, nor what it would happen if the workers of the company did not have children. On the other hand, this new article created a controversy in relation to the interpretation of the term workers in this context given that for some jurists it had to be interpreted as female workers as the previous interpretation whereas for others it had to be interpreted as to all the workers, as much men as women.

This fundamental change in the labor law was regulated with more details by the Decree 2,101 that was published in the Official Gazette No. 34,913 on 02/27/92. This first regulation stipulated that the beneficiaries would be all the workers’ children (of companies with more than 20 workers) with ages between 0 and 6 years, and that the employers could fulfill the new norm by means of: the establishment and maintenance of a day-care center; the payment of the matriculation and monthly fees of a private day-care center; in the case of children between 4-6 years by means of the payment of the matriculation and monthly fees of a kindergarten; or by means of the payment to the Child Foundation of an amount equivalent to 15% of the minimum wage per each worker for the maintenance of the Program of Daily Care. Additionally, this regulation stipulated that the child day-care centers had to offer breakfasts, lunches and mid-afternoon snacks, as well as a routine destined to its personal hygiene, feeding, health prevention, recreation and an educative component. On the other hand, the regulation established that the employer had to guarantee that the personnel of the day-care center watched the state of health of the children, through the preventive or curative attention, that would include the periodic medical checkups, immunizations, monitoring in the treatments and of the hygienic conditions of the premises.

Soon, a new regulation related to the Workers’ Children Integral Care (Decree 2,506 which derogated the Decree 2,101) of the Organic Labor Law was published on 27/08/1992 in Official Gazette No. 35,036. This regulation established that the children that would be beneficiary of this program would be those children whose parents earn a monthly wage that is equal or inferior to the equivalent of 5 times the national minimum wages, if and only if they worked at a company that hires more than 20 workers. Also it was established as the new maximum monthly payment for the services of day-care center would be an equivalent to 38% of the minimum wage per each child of the beneficiary employee if and only if whose age does not exceed the 6 years maximum in the case that the employer chooses to cancel the matriculation and the monthly fees the day-care center.

Due to the substantial increase of the labor costs that this new regulation implied, and due to the ambiguity that derived from the way it was regulated in the new Labor Organic Law of 90, the Supreme Court in 01/06/94 declared null several articles of decree no. 2,506 because it created new labor costs that could not be established by means of regulation of a lower level such as the costs associated to the medical attention. Also, the sentence declared that the obligation of the employer did not imply any other thing than to provide the care, the attention and the monitoring of the children of 0 to 5 years (non-schooling ages) while their parents worked.

This is possibly one of the most negative modifications of the Labor Law’s reform from the 90’s - that still stays at the present law - from the point of view of its impact on the employment levelas it increases significantly the labor costs. The objective of this reform is totally worthy and necessary from the social point of view, nevertheless the form it is financed is what is extremely negative since it puts all the weight of the financing of a social program on the companies, which somehow will tend to transfer this cost to the workers - in the form of the form of lower levels of employment and discrimination. In addition it has little impact on the objective since it only favors the children of some workers in the formal sector, leaving behind and unprotected the children of those who need the most this kind of help. More ahead, we will retake this subject in particular but so far we can propose some hypotheses of the impacts that this reform might have in the following sense:

1- It should tend to promote the downsizing of the companies, meaning the reduction of employment by establishment because the employers will tend to contract fewer than 20 workers, replacing them with the use of the extraordinary hours in case that it is necessary, as a way to avoid to be subjected to the law. Some additional unintended and plausible consequences of this policy might be the losses of important
economies of scale in some industries, and possibly the substitution away from labor intensive technologies towards the use of capital intensive production technologies.

2- In the case of those companies that are bounded to pay the day-care center fees, for example those for which it is very difficult to get to the 19 workers level -for example a firm with 100 or more employees- it is possible that the law is promoting a legal discrimination against the less educated or less experienced workers, against those with greater familiar load and against the woman and the younger, because given that this part of the labor cost is directly proportional to their workers’ number of children under age of 5 these employers will tend to contract those workers that will have the lowest probability of having small children or those workers that will have a lower probability of being covered by the policy, that is those with wages well above 5 times the minimum wages.

3.4 – Workers’ Participation in firm profits

Until February, 1 1974 the old Labor Law –almost unchanged since 1947, with a minor change in 1966-established that all companies had to distribute at least the 10% of the liquid profits between their workers and that this process should be completed within the 2 months following the closing of the financial statements. This 10% of the profits was supposed to be distributed among the workers using the proportion of each worker’s earned wages with respect to the total wages paid by the firm through the whole economic exercise, but once that this calculation had been made no worker could receive an amount superior to the equivalent of 2 monthly wages. The workers had the legal possibility of asking the Labor Minister for a revision of the financial statements of the firms. If it was discovered that the firm distributed less profits between its workers than the amount it should have distributed, the firm was obligated to pay the difference to the workers and additionally it had to pay the experts hired to study the financial statements as well as a penalty fee. If the firm did not keep the financial books necessary to determine the level of profit then it had to pay to all of its workers an amount equivalent to one week of salary to each one, in addition to the hiring of the experts and the penalty fee. And finally if it was discovered that the firm distributed the right amount of profits between their workers then the hiring of the experts was paid by the Labor Minister. **There are two important aspects of this regulation:** 1- in the case that the firm made loses under any given year they could not be introduced in the financial statements the following year to determine the new level of liquid profits; and 2- in the case that the firm didn’t make profits it didn’t have to pay anything for this concept to the workers.

On December, 31 1973 it was published a new statute (of a lower level) that regulated some aspects of the Labor Law of 1966. Instead of simply regulate what was written in the Law this statute modify substantially some aspects of the Law, -as it is done usually in Venezuela- one of which happened to be the worker’s participation in the firm’s profit. A new regulation was established only for those firms in the commercial sector with more than 30,000 Bolivars of invested capital; only for those firms in the manufacturing sector with more than 50,000 Bolivars of invested capital; and only for those firms in the agricultural and cattle sector with more than 60,000 Bolivars of invested capital.

Now, from February, 1 1974 all firms with those capital levels where required to distribute at the beginning of December of each year an equivalent of 15 daily wages to each worker –using each worker own wage- as an advanced payment to be deducted from the worker’s participation in the firm’s profit to be distributed at the end of the economic exercise. This advanced payment could not be included within the costs for the calculations of the liquid profits of the current economic exercise. If at the end of the economic exercise it was discovered that the firm didn’t make any profit or that it made one that produced lower levels of worker’s participation in the firm than the 15 days previously paid, then the difference was considered a bonus to the employees. Again, in the case that the firm made loses under any given year it could not be introduced in the financial statements the following year to determine the new level of liquid profits. This statute also increase the payments to be made to the workers in
the case that it didn’t have the financial statements books necessary to determine the firm’s profit, in this case now the compensation fee to the workers would be the equivalent of 2 months.

Figure No. 3.5
Minimum-Maximum Days to be paid as firm-profit participation bonus
1-20 Firm Size

Figure No. 3.6
Minimum-Maximum Days to be paid as firm-profit participation bonus
51+ Firm Size

The law approved in 1990 established that the companies had to distribute 15% of their liquid benefits to each worker based on their participation on the workforce, and that as minimum each worker should receive the equivalent one 15 days months of wage and as a maximum an amount equivalent to 4 months of wages. For companies that had a capital that did not exceed 1,000,000 Bs, or which they occupied less than 50 workers the maximum limit would be of 2 months. Additionally the 1990 law established that during the first 15 days of the month of December the companies had to give the equivalent one to 15 days of wage to each worker, imputable to the participation of the benefits. If finalized the fiscal year the company had not obtained benefits the 15 days previously given then this amount would be considered as a bonus. Were excluded from this disposition: the commercial companies whose inverted capital was smaller or just as 60 monthly minimum wages; the industrial companies whose capital did not exceed 135 monthly minimum wages; and the agricultural and cattle companies whose capital did not exceed the 250 monthly minimum wages. In these cases the companies were only required to pay an equivalent amount of 15 days of wage.

Again, this is a policy that one would expect to encourage firms to reduce the workforce to levels below 50 workers and to reduce investment in order to be out of reach of the application of the law or to reduce its negative impacts. As a result of the design of this policy, one would expect that the employer had no incentives whatsoever to increase labor wages as it would increase the holiday bonus given in December to each worker, bonus which can not be recuperated in bad times –and even deepen those bad times- but which have to be share in good times. If the employer increase workers income though wages during good times he might at the same be reducing his own share of profits.

3.5 - Vacation leave and vacation bonus

The 1990 Law reform increased the remunerated vacation leave and the vacation bonus. Initially, the law of the 83 established that every year the worker had the right to enjoy 15 days of remunerated vacations, without any concern about seniority. The law of the 90 added an additional remunerated workday for every year of service, up to a maximum of 15 days, as the successive years, to give therefore a total maximum of 30 days continuous. Additionally, whereas the law of the 83 established the cancellation of special a vacation bonus of 1 day of wage per every year on service - giving a maximum top of 15 days- the law of the 90 incorporated the obligation to cancel the worker an special bonus equivalent to a minimum of 7 days of wage, plus an additional day by every year (from the publication of the law) up to a maximum of 14 days - giving total a maximum top of 21 days. Thus for example, whereas the law of the 83 established that a worker who had worked a year
uninterruptedly would enjoy 15 days of remunerated vacations and a vacation bonus of 1 day, the law of the 90 established that with the same seniority the worker would enjoy 15 days of remunerated vacations, but additionally this worker would receive a vacation bonus of 7 days.

The 1966 Labor law included the 15 days remunerated vacations but it didn’t contain any vacation bonus payment. This vacation bonus payment was introduced in the Partial Labor Reform done in 22/04/75 but being published by 5/5/75.

3.6 - Duration of the workday and premium for overtime

The 1990 reform increased the percentage of surcharge for the value of the extraordinary hours. For the extraordinary hours the surcharge grew from 25% to 50% over the wage of the ordinary workday, whereas the surcharge for the nocturnal day grew from 20% to 30% of the wage of the ordinary workday. Additionally the work in holiday would be remunerated with a surcharge of 50% on the ordinary wage. For the blue collar workers the maximum daily workweek went from 48 hours/week to 44 hours/week, while the nightly workweek went from 42 hours/week to 40 hours/week, thus making the workweek of the blue collar similar to the white collar employee. On the other hand, the 1990 reform reduced the maximum duration of the mix-workweek from 45 hours/week to 42 hours per week, for both blue and white collar workers.

![Figure No. 3.7](image1)

![Figure No. 3.8](image2)

The reduction of the maximum hours of the workweek for the blue collar worker in 1990 made it more expensive to contract blue workers relative to the white collar workers as it is shown in Figures 3.7 and 3.8.

3.7 - Maternity Leave and protection of the family

The 1990 reform changed the labor regime of women hiring and protected the maternity and the family. Whereas the law of 83 established that women would have a period of maternity leave of 3 months (12 weeks, 6 prenatal and 6 post-natal), the law of the 90 extended the postnatal period up to 12 weeks, taking the total period of rest to 4.5 months (6 weeks prenatal and 12 weeks post-natal). On the other hand, the female workers who adopted children smaller than 3 years would have the right to leave for 2.5 months (10 weeks) with the new law, unlike the one the 83, which did not establish anything on the matter. When comparing the Venezuelan maternity leave with some of the Latin-American countries Venezuela has one of the longest periods.

![Figure No. 3.9](image3)
The other important modification that was established in the LOT of the 90 has to do with the granting of the benefit of the labor immobility for the woman during the pregnancy and up to a year after the childbirth. This new norm would require the authorization of the Labor Inspector to dismiss her, if not the employer runs the risk to be forced it to reenlist her and to pay the wages loses to her. These 2 fundamental changes could be creating conditions that favor the discrimination of the young women in age of procreation since its hiring would increase the possibilities of incurring greater labor costs and greater rigidities to modify the work demand, which can be a serious problem when considering that exactly this it is the population group that has increased faster its participation in the work force in the last years. In fact, Winter (1994) finds evidences empirical that the protective legislations of the woman, the maternity and the family have gone against the use of the women within the work place when the costs of those protections fall on the companies, since the labor cost of the woman versus the man is increased relatively.

An additional problem might be causing the structural behavior of women unemployment rate and informality rate: If the social security system is not enforced firms might choose not to comply and therefore if a female worker gets pregnant the whole maternity leave cost will be carried off by the employer, if not the female worker might sue the employer, thus running the risk of being discovered by the social security inspector with 2 faults: noncompliance with the social security for all employees and noncompliance with the regulations related to the pregnant woman. Knowing the risk of hiring women ex-post the employers might decide ex-ante not to hire women at all, or jus to hire them for 3 months at a time, that is increasing the rotation of woman.

3.8 - Apprentice and teens contracts

Discussion: Apprentice’s regulations make it expensive to hire them related to older workers because the minimum wage setting design, the maximum workweek hours allowed and the no. of days of paid vacation.

3.9 - National Institute for Educational Cooperation (INCE) Program
3.10- Other cost associated with labor: severance, seniority payments; social security, unemployment insurance, housing policy contributions, and drug fighting

<table>
<thead>
<tr>
<th>Number of workers in the Firm</th>
<th>Minimum Number of apprentices</th>
</tr>
</thead>
<tbody>
<tr>
<td>11-20</td>
<td>1</td>
</tr>
<tr>
<td>21-40</td>
<td>2</td>
</tr>
<tr>
<td>41-60</td>
<td>3</td>
</tr>
<tr>
<td>61-80</td>
<td>4</td>
</tr>
<tr>
<td>81-100</td>
<td>5</td>
</tr>
<tr>
<td>101-120</td>
<td>6</td>
</tr>
<tr>
<td>121-140</td>
<td>7</td>
</tr>
<tr>
<td>141-160</td>
<td>8</td>
</tr>
<tr>
<td>161-180</td>
<td>9</td>
</tr>
<tr>
<td>181-200</td>
<td>10</td>
</tr>
<tr>
<td>201-220</td>
<td>11</td>
</tr>
<tr>
<td>221-240</td>
<td>12</td>
</tr>
<tr>
<td>241-260</td>
<td>13</td>
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<tr>
<td>261-280</td>
<td>14</td>
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<td>281-300</td>
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<td>361-380</td>
<td>19</td>
</tr>
<tr>
<td>381-400</td>
<td>20</td>
</tr>
</tbody>
</table>

3.11 - Other factors that affect the adjustment of the labor factor: Immobilization Periods

Number of days for advanced notification, seniority and dismissal payment

![Graph showing number of days for advanced notification, seniority and dismissal payment](image)

Periods of Labor Immobilization

![Diagram showing periods of labor immobilization](image)
4- A first Glance of the possible impacts of the legal labor cost

Using the following variables we construct a quantitative index of the mandatory real cost of the regulation for the urban sector for the period 1975-2006:

3.1 - Wages
3.2 - Mandated Food, transportation and income compensating bonuses
3.3 - Child daycare bonus
3.4 - Participation in firm profits
3.5 - Vacation leave and vacation bonus
3.6 - Duration of the workday
3.9 - National Institute for Educational Cooperation (INCE) Program payroll

We assume that all workers have the same productivity and that the only differences between them are:
- Where do they work, that is firm size (1-5; 6-9; 10-19; 20; 21-25; 26-49; 50; 51-99 and 100+)
- How many children under 5 years old do they have?

We assume that all earn 1 minimum wage, work continuously through a whole year after which the take their vacation leave.

We assume that 1 year = 12 months = 30 days/month = 22 workdays/month = 5 workdays/week = and the maximum mandated work hours per week are worked during 5 days.

Then we calculate how much are each firm paying per each effective hour of work and compare those costs

**HYPOTHESIS**

4.1 Do not hire workers with children 0-5 years or with high probability of having them
We could use this index to estimate the impacts of these costs on different kinds of workers and different kind of measurements (employment, unemployment, informality, etc) using the Household Surveys.

This cost index will be enhanced when we include the other variables that affect labor cost

4.2 Reduce firm size or substitute labor for capital

Using our quantitative index of mandated labor cost we construct those indexes according to the manufacturing plant sizes, and we obtain the following cost structure per hour worked (we could separate white collar from blue collar workers) or calculate an average:
I- Firms with 101 or more workers  
II- Firms with 51-100 workers  
III- Firms with 21-50 workers  
IV- Firms with 5-20 workers  

With that information and the Industrial survey we will test the impact of these labor regulations on employment in the industrial sector  

This cost index will be enhanced when we include the other variables that affect labor cost
4.3 Do not hire apprentices and young workers unless you have to: Test using Household Surveys

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Type of worker</th>
<th>Number of days</th>
<th>Worked Hours</th>
<th>Minimum Wage July 2003</th>
<th>Food Bonus 2003</th>
<th>Other annual payments per year</th>
<th>Total Annual Cost per worker under different kind of sceneries of firm size, worker type and number of children 0-5 years old</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Per working day</td>
<td>Per working year</td>
<td>Per day</td>
<td>Paid Vacations</td>
</tr>
<tr>
<td>Without child 0-5 years</td>
<td>UW</td>
<td>15 15 7 264</td>
<td>8.8 2.323</td>
<td>6.970 209.088</td>
<td>2.509.056</td>
<td>4.850 1.280.400</td>
<td>104.544 104.544</td>
</tr>
<tr>
<td>Firm with 51+ workers</td>
<td>TA</td>
<td>22 15 7 264</td>
<td>6 1.584</td>
<td>5.227 156.816 1.881.792</td>
<td>4.850 1.280.400</td>
<td>114.998 78.408 36.590</td>
<td>0</td>
</tr>
<tr>
<td>With 1 child 0-5 years</td>
<td>UW</td>
<td>15 15 7 264</td>
<td>8.8 2.323</td>
<td>6.970 209.088</td>
<td>2.509.056</td>
<td>4.850 1.280.400</td>
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<td>114.998 78.408 36.590</td>
<td>715.081</td>
</tr>
<tr>
<td>Without child 0-5 years</td>
<td>UW</td>
<td>15 15 7 264</td>
<td>8.8 2.323</td>
<td>6.970 209.088</td>
<td>2.509.056</td>
<td>0 0</td>
<td>104.544 104.544</td>
</tr>
<tr>
<td>Firm with 21-50 workers</td>
<td>TA</td>
<td>22 15 7 264</td>
<td>6 1.584</td>
<td>5.227 156.816 1.881.792</td>
<td>0 0</td>
<td>114.998 78.408 36.590</td>
<td>0</td>
</tr>
<tr>
<td>With 1 child 0-5 years</td>
<td>UW</td>
<td>15 15 7 264</td>
<td>8.8 2.323</td>
<td>6.970 209.088</td>
<td>2.509.056</td>
<td>0 0</td>
<td>104.544 104.544</td>
</tr>
<tr>
<td>Firm with 21-50 workers</td>
<td>TA</td>
<td>22 15 7 264</td>
<td>6 1.584</td>
<td>5.227 156.816 1.881.792</td>
<td>0 0</td>
<td>114.998 78.408 36.590</td>
<td>715.081</td>
</tr>
<tr>
<td>Without child 0-5 years</td>
<td>UW</td>
<td>15 15 7 264</td>
<td>8.8 2.323</td>
<td>6.389 191.664</td>
<td>2.299.968</td>
<td>0 0</td>
<td>95.832 95.832</td>
</tr>
<tr>
<td>Firm with 1-20 workers</td>
<td>TA</td>
<td>22 15 7 264</td>
<td>6 1.584</td>
<td>5.227 156.816 1.881.792</td>
<td>0 0</td>
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<td>With 1 child 0-5 years</td>
<td>UW</td>
<td>15 15 7 264</td>
<td>8.8 2.323</td>
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<td>5.227 156.816 1.881.792</td>
<td>0 0</td>
<td>114.998 78.408 36.590</td>
<td>0</td>
</tr>
</tbody>
</table>

UW= Urban Worker; TA= Teens and apprentices
All workers earn 1 minimum wage and have a 1 year tenure at the firm. This annual cost does not include other costs, but reflects the behavior of the differences between workers.
5.1 Venezuela’s industrial sector stylized facts

In order to study the effect of some of the labor regulations described above, we use the Venezuela’s Industrial Survey (VIS)\(^3\) from 1975 to 2002. This survey is conducted by Venezuela’s Statistics National Institute. The universe of this survey is the firms in the manufacturing sector with more than five workers.

<table>
<thead>
<tr>
<th>GROUP</th>
<th>NUMBER OF WORKERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Industry (SI)</td>
<td>5 to 20</td>
</tr>
<tr>
<td>Median Inferior Industry (MII)</td>
<td>21 to 50</td>
</tr>
<tr>
<td>Median Superior Industry (MSI)</td>
<td>51 to 100</td>
</tr>
<tr>
<td>Great Industry (GI)</td>
<td>More than 100</td>
</tr>
</tbody>
</table>

Source: INE

In this survey firms are classified in four categories depending on the number of workers that they are hiring as one can see on table 5.1. The VIS interviewed all firms that belong to MSI strata and GI strata. For the remaining groups VIS used sampling techniques. The characterization that we present in this section is based on in these categories. Notice that some of the labor regulations explained in section 3 could have different impact on the distinct groups of firms. In our estimations, we use this feature.

Figure 5.1 exhibits the evolution of the number of plants by group from 1975 to 2002. For the case of the GI, the number of plants grew until 1991, when it registered period maximum, 979. Starting in that year it decreases. At the end of the period the quantity of plants was less than at the beginning. This is regularity for each group. For the case of the GI, the 2002 number of plants was 60% of the maximum, that figure was 64% for the MSI. Notice that the group that concentrated more firms is the SI. In average, during the period 67.5% of the firms

\(^3\) Before 1975, four VIS took place in the following dates: 1961, 1966, 1971 and 1974. Note that there was not VIS in 1980
belong to that sector. However in average the SI produced 6.4% of total manufacturing production. Therefore, the production per firm is very low in this sector. On the contrary, that figure for the GI was 79.6%.

Figure 5.2

Figure 5.2 shows the evolution of the employment. As before at the beginning employment increases and then decreases. A stylized fact with respect to employment is that a reduction of workers took place in each of the different categories when we compare the extreme points of the period under analysis. Again, for the GI the 2002 number of workers was 60% of the maximum. In the case of workers per plant, as one expects, the only strata that shows important changes was the GI\(^4\), see Figure 5.3. In the MSI, MSI, and GI employment reduction is related to plant disappearance while in the GI it is additionally explained by a firm downsizing in terms of workers.

Figure 5.3

\(^4\) Given that it is the only open category.
The VIS disaggregates the total labor cost in wages and salaries, other payments, and complementary costs. Other payments include earnings for working overtime, profit sharing, special bonuses, provision for severance payments caused during the year, and other compensations. Complementary costs include INCE payments, employer contribution to worker’s Social Security and to worker’s retirement funds, and workers’ family subsidies.

**Figure 5.4**

In Figures 5.4 to 5.6 are shown those costs per worker and in real terms. They are decreasing. This an evidence of real wages fall experienced by the Venezuelan economy during the period under analysis. Decreasing real per worker labor cost could be an evidence of the kind of the labor market adjustment: flexible prices and quantity reduction. Notice that in proportion wages and salaries diminished more than the other labor costs. In all cases GI have greater costs than the other industries.

**Figure 5.5**

FIRST DRAFT VERSION 04/26/2006 ONLY FOR COMMENTS
Figures 5.7 and 5.8 exhibit the ratio of wages and salaries to other payments, and to complementary costs. Those costs represent an important proportion of wages and salaries. Those ratios have been increasing overtime. Notice that other payments, at least for the GI, have been greater than wages and salaries for short periods of time. Keep in mind that other payments include annual provisions for severance payments. Given labor legislation, this is evidence that in Venezuela wages and salaries are not equal to the marginal cost of labor. The cost of a labor unit is much higher than the wage that the employee receives due to government regulations and mandates.

**Figure 5.7**
Figure 5.8 displays the per worker added value, a productivity measure. Notice that in 27 years it has been decreasing for the four groups. It could be related among other things with the evolution of the per worker fixed capital that is Figure 5.11. It is an evidence of investment poor performance during that period.

Figure 5.9
Figure 5.10

Per Worker Added Value

Figure 5.11

Total Labor Cost-Added Value Ratio

Data: Venezuela’s National Industrial Survey, Statistics National Institute
5.2 Estimation
Using panel data techniques we will estimate the effect of regulations on occupation in the manufacturing sector.


6.1. Introduction
Most of the distortions that we explain in section 3 introduce a cost difference between the four industry categories defined by the VIS. Obviously, it also define a difference in cost between those industries and firms with less than five workers. There are another important cost that we are not considering yet, especially severance payments that induce a greater cost difference between firms in the VIS survey and firms with less than five workers. The size of those payments could affect the number of people that work in those micro enterprises or that work as own account workers. In this section we discuss the evolution of the so called, informal sector in Venezuela.

There are two features to emphasize here. First, under Venezuela’s labor legislation and other labor market regulations, the cost of a labor unit is much higher than the wage that the employee receives due to government regulations and mandates. The gap increases with tenure and with wage increases because these additional benefits
are calculated using the current wage. Through time, social benefits absorb a greater proportion of the cost of each unit of labor hired. They are mandatory by law, but they do not necessarily respond to the intertemporal preferences of workers and firms. Second, most of these extra payments accrue only to workers in larger firms.

6.2. The Empirical Definition of the Informal Sector

In 1972, the International Labor Office (ILO) introduced the statistical definition of the informal sector most commonly used by official statistics offices of developing countries. Under this definition the informal sector consists of all workers who have a job in firms with less than five employees, or who are “own-account” (or independent) workers. The intention of the ILO was to describe work in small-scale activities largely escaping recognition, enumeration, regulation, or government protection (Moser, 1994).\(^5\)

Notice that the ILO’s definition tries to capture two things: small-scale activities and lack of regulation in those activities. Small-scale activities are reflected in the definition because it considers only firms with less than five employees. One critique of this definition is that it includes as part of the informal sector two very different kinds of independent workers. For example, a medical doctor and a street vendor are both counted as independent workers. However, it is possible to exclude from the informal sector own-account independent professionals\(^6\), in which case public employees, private employees of firms with more than five workers, and independent professionals, comprise the formal sector. This is the informal sector definition used by the INE.

One important feature of the economic literature addressing the informal sector is the lack of consensus on the definition and origin of this sector. One branch of the literature defines the informal sector as an urban sector

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\(^5\) The concept was used for the first time in ILO's report on Kenya (1972).

\(^6\) Professionals include people with a college or technical degree.
that produces at small scale and hires non-skilled labor.\footnote{In the rural-urban migration models, the traditional urban sector has these characteristics. See Todaro, (1969), Harris and Todaro (1970), and Fields (1976). In this literature, the traditional urban sector is the labor market where newcomers to the cities, usually unskilled rural workers, find a job while they wait for the opportunity to work permanently in the urban modern sector. Tokman (1989) characterizes the informal sector as a sector that uses a very small scale of operation, uses low capital, has low productivity, and exhibits a high degree of heterogeneity in terms of the activities performed there.} This literature argues that the informal sector arises because the technology used in developing countries is not appropriate for the relative factor scarcities in those countries. These capital-intensive technologies are imported in order to satisfy the demand for goods in underdeveloped societies, which try to imitate the consumption patterns of developed countries. This branch of the literature looks at the informal sector as resulting from the production structure and consumption patterns of developing countries.\footnote{See Prebisch (1976).}

By contrast, the more popular view concerning the origin of the informal sector comes from the Neoclassical approach. According to this school of thought, the informal sector results from the excessive burden that government regulations and taxes impose on individuals and firms in an environment of generalized controls and very inefficient bureaucracy. As Ghersi (1997) notes, "activities are informal because of the cost of legality." Regulations, such as fringe benefits, minimum wages, constraints on free dismissal, and social security, raise the cost to firms of hiring and firing workers. De Soto (1986) describes how these restrictions contributed to the rise of the informal sector in Peru, defining the informal sector as the set of economic units that do not comply with government taxes and regulations. Peattie (1987) defines the informal sector as the set of workers that receive wages below the legal minimum. The Neoclassical view emphasizes the lack of compliance as a defining characteristic of the informal sector.

In practice, the definition of the informal sector is related to the size of the firms where people work.\footnote{Rosenbluth (1994) presents statistics about the size of the informal sector for different Latin American countries, using the same threshold to define the informal sector.} As we mentioned before this definition includes micro enterprises, domestic employment, and own-account workers.
6.3. Evolution of the Informal Sector in Venezuela

Several authors such as Freije, Betancourt, and Márquez (1995), Enrigh, Frances and Saavedra (1996), Bello (1999)\textsuperscript{10}, and Orlando (2001)\textsuperscript{11} use INE’s definition in their analysis of the informal sector in Venezuela.

Enrigh, Frances, and Saavedra (1996) claim that benefits and protections of Venezuela’s labor law discourage the creation of jobs by the formal sector through increasing marginal labor cost. They point out that most informal workers lack the human capital, and capital resources to work in the formal sector. Using data for the 1990s, Bello (1999) presents similar findings to EFB in terms of these variables average. Additionally, he points out that in their sample informal workers has greater relative variation coefficient than formal workers in several dimensions such as hourly labor income, years of schooling, and hours worked. It is important to notice that all those authors as well as Orlando (2001) used data from the 90s and they compare informal and formal workers.

Freije, Betancourt, and Márquez (1995) note that the informal sector in Venezuela has several general characteristics. There is free entry to the informal sector since the starting physical and human capital requirements are low. There is free exit since the decisions of leaving or firing has a very low cost because the legal framework explained above does not protect labor in this sector. The sector is not subject to the labor laws or to the collective negotiation of contracts by the unions.

They argue that the origin of the informal sector in Venezuela is associated with the regulations of labor markets that make hiring and firing decisions more expensive. As a result, they also argue that the formal sector’s difficulty in creating employment is associated with the institutional constraints under which it operates.\textsuperscript{12} These authors claim that all the firms classified in the informal sector do not pay any of the imposed labor costs mentioned above. For bigger firms is more difficult to evade those taxes since government supervision efforts are

\textsuperscript{10} Using Fields decomposition methodology, this author found an empirical relationship between informality and labor income inequality for Venezuela in different points of time and how that link evolves through time.

\textsuperscript{11} Orlando through a workers’ revenue model studies the relationship between poverty and inequality.

\textsuperscript{12} Notice that the difficulty of the formal for creating employment is equivalent to the increasing importance of the informal sector in terms of employment.
concentrated in such firms. Due to this difference in labor taxes compliance between the informal sector and the rest of the economy, it is clear that the wage differential between those sectors involves much more than simply a difference in scale.

For Cartaya (1992), the origin of the informal sector in Venezuela is associated with the restrictions and costs to register a firm. She presents two case studies that analyze all the costs that firms in two specific sectors have to incur to become legal. This study is in the De Soto (1986) tradition.

**Figure 6.1**

Figure 6.1 shows the evolution of the informal sector, measured as a percentage of employment for the 1969-2005 period. As one can see there, it is U-shaped curve. During the 1972-77, formal employment’s annual average growth rate was around 9%, reaching the historical pick in 1975, 16%. The sharp decrease in informal sector employment is associated with the 1973 oil boom. The additional resources that the government received from the oil boom were oriented toward the development of basic industries such as electricity, steel, carbon, and iron. The building phase of these mega-enterprises contributed to expanding the size of the formal sector through the direct and indirect employment it generated. However, as it was analyzed in a previous chapter, an economic growth collapse took place in the Venezuelan economy at the end of the 70s so the informal sector grew, in the 1980-85 period, from 31.5%, the historical minimum, to 41.5%. Since then, Venezuela’s economic growth has
been erratic so do informal sector employment. Paradoxically, the historical maximum of the formal sector, measured as a percentage of total employment was reached in a period were labor laws started to distort labor markets.

The difference of the proportion of informal workers in 1969 and in 2005 is less than 0.01. In 1969, informal workers were 48.5% of employed workers. In that year, Venezuela’s economy did not have most of the labor markets distortions described above. However statistical similarities, informality in Venezuela was a very different phenomenon in 1969 compare to the eighties, the nineties, and to the present decade. In 1969, 32.6% of informal sector employees worked in the agricultural sector. In 1979, it accounts for 23.3% of the informal sector. In 1986, only 20.4% of informal workers labored in that sector. That trend is related to of the most important demographic changes experienced by Venezuela in the last century: the population urbanization. In 1920, 83.6% of Venezuela’s population lives in rural areas while in 1990 that percentage decreased to 24%. From 1970 to 1995, non-urban population decreased 10 percentage points from 31.8% to 21.8%.

Summarizing our findings:

a) the informal sector appeared in Venezuela before distortions and restrictions introduced by labor laws. Its origins cold be more related to Venezuela’s economic structure; b) given internal migrations, it is a very different thing now that at the beginning of the seventies, and c) given all distortions introduced by labor laws, even in positive scenario of economic growth, it would be very difficult to achieve a consistent reduction of the informal sector.
Figure 6.2

Formal and Informal Workers
Proportion of Total Employment

Data source: Venezuela's National Industrial Survey, Statistics National Institute

Figure 6.3

Employment Growth Rate
Formal and Informal Workers

Data source: Venezuela's National Industrial Survey, Statistics National Institute
REFERENCES


Bello, Omar (1999), "The Informal Sector, Education, and Wage Inequality in Venezuela" mimeo, University of Colorado at Boulder.


### APPENDIX

#### Table No. A.1

<table>
<thead>
<tr>
<th>Date</th>
<th>Monthly Minimum Wage (Bolivars per month)</th>
<th>General Increase of Wages</th>
<th>Gazette</th>
<th>Decree or Resolution</th>
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<td>04/06/74</td>
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<td>25%-5%</td>
<td>30.415</td>
<td>04/06/74</td>
</tr>
<tr>
<td>01/01/80</td>
<td>900,00</td>
<td>30%-5%</td>
<td>2.518</td>
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</tr>
<tr>
<td>07/11/84</td>
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<td>33.99</td>
<td>07/11/84</td>
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<td>15/03/85</td>
<td>1,500,00</td>
<td>30%-5%</td>
<td>33.17</td>
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<td>30%-5%</td>
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<td>04/06/89</td>
<td>4,340,00</td>
<td>30%-5%</td>
<td>34.16</td>
<td>04/06/89</td>
</tr>
<tr>
<td>01/01/90</td>
<td>5,642,00</td>
<td>30%-5%</td>
<td>34.37</td>
<td>01/01/90</td>
</tr>
<tr>
<td>01/01/92</td>
<td>6,900,00</td>
<td>30%-5%</td>
<td>34.72</td>
<td>01/01/92</td>
</tr>
<tr>
<td>07/05/94</td>
<td>8,608,82</td>
<td>30%-5%</td>
<td>35.01</td>
<td>07/05/94</td>
</tr>
<tr>
<td>01/01/96</td>
<td>12,000,00</td>
<td>30%-5%</td>
<td>35.90</td>
<td>01/01/96</td>
</tr>
<tr>
<td>01/05/98</td>
<td>15,000,00</td>
<td>30%-5%</td>
<td>36.04</td>
<td>01/05/98</td>
</tr>
<tr>
<td>01/01/00</td>
<td>18,000,00</td>
<td>30%-5%</td>
<td>36.22</td>
<td>01/01/00</td>
</tr>
<tr>
<td>01/05/02</td>
<td>21,000,00</td>
<td>30%-5%</td>
<td>36.39</td>
<td>01/05/02</td>
</tr>
<tr>
<td>07/10/02</td>
<td>24,000,00</td>
<td>30%-5%</td>
<td>36.55</td>
<td>07/10/02</td>
</tr>
<tr>
<td>01/05/04</td>
<td>27,000,00</td>
<td>30%-5%</td>
<td>36.71</td>
<td>01/05/04</td>
</tr>
<tr>
<td>01/05/06</td>
<td>30,000,00</td>
<td>30%-5%</td>
<td>36.87</td>
<td>01/05/06</td>
</tr>
<tr>
<td>01/05/08</td>
<td>33,000,00</td>
<td>30%-5%</td>
<td>37.03</td>
<td>01/05/08</td>
</tr>
<tr>
<td>01/05/10</td>
<td>36,000,00</td>
<td>30%-5%</td>
<td>37.19</td>
<td>01/05/10</td>
</tr>
<tr>
<td>01/07/12</td>
<td>39,000,00</td>
<td>30%-5%</td>
<td>37.35</td>
<td>01/07/12</td>
</tr>
<tr>
<td>01/05/14</td>
<td>42,000,00</td>
<td>30%-5%</td>
<td>37.51</td>
<td>01/05/14</td>
</tr>
</tbody>
</table>

**Notes:**
1. Domestic service excluded
2. Workers under a collective contract, domestic service, concierges, and working for non-profit organizations are excluded from this decree.
3. Rural, domestic and concierge workers are excluded from this decree.
4. Workers under a collective contract, domestic service, concierges, are excluded from this decree.
5. Replaces another decree from 09/05/1991 where the increase was established at 15%.
6. Reform of the decree 2.019 from 26/12/1991 where the wages were 1500 bolivars lower.

**HISTORY OF THE VENEZUELAN MINIMUM WAGES AND GENERALIZED WAGES INCREASES**

- **Monthly Minimum Wage (Bolivars per month)**
- **General Increase of Wages**
- **Gazette**
- **Decree or Resolution**

**Decree o Resolution**

- **Notes**
  1. Domestic service excluded
  2. Workers under a collective contract, domestic service, concierges, and working for non-profit organizations are excluded from this decree.
  3. Rural, domestic and concierge workers are excluded from this decree.
  4. Workers under a collective contract, domestic service, concierges, are excluded from this decree.
  5. Replaces another decree from 09/05/1991 where the increase was established at 15%.
  6. Reform of the decree 2.019 from 26/12/1991 where the wages were 1500 bolivars lower.

**Numbers in blue indicate that the decree did not establish a new minimum wage per se, but rather a general increase in wages that affected the new minimum wage.**

The decrees of general increases of wages established different rates of increase for different brackets of salaries, and in some cases, but not all of them, affected also the minimum wages.

**FIRST DRAFT VERSION 04/26/2006 ONLY FOR COMMENTS**
### Table No. A.2

**HISTORY OF THE VENEZUELAN FOOD, TRANSPORTATION AND INCOME COMPENSATING BONUSES PROGRAMS**

<table>
<thead>
<tr>
<th>Bonus</th>
<th>Gazette Date</th>
<th>Decree Date</th>
<th>Monthly wage to be eligible (Bs)</th>
<th>The benefit to be given when the wage is</th>
<th>Bonus per Firm Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.040</td>
<td>21/02/92</td>
<td>01/01/92</td>
<td>W &lt;= 2,400/month</td>
<td>0 0 0 0 0 0 0 0 0 0 0 0 0</td>
<td>20% of the wage to be paid monthly. The wages increases given between 01/01/87 and 29/04/87 will be deducted from this bonus</td>
</tr>
<tr>
<td>1.040</td>
<td>21/02/92</td>
<td>01/01/92</td>
<td>W &lt;= 6,100/month</td>
<td>0 0 0 0 0 0 0 0 0 0 0 0 0</td>
<td>25% of the wage to be paid monthly. The wages increases given between 01/01/87 and 29/04/87 will be deducted from this bonus</td>
</tr>
<tr>
<td>1.040</td>
<td>21/02/92</td>
<td>01/01/92</td>
<td>W &lt;= 15,000/month</td>
<td>0 0 0 0 0 0 0 0 0 0 0 0 0</td>
<td>30% of the wage to be paid monthly. The wages increases given between 01/01/87 and 29/04/87 will be deducted from this bonus</td>
</tr>
<tr>
<td>1.040</td>
<td>21/02/92</td>
<td>01/01/92</td>
<td>W &lt;= 20,000/month</td>
<td>0 0 0 0 0 0 0 0 0 0 0 0 0</td>
<td>20% of the wage to be paid monthly. The wages increases given between 01/01/87 and 29/04/87 will be deducted from this bonus</td>
</tr>
<tr>
<td>1.040</td>
<td>21/02/92</td>
<td>01/01/92</td>
<td>W &lt;= 20,000/month</td>
<td>0 0 0 0 0 0 0 0 0 0 0 0 0</td>
<td>25% of the wage to be paid monthly. The wages increases given between 01/01/87 and 29/04/87 will be deducted from this bonus</td>
</tr>
<tr>
<td>1.040</td>
<td>21/02/92</td>
<td>01/01/92</td>
<td>W &lt;= 30,000/month</td>
<td>0 0 0 0 0 0 0 0 0 0 0 0 0</td>
<td>30% of the wage to be paid monthly. The wages increases given between 01/01/87 and 29/04/87 will be deducted from this bonus</td>
</tr>
<tr>
<td>1.040</td>
<td>21/02/92</td>
<td>01/01/92</td>
<td>W &lt;= 60,000/month</td>
<td>0 0 0 0 0 0 0 0 0 0 0 0 0</td>
<td>20% of the wage to be paid monthly. The wages increases given between 01/01/87 and 29/04/87 will be deducted from this bonus</td>
</tr>
<tr>
<td>1.040</td>
<td>21/02/92</td>
<td>01/01/92</td>
<td>W &lt;= 60,000/month</td>
<td>0 0 0 0 0 0 0 0 0 0 0 0 0</td>
<td>25% of the wage to be paid monthly. The wages increases given between 01/01/87 and 29/04/87 will be deducted from this bonus</td>
</tr>
<tr>
<td>1.040</td>
<td>21/02/92</td>
<td>01/01/92</td>
<td>W &lt;= 90,000/month</td>
<td>0 0 0 0 0 0 0 0 0 0 0 0 0</td>
<td>30% of the wage to be paid monthly. The wages increases given between 01/01/87 and 29/04/87 will be deducted from this bonus</td>
</tr>
<tr>
<td>1.040</td>
<td>21/02/92</td>
<td>01/01/92</td>
<td>W &lt;= 150,000/month</td>
<td>0 0 0 0 0 0 0 0 0 0 0 0 0</td>
<td>20% of the wage to be paid monthly. The wages increases given between 01/01/87 and 29/04/87 will be deducted from this bonus</td>
</tr>
<tr>
<td>1.040</td>
<td>21/02/92</td>
<td>01/01/92</td>
<td>W &lt;= 150,000/month</td>
<td>0 0 0 0 0 0 0 0 0 0 0 0 0</td>
<td>25% of the wage to be paid monthly. The wages increases given between 01/01/87 and 29/04/87 will be deducted from this bonus</td>
</tr>
<tr>
<td>1.040</td>
<td>21/02/92</td>
<td>01/01/92</td>
<td>W &lt;= 300,000/month</td>
<td>0 0 0 0 0 0 0 0 0 0 0 0 0</td>
<td>30% of the wage to be paid monthly. The wages increases given between 01/01/87 and 29/04/87 will be deducted from this bonus</td>
</tr>
</tbody>
</table>

1. Transportation bonus. Private firms dedicated to industrial, commercial, financial or service activities were obligated to pay this bonus.
2. Transportation and food bonus due to financial crisis. Domestic, concierge and road workers are excluded from this benefit.
3. Transportation and food bonus due to financial crisis. This bonus will be paid also during vacations. Domestic and concierge workers are excluded from this benefit.
4. Income Compensating Bonus. Domestic and concierge workers are excluded from this benefit.
5. Bonus due to the loss of the worker's purchasing power. Domestic and concierge workers are excluded from this benefit.
6. Additional subsidy. This bonus will be paid also during vacations. Domestic and concierge workers are excluded from this benefit.
7. Worker's Salary program. Private firms dedicated to industrial, commercial, financial or service activities were obligated to pay this bonus.
8. Worker's Salary Program Law. Private firms dedicated to industrial, commercial, financial or service activities were obligated to pay this bonus.
9. Worker's Salary Program Law.
10. Feeding for workers Law.