

Labor market transitions in Peru

by David Rosas Shady

Unemployment is one of the major issues in Peru. However the unemployment rate, scoring around 10%, is comparable to what is observed in other Latin American countries and, most importantly, is characterized by a weak sensibility to wide macroeconomic fluctuations.

In this article we argue that traditional analysis based solely on the net unemployment rate fails to explain this apparent paradox. One possible explanation is that this static indicator of cross section net unemployment balance is compatible with high flows in and out of employment states. In a context of wage rigidity and lack of unemployment insurance the adjustment of the Peruvian labor market may take place through two main mechanisms. The first is the individual transitions between activity and inactivity, which does not show up directly in the unemployment figures and the second one is the variations in the number of working hours and/or an increase in moonlighting. According to this, unemployment would be essentially a frictional phenomenon instead of a permanent one; most of people leaving employment states, voluntary or involuntary, go directly to inactivity.

To address these questions we need to conduct a dynamic analysis using panel data. This constraint explains the weak number of studies regarding labor mobility in developing countries. Using the Peruvian national household survey (ENAHO), we construct a panel of working age individuals at the national level for the period 1996-1999. Although the panel that we were able to construct for these three years sample is relatively large (7697 persons), econometric tests were carried out in order to check for selectivity bias.

Like previous work in developing countries, we found that there is an important degree of job mobility in Peru, which amounts around 30 % of the working-age population. We also show that most of the transitions occur between employment and inactivity instead of between employment and unemployment. We showed too that the rate of permanent unemployment is very low. Further, considering the different transition states, we elaborate an unconditional transition profile, including individual and household characteristics, like gender, age or education level for example, associated with each one of these transitions

states. Finally, after examining these labor market transitions and the possible sample selection bias, we estimate a multinomial logit model. This model allows us to appreciate the (conditional) incidence of individual and household characteristics as well as the effects of different shocks on the labour transition states.