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*Latin American Labor*

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At the beginning of the twentieth century, Latin American workers in early industrializing nations organized in a hostile political environment, while in other countries, labor unions were almost absent or incipient. At the end of the twentieth century, labor unions enjoyed more freedom to organize in new democracies, albeit challenged by capital mobility, economic liberalization, and state retrenchment. This chapter analyzes the new challenges faced by organized labor in Latin America at the turn of the century, with special attention to South America and Mexico. In doing so, it emphasizes the previous development of labor political strategies in closed economies with highly interventionist states. These strategies become less effective in open economies with shrinking public sectors. However, at the time of economic liberalization and institutional transformation, the political influence of labor unions still serves to affect the design, implementation, and schedule of market reforms. At the same time, partisan loyalties between unions and labor-based political parties shape the interaction between organized labor and the government. Partisan loyalties generate trust and increase the willingness of labor unions to bear some of the costs of reforms. Additionally, competition for leadership within the union movement explains labor militancy against market reforms, whereas union fragmentation influences labor effectiveness in shaping policy implementation during the period of economic liberalization.

The temporal coincidence between democratization and economic liberalization imposed further challenges for organized labor. Whereas labor unions had usually been at the forefront of political liberalization protests, democratization reduces the influence of labor mobilization once elections became the principal means of expressing citizen preferences. In the context of this dual transition, labor unions try to deliver better wages and more secure employment to their members, but they encounter new challenges,

such as increasing economic volatility. Even when they realize the need for innovative strategies to deal with new issues, strategic innovation develops slowly. It can take one of three forms: new alliances, organizational autonomy, or industrial participation. In the first case, labor unions break with old allies and seek new partners, including political parties and other sectors of the population also hurt by economic liberalization. In the case of organizational autonomy, they concentrate on the survival of the organization through the acquisition of new resources created by the opening of the economy, such as the provision of new services in competitive markets or the acquisition of privatized property. Industrial participation involves labor unions adopting a more proactive role in the implementation of new technologies to increase labor productivity in a competitive economy. Strategic innovation is important because the traditional strategies of labor unions have become less effective. The chapter concludes by arguing that institutional reform and leadership competition can accelerate the slow pace of strategic innovation while providing a new role for labor unions in new democracies.

*From the Labor Market to the Political Market*

In the twentieth century, labor organized first in mutualist associations and later through unions. It started earlier where foreign investment in extractive activities and the association of employers prompted labor organization as well as in the urban centers of early industrializing nations. Immigration waves, which contributed to the supply of labor, imported labor organizers and provided new ideologies, such as anarchism and socialism. These imports contributed to the organization of labor unions. For the most part, governments and employers resisted and repressed labor organization, fearing distortions in labor markets, attacks on private property, and the threat of large-scale social conflicts. State repression curtailed workers' bargaining power on the shop floor while the limitations to universal suffrage restricted their citizenship rights in many countries. Thus, workers fought to organize for collective bargaining in the labor market, but did not pursue political strategies.

During the first half of the twentieth century, political liberalization changed workers' options. The expansion of suffrage made workers an electoral constituency for political parties. Elites' concern with the "social question" brought even non-labor-based governments toward the institutionalization of industrial relations. Moreover, in countries experiencing high political volatility, organized labor could become an important ally for aspiring political elites. The partnerships between politicians and labor unions provided the latter with channels to reach the state and the former with

Except in some particular cases of unions whose productive location made them strategic, industrial unionism was, in general, too weak to follow an economic strategy centered at the company level. Due to this weakness and the scope of state intervention, labor relations issues, such as work time, vacations, job mobility, and minimum salary have been subject to regulation rather than to collective bargaining between unions and employers (author's translation).

Not even the wave of authoritarianism that spread through the region in the second part of the twentieth century eroded labor preference for political strategies. Instead, when military rulers and repressive regimes hindered political strategies, labor unions politicized industrial action to counteract political repression. Because democratization became, in many cases, a precondition for workers' organization and collective bargaining, labor unions used strikes and mobilizations to resist military regimes. Their mobilization contributed to create a climate of social unrest during the process of political liberalization that preceded democratic transitions.<sup>10</sup>

There were early instances of anti-authoritarian mobilization. Venezuelan labor unions mobilized against the dictatorship of Marcos Pérez Jiménez, and in support of political liberalization, leading to the Punto Fijo pact and the inauguration of democracy in 1958. Twenty years later, Brazilian military rulers faced a "new unionism" (*novo sindicalismo*), which became an important democratizing force through the formation of the Workers' Party (PT). In Chile, Uruguay, and Argentina, organized labor also appealed to general strikes to protest against military rulers in the wake of the 1982 debt-crisis.<sup>11</sup>

In sum, political volatility, economic protectionism, and state intervention favored the politicization of Latin American labor unions. In turn, governmental elites perceived labor unions as one of the few organized groups in weak civil societies. Their reactions ranged from co-optation of political constituencies to repression of challengers to the established order. In either case, state reactions confirmed the importance of political strategies for labor unions, demonstrating that they could not ignore politics even if all union politicization was not provoked solely by left-wing ideologies or partisan co-optation. It was the response to a context that made political strategies more useful than industrial action. However, at the end of the twentieth century, economic liberalization and increasing capital mobility challenged the political strategies of Latin American labor.

### Economic Liberalization: Transformation and Challenges

The Latin American debt crisis and the recession of the 1980s triggered a process of economic liberalization in the region that challenged both labor

political strategies and their industrial bargaining power. In an effort to cope with the crisis, most Latin American countries began opening their economies and retrenching their states through privatization, deregulation, and decentralization of the provision of services.<sup>12</sup> Additionally, capital mobility increased at a much faster rate than labor mobility around the world. This situation increased labor insecurity even in countries with scarce capital due to growing financial volatility and competition for attracting mobile capital with cheaper labor costs.<sup>13</sup> These processes challenged labor unions' emphasis on states and national public policies. Meanwhile, union members suffered the costs of the transitions toward open and competitive economies as well as the dramatic changes in the organization of work provoked by the crisis of Fordism.

At the turn of the century, economic and industrial transformations were weakening the power of traditional labor unions. Economic liberalization and state reform particularly affected formal-sector workers; that is, the natural constituencies of labor unions. Trade liberalization sharpened differences among workers, in particular between those in tradable and non-tradable sectors and more and less competitive firms. This heterogeneity made it harder to organize workers based on horizontal solidarity. International competition and privatization also provoked labor restructuring and layoffs in sectors that had been among the most highly unionized in the past, thus reducing the relative influence of unions. Despite cross-national differences, higher unemployment, starting during the recession of the 1980s, further hurt labor bargaining power by increasing job insecurity for workers, as shown in Table 5.1. Even as the region emerged from the recession in the 1990s, unemployment continued to be high in Argentina, Colombia, Panama, Peru, Uruguay, and Venezuela. Indeed, even Chile, which had experienced a dramatic reduction in unemployment after the end of the 1980s recession, had an unemployment rate of more than 10 percent by 2000. The effect of unemployment is dual because it erodes the ranks of unions while increasing the competition between those employed and those searching for a job. This hinders the bargaining position of unionized formal workers as a result of the absence or insufficiency of unemployment insurance systems.

Perhaps more important, market reforms made workers more uncertain about their future labor market position, particularly in the protected and public sectors, which were the most unionized. Formal- and public-sector employment with the highest degree of unionization experienced the sharpest decline during the period of market reforms. During the 1990s, the informal sector grew by more than 3 percent as a percentage of urban employment.<sup>14</sup> Argentina, Colombia, Ecuador, Honduras, Mexico, and Peru, however, have informal sectors that are larger than the average. Additionally, the public sector shrank by almost 3 percent in the region (Table 5.2). The

to public managers or state bureaucrats dealing with labor unions. Strict budget constraints and production costs became more important than social unrest and political support. Thus, political influence lost relevance vis-à-vis labor market strength after the economic transition. Labor unions have to learn to deal with these new conditions while their members are suffering the cost of economic transition. Labor political strategies need to be reassessed in light of the new economic conditions, where collective bargaining may be more useful than pressure on a retrenching state.

However, because there is a difference between open and opening economies, political strategies and access to government can still be effective during the period of institutional reform commonly associated with trade liberalization and state reform. Governments wanted to implement the changes as quickly and smoothly as possible to make their economies attractive for capital. In this context, organized labor can demand input in institutional reforms or compensation for the costs of the transition. Hence, although in an already open and privatized economy unions' political influence loses effectiveness, organized labor could use its political clout during the process of institutional change. For this reason, partisan loyalties between labor unions and governments implementing market reforms were able to provide labor unions with policy input and compensations even as economic liberalization and deregulation reduced the influence of politics on economic activities and industrial relations.

### Partisan Loyalties and Labor Competition

The legacy of previous political strategies and alliances influenced the response of organized labor to economic liberalization. Previous interactions between labor unions and political parties created mutual expectation, which, in turn, shaped their interactions at the time of stabilization and market reforms. Labor unions trusted their allies when they claimed the need to implement these policies despite their costs to their constituencies. Hence, when partisan allies were in government, organized labor usually cooperated. Most labor unions accepted market reforms in Mexico under PRI President Carlos Salinas (1988–94), in Argentina under Peronist President Carlos Menem (1989–99), and in Chile during the administration of Concertación President Patricio Aylwin (1990–95). In contrast, when partisan allies were in the opposition, organized labor distrusted the government's goals with the new policies and usually rejected market reforms. The Brazilian Single Workers' Confederation (CUT), associated with the opposing PT, boycotted the stabilization attempts of President José Sarney (1985–90) and tried to sabotage the privatization efforts of Presidents Fernando Collor (1990–92) and Fernando H. Cardoso (1995–2002). The Bolivian Workers' Confedera-

tion (COB), controlled by left-wing groups, resisted market reforms under Víctor Paz Estenssoro (1985–89) and Gonzalo Sánchez de Lozada (1993–97), following a long history of hostility with the National Revolutionary Movement (MNR). In Uruguay, the Inter-Union Workers' Plenary—National Workers' Convention (PIT-CNT) associated with the FA also resisted adjustment efforts under Colorado President Julio María Sanguinetti (1985–90) and market reforms attempts under Blanco President Luis Alberto Lacalle (1990–95).

Although market reforms created similar challenges for organized labor in different countries, partisan loyalty or hostility to the governing party provoked different reactions to these policies. Partisan loyalties influenced the interaction between labor unions and governments implementing market reforms. The trust placed in labor allies or the distrust of long-term adversaries shaped labor perceptions of the trade-offs associated with market reforms and the unions' disposition for negotiating with the government. Labor unions were predisposed to collaborate with labor-based parties implementing market reforms although these policies created uncertainty and distress for their membership. They trusted the long-term benefits of these policies based on previous interactions with the governing party when political influence effectively compensated for industrial weakness to the benefit of union constituencies. Partisan loyalties also provided communication channels to inform labor leaders about the constraints faced by governing politicians.<sup>16</sup> Labor-based parties, therefore, had a comparative advantage in implementing market reforms because they were less likely to face labor opposition. Because labor-based parties wanted to keep this comparative advantage, they tried to avoid reforms that could facilitate the replacement of their labor allies from leadership positions within the unions. For that reason, they were less likely to reform the institutions that regulate collective bargaining and labor organization.<sup>17</sup>

In Mexico, during the administrations of Presidents Carlos Salinas (1988–94) and Ernesto Zedillo (1994–2000), and in Argentina, under President Menem (1989–99), several discussions and proposals sought to reform the regulations on labor organization and collective bargaining. In Mexico, a single labor code regulated individual and collective labor law and labor organization. Both the Salinas and Zedillo administrations left the labor code untouched. In Argentina, different laws regulated individual labor contracts, collective bargaining, and labor organization. This separation allowed the government to modify individual labor law regarding temporary contracts without touching the laws on collective bargaining and labor organization until 1998. That same year, Menem passed a reform that strengthened the power of national unions by centralizing collective bargaining, opposing demands of decentralization made by businesses and international financial

institutions.<sup>18</sup> Despite the zeal with which these administrations implemented market reforms and the fact that opposition political parties and private businesses also demanded changes in those regulations, reform of collective labor rights and regulations of labor organization did not occur. In these cases, labor-based administrations used their links with unions to facilitate economic liberalization and state retrenchment. Hence, they did not want to face the risk of breaking with labor allies that had supported the process of market reform.

Conversely, governments hostile to labor or competing with labor-based parties had more incentives to reform labor legislations. In Chile, military ruler Augusto Pinochet pioneered economic liberalization and state withdrawal from economic activities after he ousted Socialist President Salvador Allende in a 1973 coup. Pinochet banned a large number of unions and suspended collective bargaining and the right to strike. In 1979, under international pressure, he reformed the labor code to permit worker organization only at the company level as well as collective bargaining without unions. Although the law authorized unionization, it introduced important limitations in the activities and scope of unions. For instance, the 1979 law imposed restrictions on the organization of the public sector and temporary workers as well as banning confederations and any form of collective bargaining beyond the company level. In 1994, after the democratic transition, the Center-Left coalition Concertación, which controlled the Chilean Unified Workers' Confederation (CTU), reformed labor regulations. This reform facilitated collective bargaining and labor organization in an effort to reward labor allies that restrained their militancy and supported further economic liberalization and privatization. The 1994 law authorized unions within the public sector and abolished the prohibition on intercompany collective bargaining. It also protected union leaders from dismissal and facilitated union financing by demanding that workers who benefited from collective bargaining contribute 75 percent of union fees to avoid free riding.<sup>19</sup>

The influence of partisan loyalties in generating trust and facilitating collaboration between labor unions and governing parties was more apparent for the cases where labor allies were in the opposition. The lack of trust and communication between governments and labor unions usually resulted in labor resistance to market reforms. In Brazil, labor union resistance hindered the stabilization efforts of President José Sarney and boycotted market reforms under his successors. The mutual distrust of labor unions and non-labor-based administrations often resulted in repression of the former in order to implement market reforms. In Bolivia, President Paz Estenssoro resorted to a state of siege in order to impose structural adjustment on the bellicose COB. In Peru, President Alberto Fujimori (1990–2000) undertook market reforms against the resistance of left-wing and Aprista unions. Fur-

thermore, to counteract labor hostility, Fujimori passed labor reforms targeted at liberalizing the labor market and weakening labor unions. Therefore, partisan loyalties and trust influenced the interaction between organized labor and governments during the process of economic liberalization and state retrenchment.

In addition to partisan loyalties, leadership and interunion competition also shaped union-government interactions. Leadership competition within the unions weakened their tendency to collaborate with their partisan allies in the government during the period of economic opening. If opposition to market reforms attracts the electorate and union members, it may result in the growing influence of militant union activists who threaten to replace allied labor leaders. In this case, leadership competition could make allied labor unions more militant against market reforms. This was the case of the Venezuelan Workers' Confederation (CTV). Although a proportional representation electoral system allowed other parties in the executive committee, AD union leaders who had supported President Perez in the party primaries controlled the CTV. However, after Perez's announcement of market reforms provoked urban riots showing popular discontent, AD union leaders ceded to the pressures of left-wing activists in the CTV and called a general strike less than six months into his administration. Additionally, the growing influence of union challengers, associated with the left-wing Causa R, which opposed market reforms, continued to induce the militancy of AD union leaders later into Perez's administration. In contrast to the experience of Argentina's Menem and Mexico's Salinas, who were able to sustain labor support for the process, the opposition of the CTV contributed to the demise of Perez's market reforms.

Interunion competition or organizational fragmentation weakened labor bargaining power, and thus the capacity to achieve concessions of economic liberalization. Coordination problems made collective action of rival organizations more difficult and weakened their bargaining power. For instance, the Mexican labor movement was divided into several national confederations, all associated with the PRI, but competing for members outside the public administration (where the Federation of Public Services' Unions, or FSTSE, had a monopoly of representation). During the Salinas administration, government officials manipulated the competition among these rival confederations for scarce resources. Interunion competition allowed the government to make fewer concessions in return for labor quiescence, support in social pacts, and campaigning for the North American Free Trade Agreement (NAFTA).

Union monopoly, in contrast, strengthened labor bargaining power at the time of institutional reforms because it reduced coordination problems in the exchange of labor support for concessions. In the case of Argentina, the



General Labor Confederation (CGT) faced no interunion competition since its unification in 1992. Whereas before its unification, Peronist President Carlos Menem was able to play one faction against the other, after unification union monopoly strengthened CGT bargaining power and policy input. Organized labor succeeded in changing several laws, creating union pension funds, and modifying social security reform in order to restrict private providers from competing with union-run health funds. Additionally, privatizations included a provision for employee ownership with union administration that facilitated union purchase of companies in their sectors. Likewise, the reform of individual labor regulations introduced clauses that required union agreement for the use of short-term temporary contracts.

Therefore, partisan loyalties, partisan leadership competition, and interunion competition are important variables in understanding the interaction between unions and governments during a period of economic liberalization. We cannot assume a uniform labor reaction to the common challenges created by market reforms without considering these variables and their effect on labor influence in the process of economic liberalization.<sup>20</sup>

### Democratization and Leadership Competition

The simultaneous development of market reforms and democratization had important political consequences for the region's citizens, who gained access to government during the 1980s recession. The economic downturn and later the costs of the transition toward open economies frustrated citizens in new democracies and made democratic consolidation a more difficult task.<sup>21</sup> Organized labor not only faced the costs of economic liberalization but also discovered the erosion of its political strategies, which had been hidden during the democratic transitions, when politics became legal again.

The mobilization of labor unions and other organized groups (such as social movements) had more visibility during political liberalization undertaken in the final phase of authoritarian regimes.<sup>22</sup> Labor unions organized strikes and mobilized workers in public demonstrations against authoritarian rulers, pushing for the acceleration of transitions toward democracy. After democratic transition, elections rather than mobilization became the primary means of expressing citizens' preferences in new democracies. Labor protests were redirected toward policy implementation, but democratic elections focused on counting numbers rather than measuring the intensity of preferences. Moreover, economic liberalization made the number of workers in the most "unionizable" sectors shrink while business concerns and "free market" ideologies became predominant. Thus, aspiring politicians sought to gain the votes of a growing unorganized informal sector rather than those of a shrinking formal working class that had already established partisan loy-

alties. Weak democratic institutions further reinforced this process by facilitating the emergence of "new populisms" whose political support base was the informal sector as opposed to the traditional populist link with organized labor.<sup>23</sup>

Political liberalization also affected the internal dynamics of labor unions by providing more options for electoral allies and by creating an environment more favorable to the democratization of unions themselves. The experience of the *novo sindicalismo* in displacing the *Varguista* leadership in the Brazilian labor movement was linked to the process of political liberalization. In fact, in those countries where labor political strategies had been more effective, "incorporating" governments had regulated leadership competition to make the replacement of their loyal allies more difficult, thus controlling labor unrest. In those cases, the process of internal leadership competition was restricted and required legal changes. In Mexico, where labor unions had been associated with the seventy-year governing party, unions feared that democratization would reduce their access to the state and facilitate their replacement. Mexican union leaders thus resisted democratization because this process challenged the efficiency of their political strategies by increasing the risk of having the PRI lose power while prompting internal leadership competition within their unions.

In short, dual transitions toward open politics and economies created conditions that made the traditional political strategies of labor less effective. Economic liberalization reduced the bargaining power of organized labor whereas democratic politics reduced their political influence due to the emergence of new constituencies, shrinking ranks, and increasing independence of voters. Therefore, it was not only harder, but also less meaningful, to gain access to the state. Hence, the influence of organized labor declined in electoral politics and its access to the state became less effective in shaping work conditions.

### Labor Prospects in the New Millennium

Labor mobilization and political influence were able to affect the pace of economic and political transitions, but elections and industrial relations became more important once the transitions were over. However, because labor unions used political strategies during periods of political and economic liberalization, they were slow in adapting their behavior to open politics and economies. In fact, numerous unions resisted economic liberalization while refusing to change their strategies and discourses even in a context of dramatic institutional transformation and political decay. In cases where change in strategies occurred, they took one of three non-exclusive forms: (1) new political and social alliances, (2) organizational autonomy, (3) indus-

trial participation. The change in the environment and leadership competition create incentives for strategic innovation, albeit if at a slow pace.

The first strategy involved the formation of new political and social alliances. These alliances broke old partisan loyalties and resulted in workers participating in the creation of new political parties, extending their alliances to other popular sectors, particularly in the informal sector. These new labor groups rejected corporatist mediations and state control of labor unions. Subordination to state regulations offered less rewards than at the time of the original "incorporation."<sup>22</sup> Moreover, these labor activist ranks were challenging incumbent labor leaders who had maintained their control of labor movements helped by state regulations on union governance. In fact, due to the existence of such regulations, these new labor leaders had to break formally with the unions recognized by the state and claimed "autonomy" from the state. In Venezuela and Brazil, they called themselves "new unionism" and refused to join the national confederations associated with corporatism. In Argentina, they broke with the Peronist CGT and founded the Congress of Argentine Workers (CTA). In Mexico, the National Workers Union (UNT) joined union leaders with a long tradition of "independence" from the PRI with others who just had broken with PRI corporatism.

These new labor unions defined alliances with sectors of the population previously excluded by unions and with emerging political parties. They made efforts to reach out to the growing informal sector, the landless peasants, and the unemployed. They joined their efforts in popular protests against the uneven distribution of the costs created by adjustment and economic liberalization. Their relationship with political parties, though, was more diverse. Brazilian union leaders in the *novo sindicalismo* were at the core of the founding group of PT and their Venezuelan counterparts followed their example when organizing Causa R. The Argentine CTA union leaders participated in the creation of FREPASO and Mexican "independent" union leaders, for the most part, joined the Mexican PRD when it emerged. However, because the latter two were not labor-based parties as the PT and Causa R, labor played a minor role in defining the internal dynamic of these parties. Moreover, although these new parties enjoyed reasonable electoral success, they were unable to match the labor-based parties founded in the 1930s and 1940s. During the 1990s, the PT always came in second in presidential elections. In its best nationwide performance, Causa R won a fourth of the votes for the 1993 presidential election.<sup>24</sup> The PRD has remained the third party in Mexico, and although the FREPASO won the 1999 presidential elections, it did so in alliance with the traditionally middle-class-based Radical Civic Union (UCR).

A second strategy was organizational autonomy. It did not require breaking partisan loyalties or building new ones, but rather concentrating on use-

ful resources for the survival of the labor union organization after state retrenchment and economic opening. Unions offered services previously provided by the state to their members. To cover these services, they took advantage of their influence at the time of market reforms. Unions in privatized sectors that were most challenged by the economic transition have adopted this strategy in Argentina and Mexico. Some Argentine unions, for example, have participated in the privatization of state enterprises in their sectors. In Argentina, the oil workers' union owns the oil fleet of the former state-oil company Yacimientos Petrolíferos Fiscales (YPF). The electricity workers' union bought various public utilities and electricity transmission companies and received the concession of a coal mine while the railroad workers' union was granted the concession of a railroad. Along with other unions, they have created their own pension funds after the government enacted a pension reform, and have also reorganized their health care funds to improve competition. These new union-run "business" activities emerged from the market reforms implemented by President Menem and provided unions with resources to compensate for declining union dues while serving their members.<sup>25</sup> In Mexico, too, the teachers' union and the telephone workers' union abandoned their dependence on state-regulated social security. Instead, after breaking their official links with the PRI, they developed their own provision of services for members, including credit unions and other social benefits.

The third strategy, industrial participation, involves adopting new ways of implementing productivity and competitiveness with the involvement of labor unions and workers' input. The Union of Telephone Workers of Mexico (SIRMA) participated with management in the training of workers and the measurement of productivity while joining quality circles.<sup>26</sup> Causa R unions have introduced member voting on collective contracts.<sup>27</sup> In Brazil, the automobile unions of the *novo sindicalismo* led a process of mid-level corporatism with automakers, autopers, and autodealers' organizations around long-term restructuring programs that included union participation.<sup>28</sup> Despite these examples, most unions were either slow or failed to participate in the productive process with the aim of increasing productivity to keep their members' jobs. The reasons are twofold. First, market reforms lacked institutional incentives, such as worker councils, to foster such participation while employers were reluctant to share company information or decisions with labor unions. Second, labor unions accustomed to mechanisms of mobilization and political influence were slow to build the professional expertise necessary to sustain this third strategy. Furthermore, the costs of the economic transition made this strategy very difficult to follow in those areas where increases in productivity involved more layoffs than training.

Strategic innovation evolves only at a slow pace even though labor unions have become aware of the limitations created by traditional strategies. Even traditional unions are starting to distance themselves from their allied parties and strikes can still result in labor gains, particularly in the public sector. In Mexico, after the PRI lost the 2000 presidential elections, public-sector employees went on strike for the first time and were successful in obtaining a special bonus from the lame-duck administration of President Ernesto Zedillo. In Venezuela, despite the dramatic decline of AD and President Chávez's continuous attempts to co-opt unions, AD union leaders still controlled the labor movement and organized a successful strike in the oil sector, taking advantage of high oil prices in early 2000.<sup>29</sup> However, these were exceptions rather than the rule. For workers producing tradable products and in the private sector increasing international exposure curtailed the effectiveness of strikes. What are the elements that can facilitate strategic innovation in this context?

Leadership competition in open economies can accelerate innovation while increasing the voice of workers as citizens of new democracies, thus potentially reducing the political distress that increasing economic exposure creates. Liberalizing governments attempted to increase competitiveness by deregulating labor markets and reducing labor costs (e.g., by curtailing payroll taxes). However, there has been little institutional innovation to foster labor unions' involvement in increasing the productivity of the company (e.g., through work councils). Additionally, labor market deregulation, for the most part, did not target the rules related to leadership competition within unions.<sup>30</sup> Reducing the cost of leadership competition within trade unions to deal with Michels' "iron's law of oligarchy" would foster competition on what leaders can offer members in open economies, thus leading to innovation. However, governments seem to fear that militancy against economic liberalization would be the new "offer" provided by leadership competition to union constituencies.<sup>31</sup>

Leadership competition and rotation imply a trade-off regarding labor strategic innovation. Labor involvement in productivity and training or in the development of organizational autonomy requires specialization, which often creates an asymmetry of information. Asymmetries of information usually empower incumbent leaders and make leadership competition more costly. However, the fear of replacement can make leaders responsive to workers who should be involved in new work technologies associated with increasing productivity and worker involvement in production (e.g., flexible specialization, quality circles).<sup>32</sup> Moreover, at a time when workers face growing insecurity due to increasing exposure to international shocks in opening economies, union democracy offers workers the possibility to voice their concerns and have them expressed by their leaders. That is, union

democracy improves the quality of leaders (and probably provides checks on corruption) while giving voice to workers as part of an organized civil society.<sup>33</sup> In new democracies that are undergoing enormous institutional change and have weak civil societies, the inclusion of organized groups such as labor unions in the public debate could help to avoid disillusionment with the political process and provide more time for democratic consolidation.

## Conclusion

Latin American organized labor adopted political strategies at a time when these were more effective than industrial action. Political strategies were still somewhat effective during economic and political liberalization because labor unions could obtain concessions in return for facilitating the development of these processes. After the dual transition, these strategies lost effectiveness because labor costs became more important than labor peace for policy makers. At the same time, citizens' votes (including those of the unorganized poor) became more necessary to win elections than the mobilization of organized labor, further weakening labor unions' bargaining power vis-à-vis politicians.

Despite the decline in the effectiveness of their traditional political strategies, labor unions were slow to adapt to new circumstances. The reasons for the delay can be found in the institutional inertia of labor organizations after so many years of operating in a context where political strategies were useful. Additionally, labor leaders were concerned with maintaining leadership positions that risked being challenged by experimentation and innovation. At the same time, policy makers did not provide institutional incentives because their agenda sought to neutralize labor opposition rather than promote union innovation. In this context, the promotion of leadership competition could serve as an instrument for fostering innovation. However, government officials fear its effect on increasing militancy and managers worry about efficiency losses derived from the ensuing specialization. Nevertheless, because the challenges for Latin America in the early twenty-first century include democratic consolidation and competitive economies, the risk implied in leadership competition may be worth taking. Although the role of labor as umpires of some political systems has declined, responsive labor unions can give workers a voice in the workplace and in a strong civil society needed for democratic consolidation. Thus, dual transitions toward democracy and markets in the region may gain from similar changes in labor unions. Workers are being exposed to increasing economic competition. Political competition can strengthen their voice in the workplace and in the policy discussion of new democracies.