

**EXECUTIVE  
BOARD  
MEETING**

SM/17/352  
Correction 1

January 19, 2018

To: Members of the Executive Board

From: The Secretary

Subject: **Uruguay—Selected Issues**

Board Action:

The attached corrections to SM/17/352 (12/27/17) have been provided by the staff:

**Evident Ambiguity**

**Page 41 (para. 10, line 10)**

**Factual Errors Not  
Affecting the  
Presentation of Staff's  
Analysis or Views**

**Page 41(para. 10, line 1)**

Questions:

Mr. Martijn, WHD (ext. 38734)  
Mr. Gershenson, WHD (ext. 39618)



premium in that sector would prevent workers from reallocating into that sector, where their marginal productivity is higher.

**10. Existing evidence suggests that Uruguay's ~~poor~~ economic performance may be held back by inefficient functioning of labor markets.** A recent worldwide survey of executives ranked Uruguay 121<sup>st</sup> out of 137 countries in on labor market efficiency (Schwab, 2017). Within this category, respondents identified cooperation in labor-employer relations (rank 131), flexibility of wage determination (rank 135), hiring and firing practices (rank 126) and the effect of taxation on incentives to work (rank 132) as the most problematic issues. Kaldewei and Weller (2013) find that only 0.7 percent out of Uruguay's 4.4 percent yearly growth in output per worker between 2006 and 2011 could be attributed to the reallocation of labor from low to high productivity sectors, with the large remainder coming from productivity improvements within sectors. Cassoni, Allen and Labadie (2004) find that from 1975 to 1997 the wage bargaining processes in Uruguay inhibited the wage flexibility that would encourage workers to move between sectors. Wage bargaining in Uruguay occurs in each sector between firms and trade unions, with participation of the government. The sector-by-sector bargaining process artificially segments the labor market, which produces wage differentials between sectors for similar workers and thus prevents a dynamic reallocation of labor across sectors. A historical lack of representation in the negotiations of some firms and the unemployed means that agreed wages for any sector may not reflect the preferences of all such parties, resulting in an excess supply of workers at agreed wages.

**11. To analyze the allocation of labor resources across sectors of production, this study compiles new data on GDP, numbers of workers and production prices across sectors in Uruguay.** The data are compiled by combining information on sectoral GDP in current and constant prices, employment rates by region, sectoral distributions of employees by region, and regional population sizes. The source for these data is the Instituto Nacional de Estadística (INE). Assumptions are required to match the three different vintages of sectoral classifications. A full description of the data compilation appears in Annex I.

**12. Over the last two decades, these data show that the composite sector of transport, storage and communication has experienced the highest average labor productivity (20 thousand dollars per worker, in 2005 prices) and the fastest average growth in labor productivity (9.3 percent per year).** Table 1 presents summary statistics of these data, according to the six-sector classification explained in Annex I. Employment is concentrated in the public sector, which makes up four-fifths of the workers shown in the "Financial and Community" sector. The construction sector has experienced the highest average labor productivity when measured in 2015 prices, because there has been large output price inflation in this sector.