Center for Latin American Studies
University of California, Berkeley

From the Quantity to the Quality of Employment:
An Application of the Capability Approach to the Chilean Labor Market

Kirsten Sehnbruch
Visiting Scholar
Center for Latin American Studies
University of California, Berkeley

May 2004
Paper No. 9

WORKING PAPERS

clas.berkeley.edu
2334 Bowditch Street
Berkeley, CA 94720

The Center for Latin American Studies (CLAS) at the University of California, Berkeley publishes working papers and policy papers relating to Latin America. This series represents the diverse and coordinated activities of faculty and affiliated scholars at CLAS. You may order papers from us by sending a check or money order for US $5.00 made out to "UC Regents" along with the paper title and number to:

Working Papers Series
Center for Latin American Studies
University of California, Berkeley
2334 Bowditch Street
Berkeley, CA 94720

From the Quantity to the Quality of Employment:
An Application of the Capability Approach to the Chilean Labor Market*

Kirsten Sehnbruch
Visiting Scholar
Center for Latin American Studies
University of California, Berkeley

May 2004
Paper No. 9

*This paper was written for the Conference *"Justice and Poverty: Examining Sen's Capability Approach"* held at the Von Hügel Institute, St Edmund's College, Cambridge in June 2001. It will be published in 2004 by Cambridge University Press as a chapter of a book on Amartya Sen's work, which will include an introduction from Amartya Sen. I would like to thank Sabine Alkire, Flavio Comin, Dante Contreras, Javier Nuñez, Mozzafar Quizilbash and Claudio Santibañez for their helpful comments.

I. INTRODUCTION AND PURPOSE OF THE PAPER

In 1998, Amartya Sen was awarded the Nobel Prize for Economics for his contribution to welfare economics. This contribution has been all the more remarkable, because Sen's work on developing countries has had such a profound impact on how issues of development are now approached by the international development institutions such as the United Nations or the World Bank. Sen's central premise is that development should not be assessed through indicators such as GNP per capita, but that it should be measured in terms of human capabilities.

Sen argues that a commodity (such as food or monetary income) cannot be viewed as an indicator of human welfare, since the mere existence of a commodity does not by itself ensure that an individual has access to it. In his early work, Sen shows that all famines occurred in countries which had adequate supplies of food, but in which large proportions of the population could not gain access to this food, either due to problems of distribution or because they could not afford the available food.[1] Similarly, a high average level of per capita income in any given country does not preclude the existence of often severe pockets of poverty in this country.

In his approach to human development, Sen thus distinguishes between commodities, functionings and capabilities. Commodities are material goods that we need to survive, and functionings are what a human being can do or be with any given commodity, which in turn gives us the capability to live well.

This approach has formed the theoretical foundation of the Human Development

Indicators published by the United Nations Development Program every year. These indicators measure a combination of income, infant mortality, longevity and literacy, thus creating a more comprehensive indicator of human welfare than a mere measure of income.

This paper proposes to apply the capability approach to the case of the Chilean labor market. Before proceeding, however, a few words of explanation are appropriate as to why Chile, and specifically its labor market, provide an interesting case study for the capability approach.

Today, Chile, has reached a relatively advanced levels of development. Chile in particular developed very quickly during the last decade, averaging 7.8 percent annual GDP growth between 1990 and 1997 (i.e. before it was affected by the Asian crisis in 1998). It has also further improved other indicators of human development,[2] and has significantly reduced levels of absolute poverty,[3] although its distribution of income remains highly unequal. [4] Many analysts therefore regard Chile as a success story, to the point where it is often presented as a model for many other developing countries, especially in Latin America.[5]

Whether its presentation as a model is justified or not, it is certainly true that Chile has now reached a more advanced stage of development, and it is precisely the objective of this paper to apply the capability approach to an example with a significantly higher level of development than most of the other examples that have been chosen for illustrating Sen's capability approach so far.[6] This is because for a country like Chile, indicators such as longevity, morbidity and literacy have reached levels almost comparable to those of the most industrialized or developed countries. However, this does not mean that the standard of living in Chile is comparable to that of the latter countries, at least not for the vast majority of the

population. Other variables therefore need to be considered in order to monitor the progress of countries in such an intermediate phase of development. Often the quantitative indicators are no longer appropriate, and one has to turn to variables that consider quality at least as much as quantity, such as the quality of education, the quality of healthcare or, alternatively, the quality of employment.[7]

A further objective of this paper is to apply the capability approach to the labor market, a topic neglected by the development literature, as will be discussed below. Although both Sen and other analysts have written about the labor market in relation to the capability approach, their work mainly refers to issues of employment versus unemployment.[8] However, as the following section of this paper will show, applying the capability approach to the labor market in the same way that it has been applied to human welfare in general obliges us to look at the quality of employment[9] rather than merely at the quantity of employment, to wit the unemployment rate.

In addition, this paper uses the results of a survey specifically designed and implemented by the author to measure the quality of employment in order to create an indicator of employment quality, which then can be used as a tool for public policy making. Most of the examples to which the capability approach have been applied so far refer to historical scenarios and evaluate whether public policy (or public action, as Sen often refers to it (Dreze and Sen, 1989)) was capability enhancing or not.[10] What is rarely done is to attempt the reverse: to analyze a situation according to the capability approach and then form public policies based on these results. This paper proposes to show that this can be done by means of an index which would monitor the quality of employment over time, so that policy makers

can obtain a better idea of how a labor market is progressing and formulate their policies accordingly.

To recap briefly, the objectives of this paper are threefold: first, to apply the capability approach to country with a higher level of development than most of the examples that have been used so far to illustrate the approach. Second, to apply it to employment, an area which is very much neglected by the literature on development and welfare economics. And third, to apply the capability approach to a scenario in which it can be used as a policy making tool to capture the capabilities and functionings associated with employment far better than other measures such as an unemployment rate. The aim of these three objectives is to demonstrate the relevance and applicability of the capability approach as well as to highlight its potential for being used as a basis for public policy decisions rather than merely as a tool of retrospective analysis. The overall result of these objectives will be to broaden and stimulate the debate on labor policy in countries such as Chile, and direct attention away from the single variable of the unemployment rate to a summary labor market statistic, which will oblige policy makers to take into account a range of variables that are otherwise left unconsidered.

II. THE LABOR MARKET IN THE CONTEXT OF DEVELOPMENT THOUGHT

1. LABOR MARKET DEVELOPMENTS AS A FALL OUT OF OTHER DEVELOPMENT POLICIES

Within the area of development economics, the labor market is a particularly neglected topic, especially if we compare it with the attention that other policies have received. Standard textbooks on development either do not include chapters on the labor market at all (Todaro,

1994, Cypher and Diez, 1997), or they look only at very specific issues that lead to the typical segmentation of labor markets in developing countries into formal and informal sectors (Ray, 1998, and Meier and Rauch, 2000). This is not to say that the literature is unaware of the problems associated with employment in the development context, only that it has not focused on labor market issues as a priority, and instead has analyzed them as a fall out of other policies. This has led to a complete neglect in the literature of the link between employment and individual well-being.[11]

For example, a significant amount of research has been done on growth strategies, structural adjustment programs, privatizations, the liberalization of trade and financial markets, on the targeting of social policies, balancing budgets or on the effects of successive crises that have hit developing countries. In all of these cases, employment remains a secondary issue, and employment policies become a fall out of other economic policies. The literature therefore rarely goes beyond looking at the quantity of employment (or unemployment rates) and wage levels.

Even in the Chilean literature, which has produced extensive analysis on the country's labor market, the focus on employment rates and income levels clearly predominates.[12] In the Chilean case, analysts typically discuss employment in relation with the economic crises of 1975 and 1982, showing how a more flexible, deregulated labor market and a liberalized economy in 1982 allowed the unemployment rate to decline faster than after the 1975 crisis. The quality of the jobs created in order to bring about this rapid decrease in the unemployment rate is, however, rarely mentioned.

This type of interpretation is misleading as it leads to the premise that economic growth

solves the problems of unemployment. This is not necessarily so, and in cases where growth does lower unemployment it may do so only to an extent. One of the main problems with the early development models, especially in Latin America, was that despite the relatively high growth rates achieved, not enough employment was created to absorb the rapidly growing labor force, nor the labor force migrating from rural to urban areas (Meier and Rauch, 2000). Nor were the benefits of growth always widely spread to the lower income groups. In addition, growth in the developing world has been achieved through much capital investment. This is particularly true of Latin America given its comparatively high labor cost. The more competitive developing countries have had to become in the globalized markets, the more they have had to make their production more efficient. In Latin America especially, this has meant investing in fixed assets and cutting labor cost, rather than investing in human resources which might take longer to develop and pay off.[13] Economic growth in the Latin American countries and the creation of jobs are not necessarily correlated, and we should therefore focus on how and whether the benefits of growth are passed on to the individual through employment.

Since 1969, the International Labor Organization (ILO) has attempted to promote the creation of jobs through the World Employment Program by sending out several country missions to explore ways of creating more jobs in developing countries. But this does not seem to have led to a shift in development policy making, which in general has consisted more of short term crisis management and band aid solutions than thoughts about long-term development. In the context of Latin American development economics, labor policy has been even more neglected than elsewhere, as the continent as a whole, Chile included, has

lurched from one economic crisis to another. Many analysts have therefore focused predominantly on stabilization strategies and different methods of overcoming the region's vulnerability to external factors (Eßner, 2000).

So unemployment rates remain the main point of focus in the literature,[14] even though it has been evident for a long time now that unemployment is not really the main problem that labor market policy in developing countries has to deal with. Already in 1981 Paul Streeten wrote that the concepts of

> employment and unemployment make sense only in an industrialized society where there are employment exchanges, organized and informed labor markets, and social security benefits for the unemployed who are trained workers, willing and able to work, but temporarily without a job.… "Employment" as interpreted in industrial countries is not the appropriate concept … to afford to be unemployed, a worker has to be fairly well off. To survive, an unemployed person must have an income from another source. The root problem is poverty, or low-productivity employment, not unemployment. Indeed, the very poor are not unemployed but work very hard and long hours in unremunerative, unproductive forms of activity. This discovery drew attention to the informal sector in the towns. … these people often work extremely hard, are self-employed or employed by their family, and are very poor. … the problem then was redefined as that of the "working poor." (Streeten, 1981: 12-13)[15]

In other words, the *quality* of employment matters as much as the *quantity* of employment. Policy focusing exclusively on unemployment rates is overlooking the "working poor." In order to fully understand the arguments that follow below, it is necessary to consider the role of employment in the context of developing countries from this perspective. We will then be able to appreciate why labor market policy is so important if people's capabilities are to be expanded.

2. THE LABOR MARKET AS A VEHICLE OF DEVELOPMENT AND EXPANDED CAPABILITIES

The labor market is, in fact, the principal vehicle which passes economic and social policy on

to the individual, and thus helps to generate capabilities. It should therefore not be overlooked but specifically included in the context of the social policy debate.

The diagram below illustrates how the labor market functions as a crucial link between economic and social policy on the one hand, and individual well-being on the other. The supposition is that a sensible economic policy generates economic growth, which in turn creates jobs and determines wage levels. And the quality of the jobs an economy creates will determine a range of other factors associated with employment, especially income, but also its level of formality and other employment conditions, thus determining individual capabilities and welfare. Economic policy is therefore passed on to the individual through the quality of employment.

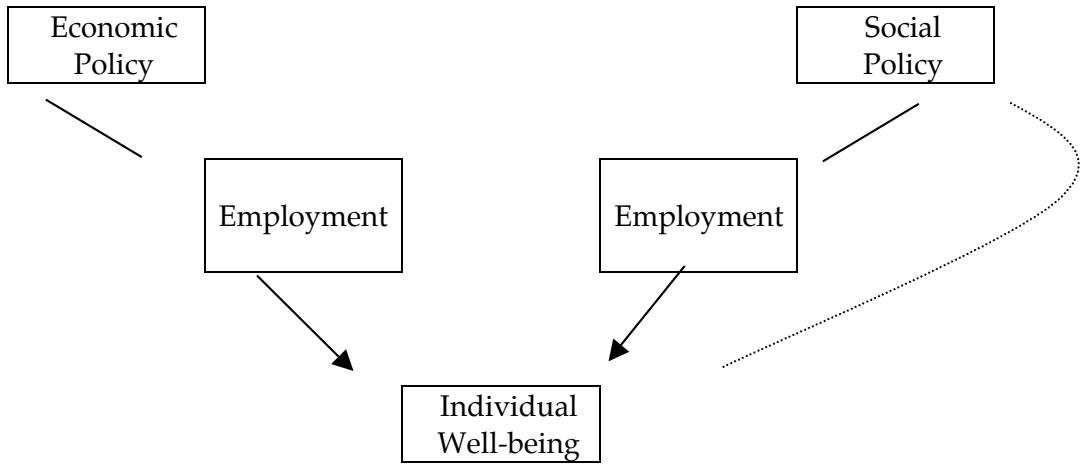
Similarly, the diagram supposes that social policy is passed on to the individual level via the same path: i.e. via the job held. This point, however, requires some contextualization. Social policy, as it is to be understood in this context, encompasses two aspects: benefit payments on the one hand and social security structures on the other. The latter determine, for example, whether pension and health insurance systems are public or private, and under which conditions a person can contribute to or benefit from them. These conditions generally depend on the employment status or contract of the individual. So the level and type of benefits is therefore clearly linked to her terms of employment.

Generally speaking, developing countries have a limited ability to afford fully-fledged welfare states, which can support individuals through any personal or economic crisis. Although state subsidies do exist in many developing countries, they are rarely enough for the individual to live on without an additional source of income (e.g. support from other

family members or odd jobs). And furthermore, even these limited benefits often depend on the type of job a worker holds.[16] So according to this model, benefit payments only impact individual well-being on the margins (represented by the dotted line in the diagram).

It is therefore the general structure of social security benefits that has the greater impact on the individual's well-being, and not specific benefit payments made by the state.

Figure 1: Passing on Economic and Social Policy to Individual Well-Being Through Employment



Yet apart from these basic benefits (health and pension insurance and education), the type of job held also determines a broad range of other entitlements that impact the welfare of the individual. These include issues of legal protection against unfair dismissals or the contravention of other regulatory conditions, insurance in case of accidents, representation through unions, maternity benefits and childcare facilities,[17] or working hours and schedules. Above all, the type of job held will determine the level of financial compensation the individual is entitled to if made redundant for economic reasons.[18] The self-employed, for

example, are excluded form all of the benefits enumerated here.

These mechanisms illustrate that the structure of social policy is passed on to the individual predominantly through the labor market. This illustrates the important role of employment and labor market policy both as a filter for economic wealth and social security benefits as well as a determinant of other factors that contribute to the individual's well-being. While these are by no means the only factors that contribute to a person's welfare, these arguments show that the factor employment must form an integral part of the capability approach. If we thus consider the labor market from this perspective, we must consider job characteristics as much as whether a person has a job. This leads us to the concept of *quality of employment,* which implies a comprehensive and all-inclusive approach to the labor market that considers all aspects of work.

Before discussing how the quality of employment should be defined, a few other issues related to the labor market should also be pointed out that are relevant to the capability perspective. First, the quality of employment impacts the capabilities of everybody in a household who depends on the person working. If a household's principal earner has a stable job with a regular income, this often enables other household members, especially children and young adults, to pursue other tasks such as education. If the principal earner loses his or her job, or has an unstable job with irregular income, children and young adults especially join the labor force sooner, often without completing their education or acquiring a higher qualification.

Second, the quality of employment is important not only due to reasons of individual welfare, but also because of importance to society as a whole: employment is an important

"space," using Sen's expression, in which inequality manifests itself, not only through unemployment rates but also through the job characteristics themselves.19 Variations in the quality of employment lead to wage inequality and to inequality of social security and benefits. Thus, fostering the quality of employment at all levels of the labor force enhances social equality, which in turn, as Stewart shows, increases economic growth and improves social cohesion (Stewart, 2000). Together all of these factors can result in more capabilities for the individual.

Third, "high quality jobs" are generally also the most productive and require a higher level of skills on the part of the workers. This makes them positive contributors to economic growth, productivity and development, and they can thus help to generate more capabilities for the population as a whole.

Fourth, to developing countries a labor policy strategy is even more relevant because they have to adjust to conditions of global competition without ever having reached the standard of living attained by more developed countries. In terms of employment conditions, this means that they have never reached certain minimum standards for the labor force as a whole. A segment generally referred to as the "informal sector" has always remained marginalized, both in terms of holding lower quality jobs as well as being excluded from most provisions of labor market legislation. Without a specific effort to integrate this segment more fully into the labor force, tougher competitive conditions will penalize it further, thus increasing its marginalization.

All these arguments together illustrate why it is so simplistic to think about the labor market in terms of unemployment rates and wage levels, as has indeed been recognized in the

literature by some experts. This leads us to the question of what alternative can replace the traditional indicators and how this alternative is to be constructed. The following section discusses how the capability approach transforms the way employment should be viewed, and defines the quality of employment based on this view.

III. APPLYING THE CAPABILITY APPROACH TO EMPLOYMENT: DEFINING THE QUALITY OF EMPLOYMENT

Sen has discussed employment in terms of capabilities himself in his work. In his early writings, he recognized work as one of the key components of the entitlement exchange ("own labor"). Work and the income we receive in return for "selling our labor power" generate functionings, capabilities and ultimately utility for the employed person (Sen, 1981: 2 and 46). Selling their labor power in one way or another is the only input into the entitlement exchange that the vast majority of people have at their disposal. This is particularly true of more developed economies, like Chile, where subsistence farming and sharecropping have been virtually abandoned. From the very beginning, employment has thus formed an integral part of the capability approach. Aside from what public policy can provide by constructing an appropriate infrastructure (e.g. health or education facilities), work, and the human capital that is its prerequisite, are the individual's principal input factors into his or her own function of well-being, as well as into that of any dependants.

The importance of employment has also figured in Sen's writings on unemployment and its associated deprivations, particularly in the context of inequality (Sen, 1997 and 1999). While recognizing the benefits associated with work other than income (e.g. as an opportunity of having a fulfilling occupation), he mainly contrasts not having a job with

having a job, and thus considers unemployment as one of the "spaces" in which inequality manifests itself.

In an address to the International Labor Conference in Geneva in June 1999, Sen recognized the importance of the concept of "Decent Work" launched by Juan Somavía, the Director General of the ILO. This concept considers every aspect of employment, e.g. working conditions, rights, social dialogue, personal goals and self-realization as well as more standard measures such as income. "Decent work" implies far more than just having a job: it implies "*opportunities* … to obtain decent and productive work, in conditions of *freedom, equity, security and human dignity"* (ILO, 1999: 3, author's italics). Beyond the quality of work, Somavía therefore also proposes a rights-based formulation of employment, so that the concept of decent work transcends the concerns of labor market legislation to include social ethics. The concept is thus related to Sen's own capability approach as it considers not only the availability of jobs, but a broad range of aspects associated with work that the individual has reason to value.

However, a true application of the capability approach to employment would go beyond even such as broad definition as the ILO's "decent work" concept. What the capability approach would add to this perspective is first of all the inclusion of those personal and social factors that influence the individual's capability to convert the characteristics of a particular job into a set of achievable functionings. For example, losing one's job in a country of the EU with high social security provisions is not the same as losing it in Chile, where there are next to none. Similarly, the capability approach would add the circumstances of the individual into the equation, particularly the number of family members dependant on the

worker. It would further include the freedom that the individual has to convert these characteristics into a set of functionings. And finally, it transforms the decent work concept into an ends based approach rather than being merely means based, i.e. the workers become the ends themselves, and not, for instance, the income they earn, or the type of job they have.

If we are to consider the quality of employment according to the capability approach, the concept should therefore be defined as *the capabilities and functionings generated by a job,* capabilities and functionings, which the individual has reason to value. This definition is the direct consequence of applying the capability approach to employment, or, to put it differently, it is the definition that integrates employment into the framework of the capability approach. It is an all-inclusive definition, one that defines employment in a manner which properly reflects its implications beyond income generation in the broadest possible terms and applies a different perspective to the labor market than those habitually considered in the literature.[20]

In his work, Sen typically mentions some general capabilities that the individual has reason to value, as well as some basic capabilities that are necessary to the individual's mere survival. Among the former he categorizes the ability to participate in the life of the community, the ability to appear in public without shame, and among the latter are the capabilities of being adequately fed, housed and in good health. Work provides us with a set of capabilities very comparable to these examples. Any psychological study of the effects of unemployment on the individual illustrates that work provides us with a series of factors other than the basic income which provides the means to our survival.[21] Issues such as self-respect and self-worth, personal growth, social integration and participation are some of the

key functionings generated by work. In addition, we must consider the more basic functionings of being fed, housed, healthy and assured future income (e.g. through job security, pension, disability and unemployment insurance). These factors are not solely dependent on the income earned from employment.

Figure 2 below has been adapted from a similar tabulation in Clark's paper on the capability approach, and it originates in Sen's own writings. It shows how the characteristics of certain commodities, or of a job, turn into functionings following the intervention of certain personal and social factors that depend on the situation of the individual, resulting ultimately in utility for the individual.

Figure 2: The Conversion of Job Characteristics Into Utility
Intervention of Personal and Social Factors

Commodity/ Activity	Characteristics	Functionings →	→ Utility
Bike	e.g. Transportation	e.g. Cycling around	e.g. happiness or desire fulfillment
Bread	e.g. Provides nutrition	e.g. Living without a calorie deficiency	e.g. happiness or desire fulfillment
Job	e.g. Income	e.g. Provides purchasing power, ensures standard of living	e.g. happiness or desire fulfillment
	e.g. Type of Contract	e.g. Gives a degree of legal protection against employer abuse	
	e.g. Health Insurance	e.g. Provides health services when ill	
	e.g. Pension scheme	e.g. Income security in old age when retired	
	e.g. Duration of employment	e.g. Gives a degree of security against dismissal (in Chile and many other LDCs)	
	e.g. Training received	e.g. Facilitates career progression	

Source: the examples "bicycle" and "bread" are quoted in Clark (2000) who draws them from Sen (1984, 1984a and 1985). The other examples are based on the author's own elaboration.

The quality of employment is thus a function of all the characteristics listed above (and many more) which leads to a given set of functionings and utility. This leaves us with a clear and simple — although not easily applicable — definition of what constitutes *quality of employment.*

Any overview of the literature on labor markets shows that a comprehensive approach to the labor market like this one is rarely applied in practice, least of all in the case of developing countries. The ILO's own publications, but also those of other international

organizations, show to what extent information is nonexistent so that the concepts which examine or require a broad range of employment variables cannot be applied to existing data.[22]

Apart from the lack of data, however, labor market analysts are also faced with a lack of definition. Not even the ILO's publication dedicated to the discussion of "Decent Work" contains a specific definition of the concept, let alone suggests a method for how it can be measured. The very comprehensiveness of the concept can thus also be seen to constitute its main weakness: critics can easily argue that it is too general to be practically applicable. And if decent work is not measurable, then how is the quality of employment to be measured, given that it takes into account an even broader and more diverse informational base?

The literature on the subject has made many attempts to come to a coherent definition of what has interchangeably been called "decent work," "quality of employment," or simply "good jobs," but so far, it has not found a standardized formula, since these terms not only mean different things to different people, but also vary according to the definition of the respective social actors.[23] Bastelaer and Hussmanns (2000) define quality of employment rather vaguely as a "set of characteristics that determine the capability of employment to satisfy certain commonly accepted needs" while Rodgers actually specifies a list of variables.[24]

In practice, these variables have never been combined to form an index. Experts from the ILO and Eurostat[25] would prefer to view these variables separately without making any attempt to create a combined index.[26] At a conference on the measurement of the quality of employment, they reached the conclusion that it is impossible to include every aspect related

to the quality of employment in a single indicator. Instead they summarize all the main indicators that should be generated on each separate aspect of employment, e.g. in the area of training, contracts or social security coverage. (Bastelaer and Hussmanns, 2000). Their views are echoed by Beatson, for example, who examines the subject with regard to the British Labor Force Survey and the 1998 Workplace Employee Relations Survey (WERS). After a detailed review of all the variables that form part of employment quality, he concludes that "Job quality as a cut-and-dried concept is not feasible unless one is prepared to make *value judgments* about how important different job characteristics are in relation to each other (Beatson, 2000: 448, my italics)."

This leaves any labor market analyst with a broad range of very detailed statistics which are almost impossible to summarize in any coherent or concise format. It is difficult to refute the arguments reviewed above regarding the impossibility of combining *all* these statistics in a single indicator, yet, they leave us with the question of what do we look at if we are not experts and want to get a quick impression of the situation of a labor market?

This point brings us back to the example of Chile and of how this problem surfaced there during its recent economic downturn, during which the unemployment rate virtually doubled in the space of one year (1998–99). Typically, it is the press which looks for a single figure and then stimulates public debate and opinion, which in turn orients public policy. Accordingly, the only figure that the Chilean press ever commented on during the downturn was the unemployment rate. And consequently, the only figure that public policy seemed to focus all its attention on, especially as this was during an election year, was the unemployment rate. This means that only this one facet of the employment crisis was

commented on. Other factors, such as underemployment, the sudden informalization of jobs, or large shifts towards contingent employment, were ignored by the commentators. And this in a country where an employment crisis will fill the capital's public transport vehicles with ice cream vendors almost overnight.

This type of problem raises the question whether it would not be better to create a more inclusive indicator of labor market developments after all, even if we have to recognize that such an indicator cannot ever be a faithful reflection of all the characteristics of employment and the preferences and circumstances of the individuals employed. The authors who criticize this approach for being impracticable base their views on the very ambitious objective of being comprehensive, i.e. of reflecting every aspect of a job in an indicator. A more simplistic approach is both more practicable and still useful.

A similar debate emerged regarding the measurement of human development and welfare and has been extensively discussed in the literature, especially with regard to the construction of the Human Development Indicator (HDI) first proposed by the UNDP in 1990. In his preface to ul Haq's *Reflections on Human Development*, Streeten writes: "Such indexes are useful in focusing attention and simplifying problems. They are eye-catching. They have considerable political appeal. They have a stronger impact on the mind and draw public attention more powerfully than a long list of indicators combined with a qualitative discussion. The strongest argument in their favor is that they show up the inadequacies of other indexes, such as gross national product (GNP)" ul Haq, 1995: xi). The same could be said about a quality of employment indicator.

Sen's capability approach has been widely recognized for being instrumental in shifting

the debate on development away from measures of income per capita to a broader range of indicators, the improvement of which individuals have reason to value. He has argued his case in numerous papers.[27] And the inclusiveness of his approach has not prevented it from being applied in practice.

It has thus become an accepted wisdom that it is not enough to talk about income per capita when thinking about economic development, but indispensable to include other variables in the debate, specifically variables that enhance the capabilities of individuals (e.g. education), as well as variables that humans have reason to value for their own sake (e.g. longevity).

As employment has an important impact on the quality of life and on individual well-being, Sen's arguments are all relevant to the debate about how to look at the labor market as well. In the same way that GNP/capita is a very narrow measure of well-being, the unemployment rate is too narrow a measure to capture the development of the labor market as it fails to consider any other aspect of work other than its availability. Moreover, looking at the labor market only from the perspective of unemployment rates is as simplistic and arbitrary as analyzing human well-being only from the perspective of income levels.

These arguments show just how much the capability approach obliges us to focus on a broader concept of employment, and consequently that labor market policy is, or should be, part of any development policy that aims to enhance capabilities. It is therefore as simplistic to focus only on unemployment rates when considering the labor market as it is simplistic to focus only on income per capita when considering the development of a country or the well-being of its citizens. A more inclusive approach to the labor market therefore will not only

consider the quantity of employment (i.e. unemployment and employment levels), but must also consider the characteristics of this employment.

The capability approach forces us to ask different questions about employment that are far wider ranging than those ordinarily asked. We cannot simply observe the participation rate and its development, but must ask whether all people who want to work are capable of doing so. This includes the inactive in our universe. Similarly, it is not enough to consider the unemployment rate, but must ask whether the unemployed have the capability to successfully reintegrate themselves into the labor market, without getting stuck in a segment of precarious employment. And rather than simply looking at the employment rate, we must also consider the quality of jobs, i.e. the functionings and capabilities that they generate. Most importantly, this considers what individuals can achieve with a given set of job characteristics, which means that their needs and personal circumstances are taken into account. This makes the capability approach the only one to focus on human development as an end, not as a means. By defining capabilities as the space of comparison, it asks what the means are that we need to foster in order to achieve certain ends.

IV. APPLYING THE CAPABILITY APPROACH TO EMPLOYMENT: FROM THE QUANTITY OF EMPLOYMENT TO THE QUALITY OF EMPLOYMENT

One obvious problem with applying the capability approach to the labor market is that employment indicators are not as clear cut as the indicators of well-being that Sen looks at. For example, we can agree that the longer we live, the better, i.e. a longer life and lower morbidity rates are desirable. The same goes for education: it is difficult to disagree with the intrinsic value of education, if only for its own sake. Similarly, it is difficult to disagree with

the idea that a higher level of income generally offers the opportunity for realizing more functionings and enhances capabilities.

However, the desirability of different job characteristics depends largely on the personal needs and circumstances of the worker. A few simple examples will illustrate the point: a part-time job requiring late afternoon shifts may be perfect for a student wanting to earn extra cash. Yet the same job would probably be a highly unsatisfactory one to the same student once he has graduated and is aiming to build a career. Similarly, a job offering a short term contract for the duration of a project may be perfect for a young person not yet sure of what she wants to do and without significant financial commitments. Yet the same job with a high degree of insecurity may be a cause of stress to an individual who heads a household and has to provide a steady flow of income to finance a mortgage or the education of children. As for social security, how many people would prefer to not pay their contributions, and rather run the risk of falling ill or growing old without protection, simply because they consider cash in hand now to be preferable to future income? In the case of Chile, 75 percent of the self-employed take this view.[28]

So even for the objective criteria (e.g. type of contract or social security coverage) there is no straightforward and objective order of preference in the answers. In addition, we have to consider the criteria that would perfectly legitimately form part of the concept of quality of employment, whilst being totally subjective. These include job satisfaction, career development, personal fulfillment, job stability, or levels of responsibility. Again, one can take the view that these can be measured objectively, if one were to assume average criteria, but by and large, these criteria are subjective by nature.

So where do we draw the line?

Rather than determining this line from the outset, this study took the reverse approach of gathering as much data as possible, and then, defining which should be considered as the most fundamental and important characteristics that generate employment quality based on its analysis. Second, in deciding to apply the capability approach, the only limitation applied from the start was to restrict the perspective to that of the individual worker (excluding employers or the government), since it is individual welfare that we are concerned with here. Third, it should be emphasized at this point that any measure of the quality of employment has to limit itself to focusing on the characteristics and associated functionings of employment, and cannot hope to measure capabilities themselves. The concept of capabilities is simply too complex. If all the characteristics of employment were to be taken into account, together with all the different potential sets of needs or preferences of individuals in order to assess the capabilities that they can generate, we would indeed end up with a practically inapplicable research task.[29] Budgets and time constraints oblige us to take a more limited view.

The first step of this work was thus to undertake a detailed study of the labor market data available in Chile and assess what sort of additional information would ideally be needed in order to consider the quality of employment. The second phase of the research then consisted of designing a survey questionnaire that could produce information on the quality of employment, without abandoning the capability perspective as an approach, but accepting that the research criteria would have to be narrowed down to a practicable range: the simpler the better. A survey was therefore constructed that, while unable to take into account every

single possible characteristic of work that generates functionings, would at least include the most important ones, and also enable us to assess which have the biggest impact on the employment situation of the individual. In addition, the objective was to make the research carried out on Chile applicable to a wider range of developing countries.[30] The survey also included a section of questions applied to the unemployed, which enquired amongst other things after the characteristics of their previous employment.

The survey results most pertinent to this paper were that apart from a sharp increase in the unemployment rate between 1998 and 1999, the economic crisis mentioned in section III of this paper brought about some very sharp changes in other employment characteristics. Tables 1 and 2 in Appendix I provide examples of how the characteristics of the jobs created during these two years changed very dramatically. For example, there were sharp declines in the proportion of new jobs created during 1998–99 with open-ended contracts (down from 42 to 21 percent). Similarly the proportion of jobs created which contribute to a pension plan fell dramatically compared to the previous year (61 to 47 percent). Conversely, the proportion of atypical jobs and jobs without contracts or social security contributions increased. These developments also produced a deterioration of the job characteristics of the labor force in general.

Given these results and the fact that they were not considered (and still are ignored) both by public debate as well as public policy makers, the idea of forming an indicator of the quality of employment, which would include all aspects of these developments, seemed even more pressing. Even though this paper refers to the results of the survey, it cannot present the extensive range of tables that this survey generated in any detail.[31] However, it is the careful

analysis of these results that lead to the selection of the component variables of the indicator presented below.

V. RESULT: AN INDEX OF THE CHARACTERISTICS RELATED TO THE QUALITY OF EMPLOYMENT

The objective of simplicity guided the conceptualization of this index with the aim of making it easily understandable and replicable. The index will first be presented here in descriptive form before explaining how the variables were measured and the reasoning for constructing it in this way. (Appendix II presents a more formal tabulation of its composition.)

The following employment characteristics were chosen to be included in the index:

1. Income
2. Social security coverage
3. Contractual status
4. Employment stability
5. Professional training received

All five variables were standardized into three subcategories, each of which were awarded zero, one or two points. The points scored for each variable by the members of the sample were then added up (leading to a range of 0-10 points) and divided by five thus allocating every person in the sample an individual score. The higher the individual's score, the better the quality of employment. This method also means that all variables included in the index are equally weighted, an issue which will be discussed in section V.6.

The five component variables of this index and the rankings of their various subcategories were chosen for the impact they are likely to have on the functionings and capabilities of the individual, either due to the nature of the variable itself or due to the

regulatory issues attached to it. We will look at each variable in turn to explain how it was measured and why it was included in the index.

1. INCOME

The data on income was obtained by asking for the last monthly wage received by the respondent.[32] Wages were then divided into three categories defined as multiples of the minimum wage: less than two minimum wages, two–four minimum wages and more than four minimum wages. They were calculated on an hourly basis net of taxes and other deductions.

In the case of income, the choice of the variable and its scores are relatively obvious: income covers basic needs and creates functionings and capabilities, and more income is generally better than less. The individual subcategories of the variable expressed in multiples of the minimum wage were chosen as arbitrary cut off points and because measures of poverty levels could not be taken into account as the survey did not gather household income. The classification assumes that anything less than double the minimum wage is not enough to constitute a decent level of income based on the author's calculation of the income needed to satisfy the basic needs of a 4 person household. The average wage at the time of the survey in Chile consisted of about 2.5 minimum wages. Although this constitutes the average wage of the labor force, it still cannot be considered a "good" level of income, a category which starts at more than four minimum wages.[33] It is important to note that all workers earning above a certain cut off point (in this case 10 times the minimum wage is considered appropriate) are automatically considered as part of the high quality employment category, as this amount of income allows them to take care of all necessary expenses, such as pension and health

insurance. Furthermore, jobs in such an income category record almost without exception the best employment conditions in all the other variables.

Ideally the stability of income should be included in this indicator as well, but this variable is more complicated to measure than the level of income. It is therefore assumed that the stability of income will be picked up by the other component variables such as, for example, the variables tenure and type of contract. One of the reasons why self-employment scores fewer points than the salaried sector is because its income flow is less stable and predictable. Also, whether the individual is contributing to social security or not is an indicator of income stability as workers with irregular incomes generally do not contribute.

2. Social Security

Social security coverage refers to whether or not the individual was contributing to a health insurance scheme, which could be either private or public. Contributions also had to be up to date.

As the correlation between those who contribute to a health insurance scheme and a pension scheme is almost 100 percent since employers deduct contributions either to both or to neither from the worker's wage, only one of the variables is used in the index. Including pension insurance separately would effectively mean according social security a double weighting. The variable health was chosen above pension contributions, mainly because with a health insurance plan we can distinguish between public or private insurance.

The reason for including contributions to health insurance are relatively obvious as it is one of the most important inputs into the functionings and capabilities of the individual. Sen

himself has focused on the variable health as a fundamental input into the capabilities of the individual in all his work related to welfare.[34] As the public emergency services for the extremely poor only provide minimum coverage, contributing to an insurance scheme must be considered a priority, even if many workers do not agree, or optimistically believe that they will never fall ill and therefore decide they do not need an insurance plan.

The score allocated within the variable is dictated by the quality of services to be expected by the type of insurance coverage. A private insurance generally delivers better services than the public system, which in turn provides a better service than the emergency scheme which covers those not insured.

A number of other variables that would perhaps normally be considered to be part of social insurance are excluded from this index. They include insurance for accidents and illness at work, unemployment insurance and other forms of benefits or income support. In Chile, any insurance related to accidents and health risks at work is covered by a separate insurance system that the employers pay for. It can generally be assumed that all wage-earners with a written contract will be covered by such insurance, so that the issue is covered by the variable contractual status. As regards unemployment insurance, the best variable for capturing its coverage is the combination of the variables type of contract, tenure and the level of income. And income support (e.g. family allowances) again depends on whether the individual has a written contract.

3. CONTRACTUAL STATUS

The variable “contractual status” considered whether the respondent had an open-ended contract, an atypical contract (either short-term, project based or fee paid), or no written

contract at all in the case of wage-earners. In the case of the self-employed, the variable considered whether they were employers or self-employed. The self-employed were divided into professional or non-professional self-employed according to whether they had attained a higher educational qualification or not. Given the structure of Chilean labor legislation and its social security systems, almost all working conditions depend on the contractual or occupational status.

The contractual status of a worker must be considered as one of the most important aspects of the employment relationship because the individual's legal protection is largely determined by the type of contract, and indeed by its very existence in written form.[35] A salaried job without a contract is considered the worst situation, even though the job may be relatively stable, or relatively well paid, simply because the worker would not be covered by the labor statutes. In addition, a written contract or documented income is a prerequisite for subscribing to any health or pension insurance plan, so that not having a contract automatically implies a lack of protection in that sense, too. Apart from that, for employers the point of not giving their workers written contracts is to avoid the payment of social security contributions, while for the employee the motivation for accepting such work is often to take home more pay in cash by not paying the contributions.

An indefinite contract scores more points than an atypical one, not because it is considered preferable *per se*, but because it is the only form of contract that assures some form of compensation and legal protection in case of loss of employment, which in practice acts as unemployment insurance. For the majority of workers with atypical contracts, it can be assumed, that they are obliged to look for a new job every year as, in theory at least, it is

forbidden to renew short-term contracts more than once. This leaves them facing unemployment at regular intervals without any form of income support, as they are not entitled to any compensation for the loss of their jobs when their contracts terminate. In an efficient labor market, this aspect should be compensated for by means of a higher wage, but in practice, this survey showed their wages to be lower.

In the case of the independent sector, employers and the professional self-employed score the highest points, mainly because their status implies a high level of protection due to the income levels they are likely to earn, as well as essentially being part of the formal sector by means of their legal status (declared and legal activity, payment of taxes, etc.). The survey's results showed that the majority of the employers or professional self-employed were in the highest income category. They also have a sufficient level of knowledge to make informed choices regarding their social security. The nonprofessional self-employed, are however, considered as a lower quality of employment classification. A number of factors contribute to this ranking. They include instability of income, a low rate of social insurance contributions as they are not obliged by law to contribute either to pension or health insurance, and little consideration by employment legislation. The combination of these factors leaves them highly vulnerable to any kind of emergency situation where they are rarely able to cover its financial demands out of their own pockets alone. The main advantage of being self-employed is the degree of independence on the job and the much lower risk of unemployment. However, the latter is to an extent undermined by the instability of incomes in economic downturns.

In general, the variable contractual status is also important because many other aspects

of employment are highly correlated with it. For example, open-ended contracts are likely to be held in larger companies with independent work establishments, systems for accident prevention, maternity benefits, and mechanisms for worker representation. Jobs without contracts or self-employment, on the other hand, are often found in smaller companies, in small workshops or working at home or in the open air under inadequate health and safety conditions or without appropriate sanitary facilities.

4. Stability of employment: Tenure

Employment stability for the purposes of this index was measured by the tenure of the current job held. The different lengths of tenure were then divided into three separate categories: less than three years, three to five years, and more than five years.

The variable tenure was included in the index because, as we saw in the previous chapter, it determines the level of compensation payments and benefits from the unemployment insurance scheme that salaried workers are entitled to. Within this variable, only more than five years of tenure is considered to be the quality category, as this period would cover an unemployed person for the average duration of unemployment during noncrisis times in Chile (five months).

In the case of the self-employed, the length of time they have been exercising their occupation is also an indicator of stability as the survey results showed that the longer the self-employed work in the same occupation, the less their business is likely to go bankrupt resulting in loss of employment. For the self-employed, the survival of their business is absolutely crucial as they would not be entitled to any form of unemployment benefit or income support should they have to give up their employment.

Again the scores allocated to the different options of this variable reflect a judgment on the risks that the individual faces in each occupational position, rather than a value judgment *per se.* A relatively short tenure may well be a positive sign for some segments of the labor force as individuals change jobs in order to improve their prospects, income or further their career in general. However, this survey showed that the majority of employment changes occurred out of necessity rather than desire. In addition, given the provisions of the Chilean labor market legislation for severance payments in case of redundancies, a short employment tenure means an increased risk for the worker whatever the reasons for the short tenure, and it is this risk that this indicator captures.

The variable "tenure" also implicitly considers a worker's periods of unemployment as workers with short job tenures are likely to pass through unemployment every time they switch jobs. These workers therefore score a lower score than those with longer job tenures.

5. TRAINING

The fifth variable that the index considers is whether the worker has received any formal training during the last year, whether he has received on-the-job training or none at all.

The variable training is included in this indicator as it is the best measure of personal, skill and career development of the individual. Within this variable, a formalized training course is considered to be preferable to on the job training as it generally constitutes a more planned form of training oriented specifically towards the needs and skill development of the individual and may be useful in other jobs too, whereas on the job training is often company specific and not as easily transferable to other jobs.

In comparison with the possibility of earning more money or the risk of losing one's job without being entitled to any form of unemployment insurance, the issue of training could be considered as secondary. Yet at this point it is important to remember that we are considering the labor market from the capability perspective. What is training if not one of the most important means of enhancing the capabilities of the individual? In the case of training it is the *associated benefits* rather than the *prospective risks* that this index intends to capture.

First, in an environment in which technological changes are happening ever faster, training is the one factor that can ensure a worker's skills do not become obsolete, which would entail the risk of being dismissed or of career stagnation by making it more difficult to move to another job. Second, training, whether on the job or external to the work establishment, supplies the individual with one of the best means of improving her position within the establishment, both in terms of career progression as well as income, even if this is not immediately apparent. And third, a higher qualification is one of the best means of insurance against the misfortune of prolonged unemployment spells as it increases the worker's chances of finding a new job should he lose his current one, and furthermore, provides a degree of insurance against having to accept a job with worse characteristics (e.g. a less advantageous contract, salary, pension and health insurance plans.)

With all of these criteria that form part of this index, it is clear that one could argue that they are not as straightforward as they seem. Not having a contract does not necessarily imply job instability. Or having a short-term contract could also be a positive if that is what the individual wants. Or short-term duration may be due to positive career progression. And so on. In each of these cases, the index should pick up either the risks or benefits associated

with these scenarios through the other variables included in the index.

6. WEIGHTING

The component variables of this index are all equally weighted. Many different methods of weighting could be chosen, but ultimately any method for calculating an index such as this one is necessarily subjective. In a paper on the possible ways of "operationalizing" the capability approach, Saith discusses potential methods for assessing various functionings in order to make interpersonal comparisons of welfare (Saith 2001a). He mentions a number of possibilities such as partial ordering, methods for determining a complete ordering, Borda rule ranking and composite indices where the individual functionings are all given normalized values, thus producing a scalar measure which can then be averaged by using an arithmetic mean. But all of them have a major disadvantage that makes them inappropriate for our purpose here, especially as the data of this survey is predominantly categorical and not ordinal.

For example, a Borda ranking would allow us to decide which types of contract or social security are preferable, but although the index would rank every individual, it would not allow us to judge the extent of the differences between individuals. We would know that x is better than y, but not how much better x is. And this would limit the potential uses of the index.

Evaluating the importance of different functionings is, of course, a highly personal issue. Individuals will differ as to which functionings they would choose out of a given set of capabilities. Is it better to have an indefinite contract and low income, or better to have a job without a contract with higher income? This could be determined by including the question

in the survey to this purpose. A number of studies have suggested this method as being more in tune with the philosophy of the capability approach (e.g. Chakraborty, 1996).

This method was tested during the pilot phase of the survey with questions such as "What would you change about your job?" or by asking respondents to rank the characteristics of their jobs according to the importance they attach to them. However, the unanimous priority of those questioned was the level of their income, with relatively little importance attached to the other characteristics of their jobs. While this method would have been more democratic, it would also have been much less useful in terms of policy making, as the desire for a higher income would obscure the importance of other variables that in the long-term are more important to the development of the individual's capabilities, such as the provision of health care.

Methods of equal weighting such as they have been used for creating the HDI or the ILO's decent work indicator have the advantage that they reduce any interference from the method of calculating the weights to a minimum. They are also a convenient solution when there is no consensus view on how the variables should be weighted as is the case in all of these methods mentioned above.

In the case of this index, maintaining simplicity has also been a concern. It is vital that policy makers understand the index and that it is easily replicable. What is most important is that every year (and in every country where it is applied) the index is calculated in the same way so that time series and cross country comparisons can be made. So it is the value judgments that have been explained in this section that the index is based on.

VI. POTENTIAL USES OF THE INDEX

The indicator proposed in this chapter allows for several different types of analysis. First, since it allocates each individual a score, we can analyze the quality of employment of particular groups of the labor force, and observe how they develop over time. For example, it would be possible to determine how the quality of employment develops in specific economic sectors, regions or types of companies. The advantage of such an analysis is that it enables policy-makers to identify precisely which regions, types of companies or segments of the economy are generating better jobs than others. This, in turn, can give useful hints regarding which of these should perhaps receive additional policy support to enable them to expand, while also showing which sectors of the economy need closer monitoring, different legislation or other types of support in order to help them improve the types of jobs they are generating.

Second, the index allows us to group individuals into categories of high, medium, low or very low quality employment. These categories can then be analyzed and related to other variables included in the survey (e.g. age, sex, education, economic sector, size of company), so that we can analyze which groups of the labor force are particularly affected by low quality employment. Like the analysis described above, this would enable policy makers to focus attention on those groups of the population who are most disadvantaged by the labor market and need additional support.

Both of the methods of analysis described above would also provide us with extremely important information on the types of jobs which are likely to generate unemployment or the

groups of the population most likely to suffer from it, since the analysis of the survey data showed that people with low quality jobs are far more likely to become unemployed than others.

The index also enables us to calculate an overall score for the quality of employment of the entire labor force. If calculated on an annual basis, an impression can be obtained of how the labor market has developed over time. Similarly, the distribution of the quality of employment can be calculated for the entire labor force, which would enable us to track how different quality jobs are distributed among the population.

Finally, if such an indicator were to be produced in several countries (e.g. in the whole of the Latin American region), we would be able to rank countries according to their labor market performance and track their relative and absolute performance over time.[36] This would provide governments with an additional incentive to improve their labor conditions, which are increasingly being monitored by the international community as an input factor into unfair trading conditions, as well as being a sticking factor in the negotiation of free trade agreements. The ranking and comparison of different countries is the main purpose of the HDI, and while debates are still going on about whether such rankings have actually had an impact on the policy making decisions of governments, it is obvious that such indicators at least are of interest to international organizations who have to allocate funding and identify the weakest aspects of a country's development that need the most support. The ILO's decision to produce a similar indicator to measure decent work is proof of the importance of such information.

The component variables have all been chosen with the possibility of reproducing the

index in other countries in mind. The variables required for the index are likely to be part of standard household or labor market surveys, and if they are not, they should be included as they are absolutely fundamental to any labor market analysis. If the variables should not be available in existing surveys, they can easily be produced by adding a few simple questions to existing surveys. Also, given that the legislative frameworks of Latin American labor markets are relatively similar, as are the problems that they face, the variables can be applied without much adaptation to the scenarios of other countries in the region.

Of course, apart from allowing us to undertake international comparisons, one of the main functions of the index has to be to enhance the analysis that can be done of a particular labor market, such as the Chilean one. One of the main objectives of this paper was to illustrate that the capability approach could be used to generate a tool for public policy making, so the following section will provide an example of the type of analysis that can be undertaken in order to achieve such a purpose.

1. SEGMENTS OF THE LABOR FORCE WITH LOW QUALITY EMPLOYMENT

Table 1 shows that 13 percent of the labor force have low quality jobs, another 34 percent have medium low quality jobs, while 33 percent have medium high quality, and 19 percent have high quality jobs. This means that almost half the Chilean labor force works under reasonable or good conditions, while another half must put up with at least two serious disadvantages, e.g. no social security and no contract.

This type of analysis shows different results to standard categorizations according to income levels or type of contracts, although the figures are undoubtedly related. For example, the general survey results showed that 12 percent of the labor force are dependent workers

without a written contract and that approximately 17 percent of the labor force earned one minimum wage or less. The index, however, highlights that fewer people must be counted among the worst quality category than the proportion who earn no more than the minimum wage. This is likely to be because a number of workers earning the minimum wage will have relatively formal working conditions, such as a signed contract and social insurance. Others who have no signed contract, may however have a reasonable degree of job security and level of income, which to an extent might compensate for the lack of formality of their job.

Table 1: The Quality of Employment of the Labor Force

Quality of Employment	Total	Cumulative
Very Low Quality	13.1	13.1
Low Quality	34.2	47.3
Medium Quality	33.4	80.7
High Quality	19.2	100.0

Note: the table is based on a total of 914 cases from the survey sample.

Table 2 shows that women are twice as likely to have very low quality jobs compared to men, although the proportions even out at the next level, where more men than women have low quality jobs. Roughly the same proportions of men and women have medium and high quality jobs.

Numerous studies have shown that women earn less than men and that the overall quality of their employment is inferior to men's.[37] This paper has not addressed the issue of gender differences in much detail, partly because it would constitute a topic of its own, but

also to avoid splitting the data of this survey into even smaller categories which would not be statistically valid given the relatively limited number of cases in the survey. However, an index such as this one would help bring gender issues into the mainstream of public policy debate and help policy makers monitor the matter with consistent data over time.

Table 2: Quality of Employment by Sex

	Men	Women	Total
Very Low Quality	10.6	21.0	14.8
Low Quality	40.3	33.1	37.4
Medium Quality	32.7	29.2	31.3
High Quality	16.4	16.7	16.5
Total	100.0	100.0	100.0

Note: 914 cases

Almost all 14–19-year-olds have very low or low quality jobs, a situation that improves significantly with the over 20-year-olds (Table 3). The best jobs are clearly held between the ages of 35–55, after which the situation again reverses. Although a lower proportion of older people work in the lowest quality job category, their number increases in the low quality category and also declines in the high quality category. Again this data would enable policy makers to monitor the quality of employment in different age groups over time and direct specific policies at those groups that most need supporting.

Table 3: Quality of Employment by Age Group

	14–19	20–25	26–35	36–45	46–55	56–65	>65	Total
Very Low Quality	61.9	16.8	15.2	10.4	10.1	8.3	14.3	14.8
Low Quality	35.7	45.5	34.1	35.7	31.5	47.6	57.1	37.4
Medium Quality	2.4	25.9	32.7	32.2	39.9	32.1	21.4	31.3
High Quality	0.0	11.9	17.9	21.7	18.5	11.9	7.1	16.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: 914 cases

Table 4 shows that workers without any education do not obtain jobs of even a medium quality, although their proportion in the lowest quality segment is only about average. For those who have not achieved a higher level of education than primary school level, their proportion in the lowest quality segment is also very high (over two thirds), whereby there is no great difference between those who completed primary school and those who did not. The same goes for workers who did not complete secondary school. Only those workers who completed secondary school have an above average chance of obtaining a job in the higher quality segments, although almost half of them remain in the low quality categories. Only higher education seems to provide a real chance of obtaining a high quality job: 45 percent of college graduates do, and over three quarters achieve at least a medium quality job. The contrast between the quality of employment of workers who achieved a higher level of education with those who did not is an important result as it suggests that higher education is the only key to a better quality job. There is little gradual increase in the quality of jobs as the level of education improves, there is simply a sharp contrast between those with and without higher education. Again this is an important for labor policy to

consider and bear in mind when devising new legislation.

Table 4: Quality of Employment by Level of Education

	None	Primary School		Technical Secondary School		Secondary School		Higher Education	Total
		Com-plete	Incom-plete	Com-plete	Incom-plete	Com-plete	Incom-plete		
Very Low Quality	15.4	20.9	23.4	7.6	19.2	13.0	20.2	6.3	14.8
Low Quality	84.6	46.5	46.9	38.2	48.1	36.2	47.4	15.8	37.4
Medium Quality	0.0	29.1	25.5	34.4	25.0	36.7	30.7	33.2	31.3
High Quality	0.0	3.5	4.1	19.8	7.7	14.1	1.8	44.7	16.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: 914 cases

There are no particularly sharp differences in the quality of jobs that the various economic sectors generate as the proportions in each category do not vary dramatically from the totals (Table 5). Variations are relatively minor, although it is interesting to note that the construction sector, which is often maligned for offering the worst jobs, actually has proportionately fewer workers in the lowest quality sector. It is also noteworthy that the highest proportion of good jobs is found in the services sector, although the "other" sectors also seem to provide high quality jobs. In a survey such as this one, which was limited to the Greater Santiago area, this is likely to be explained because the "other" component includes the financial services and communication sectors, which offer some of the best jobs available. A closer examination of the types of jobs that different economic sectors generate should be one of the most important principals guiding long-term public policy, and an index such as this one would help integrate this aspect into the policy debate.

Table 5: Quality of Employment by Economic Sector

	Industry	Construc-tion	Com-merce	Services	Other	Total
Very Low Quality	14.5	10.0	15.7	14.0	8.7	13.1
Low Quality	31.1	46.2	40.7	29.7	32.0	34.2
Medium Quality	36.3	31.0	30.5	34.3	33.7	33.4
High Quality	18.1	12.8	13.0	22.0	25.7	19.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: 914 cases

Table 6, which relates the quality of employment to the size of the employer, shows a very clear trend. The larger the size of the company, the better the jobs they provide. A real shift, however, occurs in companies with more than 50 employees. In companies below this size, the employment offered is clearly of a lesser quality, with the worst jobs found in the category with five employees or fewer, or among those who work completely independently. While this conclusion reinforces the idea that the better jobs can be found in what the ILO classifies as the "formal sector," it is important to note that this conclusion is not without significant exceptions, something that cannot be found in the table above which relates the level of education to the quality of employment. People with no more than primary education stood very little chance of obtaining a high quality job, however there is some possibility for individuals working in a smaller company to achieve better quality employment. This result clearly reflects the number of professionals working independently or for very small companies that provide specialized services, and shows that small companies cannot always be classified as "informal," as is presumed by the ILO definition of informal sector.

We should again note that the relationship between the quality of employment and different sized companies is an important consideration for labor policy. This highlights the

role that an indicator such as this one could play in the policy making process.

Table 6: Quality of Employment by Size of Employer

	1	2-5	6-10	11-50	51-100	101-200	>200	Total
Very Low Quality	22.4	16.2	16.0	11.2	8.3	5.1	2.4	13.1
Low Quality	48.2	38.4	29.3	32.1	25.3	25.7	21.5	34.2
Medium Quality	26.4	33.7	38.2	37.5	34.1	33.7	32.1	33.4
High Quality	3.0	11.8	16.6	19.1	32.4	35.4	44.0	19.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: 914 cases

None of the results described above are particularly surprising. In fact, they mirror those that were obtained when analyzing the survey data according to categories of type of contract and occupational position. Similarly, an analysis of the same data by income category would also reflect this picture, as would an analysis by size of company or type of social insurance. What is different about this index is that it summarizes these results in a single variable. And this variable draws attention to a group of highly vulnerable workers who are not explicitly considered by a labor policy which focuses mainly on the unemployed.

The tables presented above allow us to consider a number of important questions that any comprehensive labor market policy should address. They show which economic sectors are producing higher quality jobs, that men hold better jobs than women (although perhaps not as consistently as some analysts would have us believe), and that larger companies generate better jobs than smaller companies. They also show that older people are vulnerable to having poor quality jobs, as well as younger workers who are in the crucial stage of family building. The results can thus help to identify particular areas that should be the focus of policy making.

This index has not been designed to replace the variable unemployment. Instead, it is intended to be used in addition to the unemployment rate, following the logic that the unemployed face different problems than the employed, and should therefore be subject to different policy measures. However, it is very important to note that an analysis of the jobs previously held by the unemployed who participated in this survey shows that they score very poorly on the variables considered by this index. Most of the unemployed are young, unqualified, held jobs with atypical contracts or none at all, therefore did not contribute to pension and health insurance, were not trained professionally on their jobs and had very short job tenures. This is a long-term policy consideration that is completely ignored by policy makers in Chile who mainly focus on managing the unemployment rate in the short-term.

As we can see, the capability approach as it is applied to the labor market here would oblige policy makers to take into consideration a broader range of variables in order to foster quality employment. And their success in doing so could be monitored by the development of this index over time.

2. Individuals in the Index

The previous section explained what we can learn from applying such an indicator to the labor force as a whole and what policy conclusions such an application would lead to. There are many additional considerations that appear if we look at individual cases that formed part of this survey, as the following example will show. The example also shows the kind of value judgment that the indicator makes in order to be a useful policy making tool.

Carla lives in La Pintana, a working class area of Santiago. Until approximately a year before she was interviewed, she worked in a shoe factory as a machine operator. She worked

the regulation 48 hour week from Mondays to Saturdays, earned the minimum wage, contributed to the public health insurance system and to a pension scheme and had an open-ended contract. She had to travel about three hours to get to and from work every day.

She then lost her job, three weeks after her partner lost his. The compensation for dismissal that she received was enough to cover about two months of living expenses, a period during which she was unable to find a new job.

Carla thus took to making *pan amasado* (bread rolls) in an oven made out of an old oil barrel and fuelled with scrap wood in her front yard. She began selling the rolls to her neighbors at 50 Pesos each (~10 cents), and soon discovered that she was working far less (approximately two shifts of three hours each a day) and earning more than she did in her previous employment. Nor did she have to spend endless hours traveling to and from work on overflowing buses. She was no longer contributing to either a health insurance system, nor to her pension scheme, but those were the least of her worries. Carla was happy with her situation. Not only was she no longer unemployed, she was earning more and working less, and she was now working independently, free to do whatever she wanted when she wanted. She would only accept a formal job again if it paid more.

Carla's preference is thus clear. Yet integrating Carla's case into an index on the quality of employment means passing a judgment regarding her situation, based on a range of objective criteria, which may not necessarily come to the same conclusion as she did.

If we assess her case according to the criteria that constitute the quality of employment index, Carla remains in the same overall category of "very low quality employment," but with a lower score. Her occupational status has declined and the increase in her income was

not enough to compensate for that deterioration. Furthermore, she has lost her health and pension benefits. The other criteria remain the same as she had worked less than three years in her previous job and had not received training in either.

The deterioration in her quality of employment score is therefore due to two judgments that are made based on objective criteria which consider her personal welfare. Her new job basically implies greater risks than her old job did. First, being self-employed in an informal (actually illegal) job is worse than being a wage-earner with an open-ended contract because it implies a loss of legal protection and status. Should she accidentally burn herself with her precarious oven, for instance, she will lack insurance against accidents at work. Should she have to cease her activities for whatever reason, she will have no insurance against unemployment (in the form of compensation payments such as she got in her old job). She will have to temporarily cease her activities because of something as simple (and frequent in the Chilean winters) as rainfall. And theoretically, she could even be fined (approximately US$80 or 20 nights in jail!) for her illegal activity.

Second, even though Carla may not be worried about her lack of social insurance herself at present, the index considers this to be a disadvantage, not only because she has ceased to contribute to a pension plan, but also because she now falls into a category of emergency services that the national health service provides only to the very poor.

Carla's case shows that this kind of an indicator has to make judgments at the risk of being accused of ignoring her own preferences and of patronizing her. She did not have a good job in the first place, and the index registers a slight deterioration of her employment situation, although she clearly prefers it to her former job. Given the short-term perspective

with which many people manage their lives, the accusation of being patronizing can be considered a justifiable risk.

Another very important point that this case illustrates is that there can be very little incentive for an individual Chilean worker to integrate herself into the formal sector of the labor force. If Carla can make the same income or more selling bread in her front yard than working in a shoe factory, then why should she integrate herself into the formal work force? The benefits of job security, health and pension insurance are obviously not enough to attract a worker to the formal sector given a similar level of income. This in itself should send a message to policy makers as this finding ties in with other studies that show that low public confidence in the privatized healthcare and pension systems.[38]

Table 7 shows how workers with different combinations of variables would be classified according to this index. The first five cases are classified as having either low or very low quality jobs. As a result they would have a very low level of capabilities. Yet there is no government labor policy that focuses on cases like these simply because they are all employed. And as this paper discussed above, official labor policy focuses mainly on the unemployment rate. The people described in the table below were all picked out of the survey's sample. The first five cases all voiced frustration about their working conditions and described their inability to improve their situation without temporary support from an alternative source. Three of them will be described in detail to highlight the policy decisions that could be made based on their experience.

Julio, a construction worker, for example, mainly complains about his contract. He has to look for a new job at least once a year and never knows exactly how long each contract

will last. Although his health and pension contributions are covered, it is unlikely that he will accumulate enough funds in his account to qualify for a minimum pension, and he thus considers that his pension contributions are wasted. He also complains that he simply does not earn enough to put aside money for the periods when he is without work. He lives with his family in his mother's house and during periods of unemployment relies on his mother's support. In between jobs he always spends a couple of months traveling all over Santiago asking at the various different building sites whether they need help. He says his friends are the most useful source of information about prospective employment. Although municipal jobs centers do exist in Chile, Julio claims they are useless as employers hardly ever advertise their jobs there. He has given up going to them.

Verónica, who works as a part-time maid in several households, voiced concern about her lack of pension and health insurance. Every time she or one of her children is ill, she has to go through a process of obtaining a certificate that allows her to receive free emergency medical care, which she says is of very low quality. Yet she cannot contribute to either a pension scheme or a health insurance, first because she would not be able to afford it, and second because she cannot prove that she has regular income, as none of her employers have offered her a contract, and she dare not ask them for fear of losing her employment. In addition, she would lose income if she were to go through all the time-consuming bureaucratic steps in order to obtain some sort of more regular health insurance, as she would not be able to work during this time.

Andrés lost his job as a construction worker two months prior to being interviewed by this survey and was unable to find a job on another site. He now sells fruit from a basket in

the streets of central Santiago because he cannot afford to be without any income. His wife's earnings as a part-time maid are not enough to cover the family's expenses. In reality, he is unemployed, but since he is receiving an income from selling the fruit, any employment survey in Chile would register him as employed, even though he says he is looking for other work with the help of his friends. This case is common in the Chilean labor force, but there is no specific public policy directed at such cases since they are not officially registered as unemployed.

Rosario, a massage therapist, on the other hand, explained that she can barely make ends meet as she has to support a large family. If she could obtain more qualifications, she could charge a higher price for her services and thus earn more, but the loss of income that she would experience during her period of training makes this an impossible option. A loan with low interest rates from the government would enable her to overcome this difficulty, but there is no such program in Chile for the self-employed.

Table 7: Classification of Workers According to This Index

	Contract	Income	Health Insurance	Tenure	Training Received	Quality of Employment Category
Julio, Construction worker	Atypical	Min. wage	Public	9 months	None	Very Low
Verónica, 3 jobs as a Maid	None	1.5 x min. wage	None	7 years	None	Very Low
Andrés, sells fruit in the streets	Self-employed	< 1 min. wage	None	5 months	None	Very Low
Rosario, Massage therapist	Self-employed	2.5 x min. wage	None	6 years	None	Low
Juano, Baker	Indefinite	Min. wage	Public	4 years	None	Low
Carlos, Computer Technician	Prof. Self-employed	3 x min. wage	None	5 years	On the Job	Medium
Marco, TV Production assistant	Atypical *(Honorario)*	8 x min. wage	Private	2 years	On the Job	Medium
Claudia, Supermarket Manager	Indefinite	8 x minimum wage	Private	2 years	Courses	High
Alfonso, Oncologist	Any	10 x minimum wage	Any	Any	Any	High

Note: since Alfonso, the oncologist, earns more than 10 times the minimum wage, he could have any type of contract or occupational position, as well as any type of classification in the other variables. His high income automatically means that his employment is classified as high quality.

One of the most important reasons for creating this index is to focus attention on cases like the ones described above. Microcredit, professional training, low motivation to contribute to private health and pension systems or unstable employment are all issues that public policy should address in order to enhance the functionings and capabilities of the individual.

In a country like Chile, which despite having attained a certain degree of development

still offers the unemployed no benefits or security to speak of,[39] the question of having a job or not having one predominates the labor market debate, almost to the exclusion of all other topics. While government and public concern about this is certainly justified, it is also short-sighted. The quality of employment is what will ultimately ensure the development of the economy, foster growth, social cohesion and welfare. A low unemployment rate is merely a component of this. Creating an index of the characteristics that constitute quality of employment should hopefully reduce the issue of unemployment to the status of a "component variable" and have the same effect of broadening public debate that the creation of the HDI did. Ultimately, if human functionings and capabilities are to be enhanced, this requires a long-term view, and also a broad, inclusive view.

Aside from stimulating debate, the proposed index will also provide useful information to public policy makers. Its main purpose could be to help identify those sectors of the economy, or regions of a country, which are generating better jobs than others, or those segments of the work force which are particularly marginalized.

Just as unemployment rates can vary from sector to sector or according to geographic location, it is perfectly possible that some sectors within an economy may have better ratings than others or improve their rating while others decline. By the same logic, some regions may improve their quality of employment while others deteriorate. This sends important signals to policy makers as to which areas should receive particular attention.

In addition we should consider that unemployment rankings may differ substantially from quality of employment rankings, in the same way that the human development indicator varies from plain GNP rankings. The strength of the quality of employment indicator is that it

will pick up on issues that the unemployment rate simply does not consider. A particular region could perhaps register a very low unemployment rate, but this may be entirely due to atypical contracts or short-term contracts such as those that are used in areas with activities predominantly in the agricultural or mining sectors, which could mean that the region is particularly vulnerable to job losses in situations of economic downturn.[40]

Alternately, a region may have a very high unemployment rate although its quality of employment indicator is very good. This may indicate to public policy makers that the unemployed in this region do not have the qualifications needed in order to integrate themselves into the labor market, so that special training programs or relocation programs could be designed to better match the skills of the labor force with the requirements of their environment.

Similarly, trends over time may vary. For instance in the Chilean case where unemployment rates dropped steadily over a long period of time, this positive development almost completely distracted attention from the fact that increasingly jobs were being created with inferior qualitative characteristics. Ultimately, this has even led to a failure on behalf of the government to legislate appropriately. If it had been aware earlier of declining durations, perhaps the unemployment insurance would have been implemented sooner, or designed in a different manner. Or perhaps it would have legislated sooner in order to ensure that subcontracted workers or workers with atypical contracts enjoy the same degree of legal protection as workers with open-ended contracts.

An indicator such as the one proposed here would also help raise public awareness, increase the labor force's own emphasis on issues such as training, having a formal written

contract or having up-to-date social security contributions. Especially given the context of the economic crisis, workers were satisfied with merely having a job and did not consider any other aspects. An indicator such as this one would lead to more conscious and critical evaluations of jobs on the part of the employees.

It should be considered that all indices, whether poverty lines, unemployment rates or GNP/capita are ultimately arbitrary. Their main value must be seen in the comparative perspective that they open up for us, which allows us to monitor developments over time and across different regions or countries. Bearing this purpose in mind, the methodology presented here was specifically designed to be applicable to other countries apart from Chile, especially countries where similar sources of data are available, and which have similar labor market structures. All the southern cone countries of Latin America, for example, would fall into this category.

Ultimately this index aims to produce a change in the way we think about the labor market. It intends to produce what could be described as a cultural change, a shift in emphasis away from unemployment to a broader more inclusive concept. This does not mean that having a job is not supremely important to those who want to work, but it does mean that other issues should also be considered.

VII. CONCLUSION

The Introduction to this paper stated its three main purposes. The first was to apply the capability approach to a country with a higher level of development than most of the examples that have been used so far in the literature to illustrate Sen's approach. The second

was to apply the capability approach to the terms and conditions of employment in order to show how relevant the approach is to an area of human well-being that is not normally considered by the development literature. And its third purpose was to create a policy making tool in the form of an indicator which measures the "quality of employment" that would show the usefulness of the capability approach as an approach to practical policy making itself.

This paper, first of all, demonstrated that the capability approach can contribute as much to a country with a higher level of development as it can to a country with a very low level of development, although we obviously have to look at different indicators in each case. Once a population's basic functionings have been fulfilled, it is important to look at the quality of these functionings. Given the contributions that the capability approach has made to the analysis of the Chilean labor market, it is evident that it can and should permanently change our approach to development strategies in higher income developing countries.

Second, this paper demonstrated how the capability approach changes our perspective of the labor market by focusing our attention on the freedom and well-being of the individual rather than on the labor market's macro- and microeconomic functions. By considering the labor market's role as a filter of social and economic policies that impact the individual's well-being, labor policy is placed in a position of critical importance in the context of a country's development, on a par with fiscal, economic and social policy. This means that the development literature should accord labor policy the importance it deserves rather than continuing to ignore the role that employment plays in both individual welfare and macroeconomic development.

And third, applying the capability approach to the Chilean labor market has lead to the suggestion of an alternative measure of labor market performance: the quality of employment indicator, which constitutes a useful analytical tool for the process of policy making. The results of the quality of employment indicator suggest that the main problems of the Chilean labor market are low incomes, too much informality within the formal sector, too many atypical contracts and too much self-employment, little professional training, low coverage of health and pension insurance and low stability of employment. This leads to the conclusion that slightly less than half of the Chilean labor force has low or very low quality jobs. This is a considerably more complex result than a conclusion that merely considers whether the country's unemployment rate is too high.

Inspired by the work of the late Mahbub ul Haq, the originator of the Human Development Index (HDI), this author took the view that "a measure of the same level of vulgarity as the unemployment rate was needed, which would not be as blind to the other aspects of employment as the unemployment rate."[41] Although at first skeptical of ul Haq's view, Sen, in his own words, later came to appreciate it, as he accepted that no combination of tables would be able to replace the convenience of a single number, so that in order to broaden the debate, this single number would have to simply incorporate several components.[42]

The index and method proposed in this article are arbitrary and their elaboration is but a preliminary suggestion. However, it respects the overall objectives of an approach which consistently emphasizes that the functionings and capabilities of an individual depend on more than just income (or GNP/capita). While therefore not pretending to be a perfect

summary measure of the labor market, it does broaden the basic criteria which the employment debate normally focuses on to include capability enhancing aspects.

The paper has suggested that labor market policy should form an integral part of any development strategy. It does not, however, define what this labor market policy should consist of more specifically in order to generate more quality employment and thus nurture individual capabilities. Before answering this question in the context of developing countries, a significant amount of further research will have to be undertaken, starting with the design of employment surveys that set out to measure the quality of employment at least as much as unemployment and participation rates.

Once the population of a developing country is fed, healthy and literate, employment should form the central and most important focus of its development strategy as the conditions associated with employment determine the capabilities and well-being of individuals more than any other variable.

APPENDIX I

Table 1: Characteristics of New Jobs Generated Each Year Compared With the Existing Pool of Jobs

Contract or Occupational Status	**10/96-9/97** **Sept - 97**	**10/97-9/98** ***Sept - 98***	**10/98-9/99** ***Sept - 99***

Wage-earners	**Indefinite Contracts — generated jobs** *— Labor force*	46.6 *55.9*	42.3 *53.9*	20.7 *50.3*
	Atypical Contracts — generated jobs *— Labor force*	19.6 *11.0*	23.8 *11.7*	33.5 *12.3*
	No Contract — generated jobs *— Labor force*	20.5 *10.9*	23.1 *12.3*	33.8 *14.5*
Independent	**Employer or professional — generated jobs** **Self-employed** *— Labor force*	2.3 *4.3*	1.2 *4.3*	0.6 *4.2*
	Other self-employed - generated jobs *— Labor force*	11.0 *17.8*	9.6 *17.9*	11.5 *18.7*
Total — generated jobs *— Labor force*		100.0 *100.0*	100.0 *100.0*	100.0 *100.0*

Note: Atypical Contracts refers to all short or fixed term contracts and to fee paying jobs.

Table 2

Pension Contributions	**10/96-9/97** ***Sept - 97***	**10/97-9/98** ***Sept - 98***	**10/98-9/99** ***Sept - 99***
Contributes — generated jobs *— Labor force*	61.3 *70.3*	61.1 *69.2*	47.1 *65.7*
Does not contribute — generated jobs *— Labor force*	38.8 *29.7*	38.9 *30.8*	52.9 *34.3*
Total — generated jobs *— Labor force*	100.0 *100.0*	100.0 *100.0*	100.0 *100.0*

APPENDIX II

Quality of employment Index

Variable	Score
Professional Position	
Indefinite Contract	2
Atypical Contract	1
No Contract	0
Employer	2
Professional Self-employed	2
Non-professional Self-employed	1

Income	
Less than 2 minimum wages	0
2-4 minimum wages	1
More than 4 minimum wages	2

Health Insurance	
None	0
Public	1
Private	2

Employment Stability	
Less than 3 years	0
3-5 years	1
More than 5 years	2

Training Received	
None	0
On the job	1
Training courses	2

Total points scored / 5	

High Quality Job	1.6-2.0 points
Medium Quality Job	0.8-1.4 points

Low Quality Job	0-0.6 points

BIBLIOGRAPHY

Agacino, R. and M. Echeverría, eds. 1995. *Flexibilidad y Condiciones de Trabajo precarias,* PET, Santiago.

Bastelaer, A. van and R. Hussmanns. 2000. *Measurement of the Quality of Employment,* paper presented at a joint Eurostat and ILO Seminar in Geneva, May 2000.

Beatson, M. 2000. *Job 'quality' and 'job security,'* in Labour Market Trends, October 2000.

Bosworth, B., R. Dornbush and R. Labán, eds. 1994. *The Chilean Economy: Policy Lessons and Challenges,* Brookings Institution, Washington D.C.

Bravo, D. and D. Contreras. 2001. *Competencias Básicas de la Población Adulta,* Universidad de Chile, Ministerio de Economía and CORFO, Santiago.

Burchell, B., J. Nolan and I. Wichert. 1999. *Job Insecurity, Psychological Well-being and Family Life,* in Burchell *Job Insecurity and Work Intensification,* York, published for the Joseph Rowntree Foundation.

Centro de Estudios de la Realidad Contemporánea (CERC). 1999. *Barómetro CERC*, Centro de Estudios de la Realidad Contemporánea, Santiago.

Chakraborty, A. 1996. *On the Possibility of a Weighting System for Functionings,* Indian Economic Review, 31 (2): 241-50.

Clark, D.A. 2000. *Capability and Development, An Essay in Honour of Amartya Sen,* Working Paper 39, University of Lincolnshire and Humberside.

Cypher, J. M. and J. L. Dietz. 1997. *The Process of Economic Development,* Routledge London and New York.

Dreze, J. and A. Sen. 1989. *Hunger and Public Action,* Oxford, Clarendon Press.

Dreze, J. and A. Sen. 1995a. *The Political Economy of Hunger,* Clarendon Press, Oxford.

Dreze, J. and A. Sen. 1995b. *India: Economic Development and Social Opportunity,* Oxford, Clarendon Press.

Dreze, J. and A. Sen. 1996. *Indian Development: selected regional perspectives,* Oxford University Press, Oxford and Dehli.

Echeverría, M., V. Solis y V. Uribe-Echevarría. 1998. *El Otro Trabajo,* Cuaderno de Investigación N°70, Departamento de Estudios, Dirección de Trabajo, Santiago.

Edwards, S. and N. Lustig, eds. 1997. Labor Markets in Latin America: Combining Social Protection with Market Flexibility, Brookings Institution Press, Washington D.C.

Eßner, Klaus. 2000. *Nationalstaat und Marktwirtschaft in Lateinamerika — Chile als*

Vorbild? Working Paper, Friedrich Ebert Stiftung, Bonn.

García Huidobro, G. 1999. *Problemas de medición de empleo,* Estadística y Economía Vol. 18, Instituto Nacional de Estadísticas, Santiago.

ul Haq, M. 1995. *Reflections on Human Development,* Oxford University Press, New York and Oxford.

International Labour Organization (ILO). *World Employment Report,* various years, Geneva.

International Labour Organization (ILO). *Labour Overviews for Latin America (Panorama Laboral),* various years, Lima.

International Labour Organization (ILO). 1998a. *Chile: Crecimiento, empleo y el desafío de la justicia social,* Santiago.

International Labour Organization (ILO). 1999. *Decent Work,* ILO Geneva.

Infante, R. 1999. (ed.) *La calidad del Empleo: La experiencia de los países latinoamericanos y de los Estados Unidos,* ILO, Lima.

Jenks, Christopher, Lauri Perman and Lee Rainwater. 1988. *What is a Good Job? A measure of labor market success,* American Journal of Sociology, Vol 93, No. 6: 1322-57.

Maloney, W. 1998. *The Structure of Labor Markets in Developing Countries,* Policy Research Working Paper 1940, World Bank.

Meier, G. and J. Rauch. 2000. Leading Issues in Economic Development, *Oxford University Press.*

Ministerio de Planificación y Cooperación (MIDEPLAN). 1998. *Encuesta CASEN 1998,* MIDEPLAN, Santiago.

Ootegem, L. van and E. Schokkaert 1990. *Sen's Concept of the Living Standard applied to the Belgian Unemployed,* Recherches Economiques de Louvain, 56 (3-4), 429-450.

Oxman, V. and S. Galilea eds. *Políticas de Igualdad de Oportunidades entre Mujeres y Hombres en el Trabajo,* SERNAM, Santiago.

Paredes, R. 1996. *Mercado Laboral e Instituciones: Lecciones a Partir del Caso de Chile,* unpublished, Universidad de Chile.

Rodgers, G. 1997. *The quality of employment: Issues for measurement, research and policy,* unpublished paper, ILO.

Ruiz-Tagle V., J. 1999. *Chile: 40 años de desigualdad de ingresos,* Universidad de Chile working paper No.165.

Scott, C. 1996. *The Distributive Impact of the New Economic Model in Latin America in Chile,* in Bulmer-Thomas, Victor (ed.) The New Economic Model in Latin America and

its Impact on Income Distribution and Poverty, ILAS, Macmillan.

Sehnbruch, K. 2003. *From the Quantity of Employment to the Quality of Employment: An Application of Amartya Sen's Capability Approach to the Chilean Labor Market,* PhD Thesis, Cambridge University.

Sen, A. 1981. *Poverty and Famines: An Essay on Entitlement and Deprivation,* Clarendon Press, Oxford.

Sen, A. 1992. *Inequality Reexamined,* Oxford University Press.

Sen, A. 1997a. Development thinking at the Beginning of the 21st Century, LSE working paper, Suntory Centre.

Sen, A. 1997b. What's the Point of a Development Strategy?, LSE working paper, Suntory Centre.

Sen, A. 1997c. Inequality, Unemployment and Contemporary Europe, LSE working paper, Suntory Centre.

Sen, A. 1999. Development as Freedom, Oxford University Press.

Sen, A. 1999. Address by Mr. Amartya Sen to the International Labor Conference, Geneva, 1-17th June 1999, www.ilo.org/public/english/10ilc/ilc87//a-sen.htm.

Stewart, F. 2000. *Income Distribution and Development,* QEH Working Paper Series N°37, Oxford University.

Streeten, P. 1981. *First things first: Meeting Basic Human Needs in the Developing Countries,* World Bank, Oxford University Press.

Todaro, Michael P. 1994. *Economic Development,* Longman, London and New York.

United Nations Development Programme (UNDP). 1998. *Overcoming Human Poverty,* UNDP, New York.

United Nations Development Programme (UNDP). 1999. *Human Development Report,* Mundi Prensa.

United Nations Development Programme (UNDP). 2000. *Human Development Report,* Mundi Prensa.

World Bank. 1997. *Poverty and Income distribution in a High Growth Economy: 1987-1995,* Washington.

World Bank. 1999. World Development Report, OUP.

NOTES

[1] See for example Sen (1981) and Dreze and Sen, 1989 and 1995a.

[2] The HDI classifies Chile as a country with a high level of human development, and in fact the difference in ranking between Chile and the less developed European countries is no longer large. Chile was ranked number 38 in the Human Development Report 2000, ten places below Portugal.

[3] Chile's level of absolute poverty declined from 33 to 18 percent of households between 1990 and 1998 according to the results of its biannual household survey, the CASEN.

[4] According to the latest available CASEN data, the lowest quintile in Chile accumulates 3.7 percent of total household income, whereas the top quintile accumulates 57.4 percent (MIDEPLAN, 1998). This makes it one of the most inequitable countries in the world. See also Ruiz-Tagle V. (1999) for a comprehensive discussion of income distribution trends in Chile.

[5] See for example Bosworth *et al* (1994) Edwards and Lustig (1997), or Scott (1996).

[6] Although I am aware of the fact that the capability approach has been applied to some countries with higher levels of development (in particular Belgium and Italy), the approach is still mainly applied to less developed countries. The papers presented at this conference bear out this point: of those papers dedicated to a practical application of the approach, almost three quarters use cases from the developing world.

[7] An example that has recently aroused much attention in Chile is the result of a study undertaken by Bravo and Contreras, which shows that although the literacy rates that the country records are very high, the ability of those who are officially considered literate to understand the most basic written instructions, is extremely limited. The study concludes that the focus of education policy should now turn to the quality of education provided rather than just aiming at ensuring an appropriate quantity (extent) of education (Bravo and Contreras, 2001).

[8] See for example Sen 1997, 1999a (pp 94-96) and Ootegem (1990).

[9] The concept will defined in section III.

[10] In the Preface to *India: Economic Development and Social Opportunity,* Drèze and Sen write "We outline in particular what can be learned from the experiences of other countries … and also from the varieties of experiences *within* India. (p v)" (Drèze and Sen, 1995b).

[11] Bosworth *et al.* have written an entire book about labor economics, which discusses the supply and demand features of the labor market in great detail, as well as other issues such as human capital functions and the relationship between economic growth and labor. But it completely neglects to mention that there is a connection between the characteristics of the labor market and the well-being of the individual (Bosworth, Dawkins and Stromback, 1996).

[12] A paper by Paredes (1996) typifies this approach: he states that the objective of his paper is to highlight the most salient characteristics of the Chilean labor market between 1970 and 1996, and then goes on to discuss data that relates purely to participation rates, unemployment rates and wage levels, without mentioning any other variables that may be equally important.

[13] Argentina before its most recent crisis is an especially good example of this phenomenon, particularly over the last decade (since the stability pact) as its very high unemployment rates were hardly reduced by high growth rates.

[14] This problem is by no means limited to the Chilean case. A World Bank paper by Maloney, for example, analyzes the structure of the Mexican labor market using only indicators of the quantity of employment without any mention of underemployment or poor quality employment (Maloney, 1998).

[15] The view that unemployment is a luxury few can afford is echoed by numerous case studies; see Agacino *et al* (1995), Echeverria *et al* (1998) and Garcia Huidobro (1999).

[16] Child benefits in Chile, for example, amount to just over USD $4 per child per month for those with the lowest income levels and are paid out through the worker's payroll. This means that they are limited to wage-earners with written contracts and not received by the self-employed.

Another example of low social security payments is the unemployment benefit which amounts to approximately USD $24 –12 per month (depending on the length of time unemployed). Only wage-earners who had a written contract and were made redundant for business reasons are entitled to the benefit. However, the benefit is not paid out automatically to these unemployed but has to be applied for, and since the amount is so low, only approximately a quarter of the unemployed who would be entitled to the payment even bother applying for it.

[17] Companies with more than twenty female employees in Chile are obliged by law to provide their employees with childcare facilities.

[18] Chilean workers who have a written open-ended contract and are made redundant for reasons not attributable to themselves are entitled to a compensation payment of one month's salary per year of service from their employers.

[19] By "spaces," Sen refers to areas such as well-being, freedom, health (longevity, morbidity and mortality), and quality of life (Sen, 1992).

[20] In this paper, the term "quality of employment" is used as opposed to the ILO's term "decent work" in order to emphasize the difference that applying the capability approach to the labor market makes.

[21] See for instance Burchell et al (2000). Sen mentions these issues himself in Sen, 1997c.

[22] See the ILO's World Employment reports, the World Bank's Development Reports, the UNDP's Development Reports, etc. At most, these publications refer to employment and wage levels when including the labor markets in their analysis. But the available statistics never go beyond the most basic data, even in the case of the regional employment reports of the ILO (e.g. Labor Overviews for Latin America) where the only additional variable considered is the distinction between the informal and formal sector.

[23] The government which ultimately has to foot social security bills, may argue that good jobs are those which do not burden the fiscal budget with any expenditures. An employer, on the other hand, may argue that the best job is the most productive one. Whereas the individual may wish for any number or combination of characteristics that suit her personal circumstances and welfare criteria (Infante, 1999: 12-13).

[24] He lists the following variables as components of employment quality, which to a large extent are repeated in much of the literature on the subject:

- Income
- Non wage benefits
- Regularity and reliability of work and income
- Contractual status (permanent or temporary, autonomous or dependent)
- Social protection: pensions, health, unemployment insurance
- Representation (e.g. through unions)
- Hours of work (duration, timing)
- Intensity of work
- Risks of accident or health problems (working environment)
- Involvement in decisions concerning the work (autonomy/participation)
- Possibilities for the application and development of skills and creativity

(Rodgers, 1997)

[25] Eurostat is the European Union's statistical unit, which collates and coordinates all the Union's statistical work.

[26] Despite the many reservations discussed in this section about measuring the quality of employment in the form of an indicator, the ILO's regional Latin American office published a "decent work" indicator in 2002, which, however, consists of a combination of macro indicators and not individual variables.

[27] Sen presents his arguments for a more comprehensive approach to development in several papers, they include Sen 1997a, 1997b and 1997c among his more recent work.

[28] According to the results from the employment survey described below.

[29] See Clark (2000) for a discussion of all the considerations that need to be taken into account. (Sections 5 & 6 of the paper.)

[30] The survey that forms the basis of the data used in this paper consisted of a sample of almost 1000 households in Greater Santiago, selected by means of a cluster sampling method designed to be representative of the entire city. In total 1,200 employed and unemployed members of the labor force were interviewed, and general information was also gathered on the characteristics of their households. The sample size was calculated in order to achieve an absolute maximum margin of error of 3.5 percent at a 95 percent confidence level.

[31] All the statistics referred to and more can be found in Sehnbruch, 2003.

[32] Although it would be preferable to consider a more long-term indicator of income such as average wage over the last three months, in the Chilean case this statistic would be rather difficult to obtain. With a more generous budget, however, such a variable could be used.

[33] These levels of income are based on the average number of persons per household in Santiago and the average number of workers per household. They represent the minimum level of income that should be earned by an individual with family dependents in order to achieve a reasonable or a good standard of living.

[34] See for example his analysis of infant mortality, life expectancy, or stunting in Drèze and Sen 1995a and 1995b.

[35] Theoretically, in case of a dispute with an employer, a verbal contract should also be considered as a valid basis for an employment relationship. However, as it is extremely difficult to prove the existence of a verbal contract, this effectively leaves the worker in a very weak position.

[36] If this index were to be calculated for a series of countries, then income should be calculated on a purchasing power parity basis.

[37] See for example ILO, 1998a, ILO, 1999, Oxman and Galilea, 1999.

[38] See, for example, CERC, 1999.

[39] The new, privatized unemployment insurance scheme that was introduced in Chile in 2002 will not significantly change this, as it protects those most vulnerable to becoming unemployed least. See Sehnbruch, 2003 for details on this system.

[40] In the case of Chile, most regions in the country depend predominantly on one particular type of industry or sector, e.g. mining in the north, fruit and agriculture in the middle, and forestry in the south.

[41] The original phrase is "We need a measure of the same level of vulgarity as GNP — only a number — but a measure which is not as blind to the social aspects of human life as is GNP" (UNDP, 1999: p 23).

[42] See the article written by Sen in the Human Development Report, 1999: p 23.