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Urban employment: research and policy in Latin America*

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The past 15 years have served as a testing ground for urban employment policy research and design in Latin America. In this article the author analyses the major issues dealt with during this period as well as the main advances achieved in this connection. The concept of dynamic insufficiency is explored as the principal explanation for the failings of the development process, with emphasis being placed on the importance of the inappropriateness of certain technologies, the rapid increase in the labour force, and the absence of strong economic agents which would permit the achievement of autonomous and equitable growth. The fact that the initial stages of import substitution have run their course also prompts the author to consider the effects of a more markedly export-oriented approach. His examination of this subject encompasses both a review of the use that has been made of policy tools and an effort to determine the effects which various foreign-trade structures have on employment. Finally, central importance is attributed to an analysis of the inappropriateness of many technologies and the dissemination of technical progress, since structural heterogeneity is seen as accounting for both the insufficient creation of productive jobs and the quasi-permanent inequality of income distribution in the region.

The crisis of the 1980s brought out the flaws in the previous approach to the employment problem. The economic and social efficiency of conventional adjustment tools is now being reassessed, and there appears to be a greater opportunity for the application of specific policies, particularly those designed to support the informal sector. Meanwhile, unemployment has emerged as a more important dimension of the employment problem.

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A review is always a difficult task, and even more so when a wide field must be covered due to the topic, the geographical diversity and the time span involved. Employment is, in a broad sense, linked to development, growth, economic policies, inflation and wages. "Latin America" is a unifying concept which encompasses some common factors of many countries but it cannot, by definition, represent any of them in particular. Hence, this review will necessarily be incomplete.

This article is organized into three main parts, following a chronological order. The first reviews research and policies in the 1970s, while the second deals with the 1980s. The two periods are set off by different economic conditions and, particularly, by the severe crisis which has affected the region since the beginning of the present decade. Finally, in the third part the nature of the current debate on the subject will be outlined.

I

Employment issues and policies in the 1970s

The dominant issue in research during the 1970s was the labour absorption capacity of modern sectors. Indeed, the rising interest in employment problems and policies was due to the increasing evidence that the trickle-down strategy was not working as expected. Growth did not ensure full productive employment but, in addition, in Latin America the scenario on which research was based was one of stagnancy rather than growth.

1. Research in the 1970s

a) *Employment effects of the modernization process*

Modernization was the reference model for research and policies in the 1970s. The well-known process of labour absorption by expanding modern sectors, particularly in urban areas, at higher levels of productivity was thought to ensure productive employment for the increas-

ing supply of labour created by manpower released from agricultural activities and by population increases. In addition, manufacturing was expected to play the main role in the labour absorption process. The employment effects of this pattern of growth were well documented by several empirical and theoretical analyses at the world level (Clark, 1951; Kuznets, 1957; Lewis, 1954; Fei and Ranis, 1961). The main thrust of Latin American research had been to analyse how such models in developing countries fit in with what Prebisch referred to as the centre-periphery context. This analysis was undertaken from three perspectives: firstly, accumulation and growth; secondly, international trade insertion; and thirdly, technological change.

One of the important arguments made by Prebisch was that the Latin American model was characterized by "dynamic insufficiency". This meant that output was growing very slowly or even, in some cases, was at a standstill because investment was also insufficient. According to this argument, low investment is the result, in turn, of the way in which peripheral capitalism functions: the size of the economic surplus is reduced by transfers to foreign countries via a deterioration in the terms of trade or via profit remittances, in the case of direct investment, and another large part of the surplus is absorbed owing to the rapid adoption of international consumption habits by the middle- and upper-income groups of the population in developing countries. Dependency in trade, investment and consumption patterns results in insufficient growth. The main effect is that employment does not grow as required, particularly in manufacturing, where, as we will discuss later on, the industry's production characteristics and its international insertion as well as technological change add to the weakness of its capacity for labour absorption (Prebisch, 1981; Pinto, 1965; Sunkel, 1971). This model was advanced primarily at a regional level (ECLAC, 1965) but country studies on Argentina (Ferrer, 1963), Brazil (Tavares and Serra, 1971) and Chile (Pinto, 1964), among others, also provided supporting evidence.

By the end of the 1970s it had become clear that the model of analysis needed some adjustment, since most Latin American countries were characterized by rapid growth during the decade

due to the high level of international liquidity and the rapidly growing foreign debt of the region. The new data which had become available since 1950 indicated a significant and sustained increase in employment in modern sectors and particularly in manufacturing (García and Tokman, 1985). The bias in the interpretative model was twofold. On the one hand, research in the 1970s was based on data for the preceding decades, which did not show evidence of rapid growth. On the other, the regional data were mostly based on the Southern Cone countries (Argentina, Chile, and Uruguay and, in some instances, Brazil). These countries were already largely modern by 1950 and their investment and growth performance clearly showed an absolute insufficiency. However, as the labour force was already employed in urban areas and population growth was slow, employment problems were not as significant as in other parts of the region. A comparison of the investment and growth performance of the region as a whole during the 1950-1980 period with that of the United States during the comparable period represented by the 30 years between 1873 and 1903 shows that investment rates were similar (around 19% of GNP) and that the rate of growth was higher in Latin America than in the United States. Moreover, the rate of investment in the United States was, according to Kuznets (1961), the highest of the capitalist developed world. The exceptions were the Southern Cone countries, particularly Chile and Uruguay, where both investment and growth lagged behind regional averages (Tokman, 1985) (see table 1).

This factual analysis needs to be placed in perspective, since the 1970s were exceptional years in that investment capacity as well as consumption levels were augmented by foreign financing, and this obscured the longer-run trends. Trade balances were deteriorating due to the diminishing surplus of raw materials and basic commodities available for financing an increasing deficit in manufactures. Changes in consumption patterns in developed countries as well as their subsidized agricultural activities affected export possibilities by reducing traditional markets and by increasing the competition with surplus production in new commodity areas. In addition, changes in the consumption structure in Latin American countries brought

about by increased demand and a better quality diet also affected the size of the production surplus available for export, particularly in view of the slow growth rate of agricultural production (Wells, 1987). Trade constraints notwithstanding, higher investment was possible due to increasing external financing. Investment was largely dependent on foreign decisions; internally, the public sector was responsible for a large share of investment, while private entrepreneurs were less aggressive, mostly investing jointly with the public sector or foreign investors or, more frequently, engaging in financial operations which ensured short pay-off periods and higher profits (Tokman, 1985). Indeed, the dramatic reversal of external economic conditions in the 1980s, as well as the need to adjust the fiscal situation, testified to the weakness of the accumulation process, with the investment coefficient falling to one-third of the level prevailing in the 1970s by 1985.

A second issue which drew the attention of researchers was that of the trade strategies which guided the development model. Historically, medium-sized and large Latin American countries had followed an industrialization strategy based on import substitution. More recently, particularly during the 1970s, a greater effort was made to demonstrate the superiority in terms of economic results of export promotion and diversification.

After the Great Depression, many Latin American countries embarked upon an industrialization strategy as the only feasible alternative given the prevailing international economic environment. The key instrument used to implement this policy was the maintenance of a high level of protection, which was accomplished through a variety of means, ranging from high tariffs to import quotas. According to Díaz-Alejandro (1981), this strategy allowed the region to recover at a faster rate and in a shorter period than the United States. This policy was then researched and recommended to governments in a number of studies undertaken by ECLAC, with the result that by the early 1970s most Latin American economies already had a well-developed industrial sector. This sector was the engine for economic growth and generated, directly and indirectly, a large share of the productive jobs created during the postwar period

(García and Marfán, 1981). Manufacturing employment grew at a rate of 3.5% per year between 1950 and 1980, a rate similar to that registered by various developed countries during expansion periods. Real wages rose and the skill profile was upgraded, mostly through learning-by-doing, while unions also improved their bargaining position during this period.

In spite of these favourable results, it was already clear that the import substitution strategy produced the best results during its early phase—the stage of the “easy” substitution of consumer goods—but that as further progress was made, the strategy ran up against increasing constraints. Among the problems identified were the incapacity of the strategy to overcome the foreign-exchange constraint, since the main effect it had on imports was to shift their structure from final to intermediate goods. This was due to the lack of integration and to the inexistence of a capital goods producing industry (Fajnzylber, 1983; García, 1984). The internal market for manufactured products was small and highly diversified owing to the concentration of income and the rapid adoption of the consumption patterns of developed countries, and this militated against increasing economies of scale. Furthermore, by the beginning of the 1970s there was also general agreement as to the faulty management of economic policies, inasmuch as the result of high tariffs and undervalued rates of exchange had proved to be an excessive and permanent level of protection. This ensured oligopolistic profits for producers, reduced foreign competition and resulted in production inefficiency and a bias against export promotion.

On the basis of this scenario, different research and policy proposals were explored. Some analysis, such as Fajnzylber (1983), emphasized the need to achieve more integration and a greater specialization of the industrial sector, generally favouring the production of capital goods as a way to strengthen the balance of payments, to generate more productive employment and to enhance the possibilities of endogenous technological change. Others, such as Krüger (1978) and Balassa (1977), stressed the need to open up the economies in order to ensure the expansion of exports, faster growth and job creation.

Table I
LATIN AMERICA: GROWTH AND URBAN EMPLOYMENT, 1950-1980

	Accumulation and growth		Employment dynamics ^a			Recalcitrance of underemployment ^b					
	Growth of GNP ^a	Investment coefficient	Growth of non-agricultural labour force	Growth of urban formal employment	Growth of manufacturing employment	Degree of urbanization		Rural/traditional		Urban informal	
						1950	1980	1950	1980	1950	1980
Group A	6.4	23.8	4.8	5.0	4.4	38.6	66.8	38.0	18.4	12.2	18.6
Brazil	7.0	24.7	5.1	5.2	4.7	39.2	68.1	37.6	18.9	10.7	16.5
Colombia	5.1	21.7	4.1	4.3	3.4	39.2	64.9	33.0	18.7	15.3	22.3
Costa Rica	6.0	20.6	5.2	5.5	4.9	42.0	69.5	20.4	9.8	12.3	15.3
Mexico	6.4	19.8	4.5	4.6	4.3	34.5	61.5	44.0	18.4	12.9	22.0
Panama	6.2	20.0	3.7	3.8	3.5	46.7	66.4	47.0	22.0	11.8	14.8
Venezuela	5.4	35.8	4.8	5.2	4.9	51.1	79.4	22.5	12.6	16.4	18.5
Group B	4.8	15.7	3.7	3.9	2.3	32.0	50.9	43.0	35.9	14.9	21.8
Bolivia	3.6	15.5	3.3	3.8	2.4	24.1	41.1	53.7	50.9	15.0	23.2
Ecuador	6.2	15.7	4.2	3.1	2.7	33.2	54.2	39.0	33.4	11.7	28.6
El Salvador	4.5	14.8	4.1	4.2	2.6	32.2	47.5	35.0	30.1	13.7	18.9
Guatemala	4.9	13.3	3.3	3.4	2.6	30.6	42.7	48.7	37.8	14.0	18.9
Peru	4.5	19.3	3.7	4.4	2.0	36.0	57.5	39.4	31.8	16.9	19.8
Group C	3.1	14.9	1.9	1.8	1.4	70.6	82.9	7.6	7.0	16.6	21.4
Argentina	3.1	17.9	1.9	1.9	1.2	72.0	84.9	7.6	6.8	15.2	21.4
Chile	3.6	13.7	2.5	2.6	2.3	62.9	77.2	8.9	7.4	22.1	21.7
Uruguay	2.3	13.2	1.0	0.8	0.9	77.8	82.3	4.7	8.0	14.5	19.0
Latin America (14 countries)	5.5	21.5	4.0	4.1	3.5	44.1	67.1	32.6	18.9	13.5	19.4

Source: PREALC (1985).

^aCumulative annual rates.

^bAs a percentage of the total economically active population.

This was the same policy prescription that was being made at the world level, and enthusiasm for it was given a particularly strong boost by the successful experience of the South-East Asian countries, which gave rise to a good deal of research work in Latin America. Two types of studies can be distinguished. First, there were those whose arguments were made at the macroeconomic level and were based either on an analysis of trade régimes and performance, such as the Krüger-Bhagwati (NBER) project, or on a comparison of the performance of Asian and some Latin American countries. In both cases, the message was that the opening of the economies was the only method of ensuring growth and job creation. Some caveats were introduced, for instance, by the different readings of the national case studies that led the two coordinators of the NBER project to write separate project summaries (1978) and by the more thorough analysis made by Ranis (1983), who noted the importance of the initial conditions which determine different development paths but who also argued that changes such as agrarian reform and increasing agricultural productivity, together with rural industrialization and a shift towards more labour-intensive technologies and product mixes, could be introduced at any stage of development. A second line of research that was undertaken was to estimate the differential effect on employment of import substitution as compared to export promotion in the manufacturing sector. This was done in the cases of Brazil, Colombia, Chile and Uruguay (Krüger, *et al.*, 1981) by calculating employment effects using an input-output model. The conclusion was, in general, that the exports basket was more labour intensive, but that the existing structure was dominated by processed raw materials in which the respective countries had absolute comparative advantages.

The conclusions of this research pointed to the need to follow a more outward-oriented strategy and to make a better use of trade instruments, particularly lower tariffs and higher rates of exchange. This might be accompanied by incentives to produce capital goods which could also result in foreign exchange savings as well as a more integrated industrial structure. At this stage of development, the characterization of the situation as being one of import substitution

versus export promotion sets up a false dichotomy. Most Latin American countries now possess an industrial base which, although it could be upgraded, is already supplying increasing exports (Teitel and Thoumi, 1986). The issue is how to make it more efficient and how its capacity can be improved to compete in world markets. We will come back to this subject later on.

A third important dimension of employment-related research was that of technological change. In this connection, technology was analysed at various levels. At the macroeconomic level, the models developed to explain why the modern sectors were unable to absorb labour at the required pace, placed great importance on the process of technological transfer and dissemination and on the characteristics of imported technology. The main argument as presented by Pinto (1965) stressed the inappropriateness of technology created in developed countries in the light of the factor endowments of the Latin American countries. In addition, as little innovation or even adaptation was being undertaken, such technology was being transferred to an entirely different structural environment which was, for the most part, characterized by a greater concentration of capital and abundance of labour. The main result was that the benefits of technical progress were not reaching the majority of the population, while productivity differences (and, hence, income differentials) tended to be wider and did not show any tendency to decrease, as they had in what are today developed countries (Pinto, 1970; Tokman, 1982; Tavares and Serra, 1971). In terms of employment, this more heterogeneous productive structure meant that a higher investment cost was involved in absorbing the natural movement of labour between sectors (from agricultural to non-agricultural) and between different technological strata (from informal to formal sectors).

An analysis of technological choice was also made at the sectoral level, mostly in reference to the manufacturing industry. Many production function analyses were conducted which calculated elasticities of substitution (PREALC, 1980) and, in general, they indicated the presence of little flexibility. More possibilities of job creation were identified at a more disaggregated level (by

industrial branches, by size of establishments) and when indirect effects were included (PREALC, 1982b). The generation of employment was, then, apparently more responsive to demand composition (which was, in turn, heavily determined by income distribution) and to the possibility of promoting business establishments of certain sizes rather than to changes in relative factor prices.

Labour absorption in modern sectors, which on the whole was similar to international standards, exhibited several characteristics that affected the employment level and structure. The expulsion of labour from agriculture led to accelerated migrations to urban areas, and although the levels of investment and growth were generally high, dependency resulted in unstable growth and technological inadequacy, while the trade strategies then in use were unable to overcome the foreign-exchange constraint. This demand behaviour also needs to be placed in context, inasmuch as the labour supply was growing so quickly that its rate of expansion was faster than those observed during comparable periods even in the more recently industrialized and younger developed countries such as the United States or the Northern European countries. The rapid growth of the labour supply was concentrated in urban areas, where internal migration was combined with high fertility rates and an age structure which resulted in a rapid increase of participation in the labour market. The outcome has been dynamic insufficiency, to use Prebisch's words, but in relative terms. Employment was created, but it was insufficient to cope with the requirements of the labour supply, with the result that a significant although slowly decreasing segment of the population was employed in low-productivity activities. This was the main feature of the urban employment problem in the 1970s, and considerable research was done into the characteristics, organization and economic interrelationships of those working in the urban informal sector.

b) *The recalcitrance of underemployment*

A great deal of research on the urban informal sector was conducted following the introduction of the topic at the world level by the ILO in its Kenya report (1972). In Latin America, under PREALC's leadership, many studies were pro-

duced which resulted in a better understanding of the sector as well as in policy prescriptions designed to help those people working in this sector (PREALC, 1981b). An in-depth review of this literature exceeds the scope of this paper and has been undertaken by the author elsewhere (Tokman, 1978; 1987b). However, it may be useful to review briefly some of the findings of the academic work done concerning the definition of the sector, the nature of behaviour patterns, growth models and income determination within the informal sector and its heterogeneity.

The point on which scholars have been most in agreement as regards the definition of the sector has been the need to look into the various forms of production as a unit of analysis. This follows the lead of the pioneering Kenya report, but goes further. Surplus labour, unable to find jobs in modern sectors and confronted with the need for survival, has to find income-producing activities to perform. Given their lack of capital, both physical and human, the activities these workers can perform have to be easily accessible. The organization of production is then rudimentary, without any clear division of labour or of the ownership of the means of production and, as a result of competition, average incomes thus become the variable of adjustment (Tokman, 1978; Souza, 1980; Carbonetto and Chávez, 1984). Some authors have emphasized the labour process characterizing informal activities, i.e., unprotected labour (Portes, 1983), while others such as de Soto (1986) have underlined illegality as the main variable of definition. Both approaches are incomplete in that, although there is a significant degree of overlapping with the more accepted definition, they fail to incorporate into their analyses—and consequently, into their policy prescriptions—the need to act upon several variables simultaneously (Tokman, 1987a).

There has been less agreement as to the nature of the sectoral interrelationships involved. The key question, first posed by Emmerij (1974), as to whether evolutionary or involutionary growth of the informal sector could be expected has been answered in different manners. Some authors have highlighted the functionality of the sector and its benign relationship with the rest of the economy (Webb,

1974). Others (Quijano, 1974; Bromley, 1979; Birbeck, 1979) have stressed the subordinate or exploitative relationship either in the labour market, through the supply of cheap labour, or in the product market, through the production of low-cost wage goods. An intermediate analysis (Tokman, 1978) has incorporated the existing heterogeneity within the sector as a means of differentiating between an overall long-run trend towards a decrease in the informal sector's share in total output and the changes of structure likely to occur as a result of the fact that some informal activities are able to expand (mostly services and commerce) while others, such as manufacturing, face stronger competition and may see their market share reduced. If adequate policies are adopted, evolutionary growth of the informal sector can be achieved, at least during a transitional period (which could last for many years), until more productive jobs are created in the modern sectors. This view has recently been challenged by Portes and Sassen-Koob (1987) who, pointing to the recent expansion of these activities in developed countries, argue that the informal sector is a universal phenomenon. This is a crucial issue which should be further analysed.

A third point on which researchers have been in agreement is that the sector is heterogeneous. Most available surveys (Costa Rica, 1985; Carbonetto, 1985) indicate that there are income differentials within the sector depending on the type of activity performed. On average, domestic servants are usually the lowest paid, followed by workers in informal firms, who obtain between double and triple the pay of the former category. Self-employed workers receive around 50% more than wage-earners in informal activities, while the owners of informal shops make more than twice as much as their employees. Although the income figures provide evidence of the existence of significant differences within the sector, after adjustments are made for payments in kind (in the case of domestic services) and for unpaid family members (in the case of owners of informal shops), the magnitude of the differences is reduced to 1.5. This suggests that, in spite of the heterogeneity of the sector, incomes tend to fall within a limited range as a result of competition in the labour market (domestic services, self-employment and

work in informal shops) or in product markets where the ease of entry does not allow for extraordinarily high incomes.

The research focused on the underemployed was also policy-oriented. The main conclusion, in line with the ineffectiveness of the trickle-down strategy, was the proposal of specific policies directly geared to the most affected groups. Selectivity was recommended as a more efficient way of confronting the employment problem, rather than relying solely on macroeconomic instruments. Furthermore, as heterogeneity was found to exist within the urban informal sector, a set of multiple measures was suggested to help the underemployed and, hence the poor by supporting the productive unit, improving the welfare of the family and reforming the corresponding institutional arrangements so as to make these policies viable and more effective (PREALC, 1981b; FAO, 1987).

2. Employment policies in the 1970s

Specific policies to tackle the underemployment problem were the exception. The belief that sooner or later the trickle-down theory would work was supported by very rapid growth during the decade, which was largely financed by foreign capital. This dynamism obscured the fact that, in spite of such growth, underemployment levels were decreasing at a very slow pace.

The only general exceptions to this were specific supply-side policies or those measures geared to the improvement of labour-market transparency. Professional training institutions expanded their programmes, while labour exchanges were gradually incorporated into many labour ministries in the region. Their effects were limited, however, because they were based on a diagnostic analysis that was not in keeping with the situation in Latin America, where the employment problems were mainly due to a lack of productive jobs rather than to a mismatching of skills or of vacancies with the unemployed.

The insufficient creation of jobs in modern activities despite rapid growth was, if anything, attributed to mistaken macroeconomic policies. Indeed, the 1970s were an active laboratory for different economic policy approaches which, in

turn, led to additional research. I will refer to only two of the issues involved: the orientation of internal demand and the degree of openness of the economy.

Internal demand is a function of the level and distribution of income. In many countries of the region two antagonist models were followed in the course of the 1970s. In the early years of the decade when political forces were more favourable to a redistribution of income, a strategy first propounded by Dudley Seers in the ILO Colombia Report (1970) was based on the idea that income redistribution, apart from being an end in and of itself, would generate a "virtuous circle" of job creation, foreign exchange savings, and growth. The main argument was that the shopping basket of consumer goods of lower-income groups was more labour-intensive and involved the use of less foreign exchange than that of higher-income groups because the production of food, clothing and shoes required more labour and less imports than the production of durable consumer goods, which were mainly assemblages of imported components. A series of research projects on a number of countries in the region were undertaken in an effort to quantify the possible employment effects and the automaticity of the process (ILO, 1975; Foxley, 1974; Cline, 1972; Figueroa, 1972; Tokman, 1975). The main conclusions they reached were that such a strategy would create more jobs primarily due to its impact on the balance of payments and that, while changes in the consumption structure would also favour employment, the effect would be slight because the net employment effect within manufacturing would not be great owing to the capital-intensiveness of food and beverage production and the fact that the increased demand for agricultural products would be partially offset by a reduction in the demand for services.

The importance of technology was also crucial and was particularly associated with the size of the business establishments which would meet the increased demand and with the degree of obsolescence of existing plants (Tokman, 1975). More recent work on linkages also shows that indirect effects are important considerations, since the production of wage goods is generally more integrated than that of consumer durables (García, 1984; García and Marfán, 1985).

This policy was usually placed within an expansionary policy context in which the prevailing macro-régime was assumed to be of a Keynesian type dominated by insufficient effective demand. Wage policies were seen as appropriate redistributive instruments and, hence, were thought to bear a positive relation to employment. In addition, unused capacity was found to exist in many industrial branches, particularly those which produced wage goods. These policies were tried out to different extents and with diverse results in countries such as Argentina, Bolivia, Chile, Colombia and Peru during the first half of the 1970s. They did not last long, however, not only because of unforeseen internal economic results (such as supply shortages) but also because the international economic situation changed dramatically after the first oil shock. An even more important factor in some countries was the political instability which accompanied this strategy, particularly in Argentina and Chile, where the balance of power among social groups was affected.

The second half of the 1970s was the scene of radical changes in both the political and economic spheres. Military régimes took power in many countries and neo-liberal policies were tried out to varying degrees, especially in the Southern Cone countries. Employment issues were clearly linked to the economy's inability to expand at a sufficiently rapid rate, which, in turn, was attributed to the heavy protection of the internal market and to excessive government intervention in the market. The relevant diagnoses, as well as the corresponding policy prescriptions, are well known and a discussion of them would go beyond the objectives of this paper, but it is important to note that the results of research on the constraints and application of import-substitution strategies were available and that new research projects were undertaken in order to evaluate the effects of the more recent policies, particularly as regards their costs in terms of a more regressive distribution of income, lower employment levels and reduced wages. Several studies (Foxley, 1982; Cortázar, Foxley and Tokman, 1984; Canitrot, 1983; Prebisch, 1982) analysed the impact of neo-liberal policies which resulted in a de-industrialization process and even, in the extreme cases of Argentina and Chile, in the destruction of industries due to an excessive

opening of the economy through a combination of low tariffs and undervalued fixed exchange rates. Import competition plus the high capital costs of attracting foreign capital also gave rise to a large number of bankruptcies and to a deterioration in the financial position of many firms which has not yet been rectified. High rates of interest also distorted the allocation of investment, channelling it towards short-run high-yield financial speculation or residential and commercial construction for high-income groups. Wage policies were restrictive because it was assumed that the prevailing régime was of a neo-classical character and, therefore, real wages were inversely related to employment; in addition, given the existence of an undervalued and fixed exchange rate, it was also thought that wages should be kept low to maintain international competitiveness (Cortázar, 1984; Canitrot, 1981).

The effects on employment were chiefly a reduction in its level in modern sectors, along with a consequent increase in open unemployment (Chile and Uruguay) or in underemployment, through the expansion of informal-sector employment (Argentina), or a combination of both (Costa Rica). The employment structure

also shifted away from manufacturing and, in some cases (e.g., Chile), away from public employment (Tokman, 1986a). Real wages decreased, since the neo-classical analytical framework used for policy design included this as one of the main targets, while in some countries, union intervention and changes in the wage-bargaining process ensured that the desired economic policy was achieved. This also resulted in a change in social stratification that was unfavourable to organized labour, since leading sectors in manufacturing lost constituents in absolute terms; furthermore, their demands were less uniform due to the changes induced by the opening up of trade and of the financial sphere, and their bargaining position was weakened by the increase in unemployment and informal employment (Lagos and Tokman, 1984).

Not all the effects on employment were negative. Changes in the structure of production did generate new jobs, particularly in modern agriculture, due to the expansion of new highly labour-intensive exports and the restructuring of some branches of the industrial sector which allowed for productivity increases and technological updating.

II

Employment issues and policies in the 1980s

The international crisis which had hit Latin America by 1982 clearly revealed the precarious nature of the source of growth during the preceding decade as well as the weaknesses of the neo-liberal approach. What occurred is well known: huge increases in international interest rates, the deterioration of the terms of trade and the recession in world markets were aggravated by the pro-cyclical behaviour of private international banks, which drastically reduced the availability of new funds just when they were most needed, thereby seriously affecting the highly indebted economies. There was no alternative but to adjust to this situation and, under the international pressure exerted by donor countries, bank creditors and international financial

institutions, all the countries in the region eventually accepted the conventional IMF economic adjustment package. Paradoxically, this new state of affairs led to a more thorough rethinking of the prevailing economic policies than had previously been undertaken, as well as increasing the political feasibility of the specific policies suggested by researchers and some advisers during the preceding decade.

1. Adjustment policies. Their management and their effects

The first issue to be taken up was the critical review of the adjustment policies adopted by most countries. Two lines of analysis were fol-

Table 2
LATIN AMERICA: ECONOMIC CRISIS AND THE LABOUR MARKET, 1980-1985

(Cumulative annual rates)

	Growth of GNP	Employment effects					Wage effects					
		Non-agricultural employment	Un-employment	Urban informal employment ^a	Public employment	Employment in small firms ^b	Employment in manufacturing	Construction	Minimum urban	Industry	Public	Agriculture
Latin America ^c	0.5	3.3	8.1	6.8	4.6	6.6	-2.2	-3.3	-3.1	-2.3	-3.2	-2.9
Argentina	-2.5	0.5	21.8	3.2	1.0	...	-3.2	0.4	2.5	0.9	-0.7	...
Brazil	1.8	4.3	-0.8	9.3	4.9	11.6	-2.5	-3.3	-3.5	2.0	...	-0.4
Colombia	2.1	3.3	11.6	5.4	-2.9	1.2	1.6	2.6	...	3.0
Costa Rica	0.3	2.4	9.6	2.2	2.3	...	7.2	-1.0	2.3	2.6	-3.5	2.6
Chile ^d	-1.6	1.2	9.5	1.2	-4.6	...	-1.7	-15.3	-10.6	-5.1	-3.3	-9.9
Guatemala	-1.2	0.4	47.5	1.6	7.7	0.7	-1.2	4.1	...	5.7
Mexico ^d	-0.5	3.6	6.6	8.4	7.4	0.3	-2.7	-2.4	-9.7	8.5	...	-9.3
Peru ^d	-1.7	0.9	18.5	6.5	2.4	...	-4.7	14.9	-3.7	-13.4	-16.5	-8.4
Venezuela	-2.0	1.7	20.4	2.2	0.9	2.8	-0.5	0.4	2.5	0.9	-0.7	-0.8

Source: PREALC (1987).

^aSelf-employment, unpaid family workers and domestic services.

^bUnder 10 employees.

^cEmployment effects refer to a weighted average of nine countries. Wages refer to arithmetic averages for about 12 countries, depending on the type of wage in question.

^d1981-1985.

lowed. The first concentrated on the social cost of such policies, since the policy package was clearly biased against those population groups which could least afford the cost of adjustment. Studies by Cornia, Jolly and Stewart (1987), Tokman (1986a, 1986b), PREALC (1985, 1987) and ECLAC (1985), among many others, raised this issue and analysed the effect of these policies on the labour market and, particularly, on the poor. This recessive policy package generated a contraction in the demand for labour by modern firms which, given the rapidly increasing labour supply, produced a significant expansion of open unemployment. Not only were fewer jobs created, but those that were generated were of lower quality. A rapid increase in informal employment, in services as compared to manufacturing, and in public employment in relation to the modern private sector diminished average productivity and resulted in a deterioration in income. This latter effect was reinforced by the decline in real wages, which was one of the key instruments of the adjustment policy package. The impact on the labour market was also compounded by the decrease in social expenditure, which was also a consequence of the required reduction in fiscal deficits, another key component of the package (see table 2).

The second line of analysis, which was, of course, not independent from the first, involved an assessment of the efficiency of economic policy instruments in correcting disequilibria. The Latin American experience clearly demonstrates that a distinction must be made between theory and reality. Although most countries were able to adjust in a very short period, they did so by cutting imports, and the adjustment was thus achieved at the cost of a pronounced recession, with inflation accelerating and real wages deteriorating simultaneously. Both of these outcomes challenge the prevailing theoretical framework, which identifies excess expenditure and a loss of international competitiveness as the main causes of the problem. The standard policy package is a mixture of contractive fiscal and monetary measures and of policies designed to shift resources from non-tradeables to tradeables by means of a devaluation of the exchange rate in real terms in relation to wages. According to this model real wages do not necessarily have to fall, since the corresponding requirements apply

only to the prices of tradeables and the recessive impact of demand policies could be at least partially counteracted by the expansionary effects of the devaluation.

The reasons why this package resulted in an over-contraction of the economy are analysed in several studies (Foxley, 1982; Ffrench-Davis, 1983; ECLAC, 1984; PREALC, 1985; Taylor, 1987; Meller and Solimano, 1987). It is interesting to note three of the many conclusions they reached. The first is that the productive structure in the region is characterized by inelasticities and, hence, the response to macroeconomic policies is slower in coming and produces effects of a lesser magnitude than in more developed countries. The second is that the expansionary effects of a devaluation are only registered after the recession and generally with a lag of two years, which, given the chronic instability of the Latin American economies, usually means never. This is so in the present conjuncture because of several factors. International recession and protectionist policies reduce the potential impact on exports, particularly when there are competitive devaluations in countries with similar factor endowments. Trade structures in Latin America are price inelastic due to the large share of commodities and raw materials in total exports and to the importance of inputs and raw materials in the import bill. A devaluation affects overall prices through cost pressures and expectations and, as a result, real wages fall. This change in the distribution of income affects consumption and introduces additional contractionary forces. Finally, in a situation where most private firms are heavily indebted abroad, a devaluation significantly raises financial costs, thus affecting these firms' capacity to increase production. A third conclusion of these research projects has been that, as the policy package operates at the macro level, it has to introduce more pronounced changes in economic policy instruments than if a more selective policy package were used. This occurs with a devaluation when a large part of tradeables are price inelastic and register absolute comparative advantages or with an internal credit contraction which affects all borrowers regardless of their size or labour intensiveness.

An important aspect of the adjustment for those concerned with research and policy was that the recession coincided with very high and

increasing inflation in some of the countries, particularly Argentina, Brazil, Bolivia, Peru and Uruguay. The need to control inflation while minimizing the social costs led to heterodox proposals which were adopted in the first two of these countries (the Austral and Cruzado plans, respectively). Without entering into the many different aspects of these policy designs, one of their main characteristics was the identification of the regulations governing contracts, particularly within the labour market, as one of the principal causes of inflation. Highly indexed contracts, including wage contracts, were seen as having a built-in inertial component which resulted in rapid inflation even if, as was argued in the case of Brazil, both the balance of payments and the fiscal budget were in equilibrium (Arida and Lara Rezende, 1985; Frenkel and Fanelli, 1987; Frenkel, 1986; Arellano, 1987; Lopes, 1986; Modiano, 1986). A key component of these programmes was therefore to change these regulations, by concentrating readjustment dates and eliminating indexation. This step was analysed and proposed by Pazos when he compared European hyperinflation with chronic inflation in Latin America in a pioneering book (1972). A revival of inflation during both the post-Austral and post-Cruzado programmes demonstrated the resiliency of inertial factors and opened up new fields of inquiry into means of identifying how these changes in labour and other contracts could be given a more permanent character following the first stabilization shock, which, in both cases, also included wage and price freezes.

As a result of research and of policy experiments, today more is known about the management of economic policies and there is a greater awareness of the social costs involved in the adjustment process. Furthermore, research has provided grounds for the conclusion that, although adjustment costs may be unavoidable during crises such as the recent one, their magnitude and particularly their distribution among social groups can be affected by policy management. Accordingly, new policy proposals have been put forward which give priority to the protection of poorer groups during the adjustment period. *Ajuste con rostro humano* ("adjustment with a human face") (1987) and *Adjustment and social debt* (1987) are only two examples of such proposals.

2. A greater opportunity for specific policies. The case of the informal sector

The greater awareness of the situation of the poor and the expansion of informal employment have increased the popularity of specific policies as a means of supporting the sector. This is the second major employment issue of the 1980s. The popularity of such policies is reflected in many government declarations and instances of policy implementation in a number of countries, including Peru, Colombia, Guatemala, Ecuador and Bolivia, as well as in the increasing interest shown by private foundations at both the national and international levels in the financing and implementation of such policies. This interest is also one which is increasingly shared by such international financial agencies as the Inter-American Development Bank (IDB) and the World Bank.

There are many reasons for the increased appeal of policies aimed at the informal sector (Tokman, 1987a). Some of them are economic, while others are political and/or ideological in nature. The main economic factors include: i) the failure of the trickle-down strategy to bring about a significant reduction in the share of the urban informal employment, as suggested by the fact that the absolute number of people employed in the sector increased by 55% during the last decade; ii) the over-expansion of informal jobs as a result of the crisis of the 1980s (between 1980 and 1985 the number of informal workers increased by 39%); iii) the strong correlation between poverty and informal employment (from 75% to 80% of informal workers receive incomes below the minimum wage); iv) the gloomy perspectives for rapid growth in the next decade; and v) the increased evidence that relatively few resources are needed to implement these policies. The major political and/or ideological factors, for their part, include: i) an increased interest in informal activities at the world level, particularly in developed countries; ii) the return of democratic régimes in most Latin American countries, which allows for more open forms of grassroots organization and pressure, and the greater weight of the sector in elections; iii) the increased degree of conflict and violence in large cities associated with the location of informal activities; and, finally, iv) the

revival of neo-liberal positions and their emphasis on informal entrepreneurship, which, according to these schools of thought is the main sphere in which real entrepreneurial capacity is to be found in developing countries.

In spite of the short period during which such policies have been implemented, at least six major lessons have been learned from this experience. The first is that it is necessary to avoid creating excessive expectations as to the results or the simplicity of these policies. The second is that productive support for the informal sector (access to markets and resources) can only be delivered to a core group in the sector, which is constituted by the more organized units. The third is that such policies will not necessarily result in short-run income gains for the poor segments of the population. Instead the first impact will be an increase in the incomes of informal entrepreneurs, which will not necessarily be transferred to the wages of their employees due to the abundance of labour, job instability, the sector's low skill requirements and the lack of labour contracts or organizations. A delayed impact will be an increased demand for labour which could mean either new jobs or longer periods of work for those already employed; in either case this would have a progressive effect as regards the level of equity. The fourth lesson is that the dual role as household and production unit of many informal establishments heightens the efficiency of a combination of productive support and welfare policies for the target groups. The fifth is the importance of consulting the potential beneficiaries to avoid ill-advised policy designs. Finally, the sixth is that the corresponding institutional infrastructure should be kept to a minimum so as to avoid an overly large bureaucracy, prevent political manipulation and ensure a more permanent form of implementation through existing institutions in the public and private sectors.

3. A new dimension of the employment problem and policies: the unemployed

The third and last issue that will be discussed here in relation to the 1980s is the new dimension of the employment problem which has emerged as a result of the fact that the crisis and the policies followed in an attempt to cope with

it have given rise to increased open unemployment. Between 1980 and 1985 the number of unemployed in urban areas grew by 48% and the unemployment rate rose from 7% to 11%. This is a new phenomenon since historically, the employment problem had been one of underemployment, while open unemployment had been low and stable, except for very short cyclical fluctuations. In addition, the unemployed were mainly members of the secondary labour force (mostly women and young people who were not heads of household) because heads of household could not afford to be without incomes while searching for more formal employment. The rise in the rate of open unemployment was also accompanied by changes in the composition of the unemployed workforce, with increases being registered in the proportions of heads of household, men in the most economically active age groups, and workers with previous experience, in more organized sectors of the labour force and with more education.

Under these conditions, the social effect of unemployment has become more dramatic and the capacity of the unemployed to pressure for policy action has also become greater. As a result, there has been an increased demand for direct employment policies, and several countries have implemented specific employment programmes, including Brazil, Bolivia, Chile and Peru. Some research on the effects of such policy instruments has already been completed, and the amount of data available is rapidly increasing (Rodríguez and Wurgaft, 1987; Houghton, 1987; Vigier, 1987; Cortez, 1987; PREALC, 1987). The general conclusion is that these programmes are efficient instruments during emergency periods because they can be implemented very rapidly at a low cost, can be highly selective and can therefore serve as a means of providing income to the poorest groups. They may also be politically attractive, both because they represent a governmental decision to take action on social issues and because, from a macroeconomic perspective, they can be used to produce a selective expansion of demand, thereby reactivating the economy without exerting too much pressure on the balance of payments or on prices.

As in the case of informal-sector policies, some lessons have already been learned from the

countries' experiences to date. First, these measures are more effective in transferring income to poor families than in reducing unemployment, since many economically inactive members of the target groups enter the market as a result of these programmes. Indeed, between 70% and 90% of the programmes' beneficiaries have been women. Secondly, in order to generate more jobs, the wages paid should be higher and the programmes should be targeted at specific groups (e.g., heads of household), or should be concentrated in zones where unemployment is higher. Thirdly, policy effectiveness is greater when the number of projects is larger and particularly when the projects involve the improvement of sites and services in marginal zones, when the projects' effects are of a more permanent nature (as in the case of

irrigation works or the creation of new firms), and when a sufficient supply of complementary resources, in addition to labour has been made available. Fourthly, in order to avoid mismatching it is necessary to take into account personnel characteristics, as these considerations will influence the type of jobs to be created, the location of the projects and the working hours among other factors. Fifthly, the target groups will show a greater degree of interest if the projects are of direct benefit to the programme participants. Finally, as in the case of the informal sector, the institutional structure for the implementation of these policies should be such as to avoid the creation of large centralized bodies. In order to be effective, the operational scheme should be highly decentralized and as free as possible of political manipulation.

III

The present debate

The need to diminish the social cost of adjustment will continue to be an important policy and research issue in the near future. However, changes in the economic and political situation make it necessary to take a fresh look at the factors involved. On economic grounds, the question is no longer how to prevent the cost of the short-run adjustment from being imposed on the poor, but rather how can the envisaged structural adjustment ensure that the solution of the historical social debt, which increased still further during the recent crisis, is not once again postponed. On political grounds, the re-emergence of democracy places increasing constraints on the traditional way of managing economic policies by decree, while social pressures will be more difficult to put off.

The economic scenario has changed from a short-run to a structural adjustment. There are many reasons for this. First of all, a dramatic short-run adjustment has already been made by most of the countries in the region (at the cost of a 9.5% drop in per capita GNP between 1980 and 1983). There is also a greater recognition of the failure of the short-run policy package to

create the necessary conditions for a longer-term recovery. The expectations of a worldwide recovery which were the basis for the conventional policy prescriptions, have proved to be unfounded and the liquidity crisis has increasingly become one of solvency. Finally, although the Latin American economy has apparently been on the road to recovery since 1984, the progress made this far has been insufficient and may be short-lived, since it is largely the result of falling oil prices and interest rates. Indeed the situation now seems to be reversing; per capita GNP as of 1987 was still 7% below its 1980 level, imports are 32% lower than they were in 1981, and the effects of the recovery on unemployment and real wages have been insignificant.

The proposed structural adjustment should incorporate new research and policy dimensions. The first such dimension relates to the impact of new technologies. The developed countries have been in the process of restructuring for more than a decade now, and the adoption of new technologies is affecting labour processes as well as labour organization. This aspect has received only marginal attention in Latin America, in

spite of the rapid incorporation of new technologies taking place in modern sectors. Two issues seem to be important in this context. Firstly, there is a need to determine what effects the new technology is having on employment, including its impact on employment levels, as well as changes in the skill profile. Research on this aspect, which even in the developed countries is still inconclusive (Emmerij, 1987), should take into account the local characteristics of the production structure and skill availability. Secondly, there is the issue of the organization of labour processes. The greater flexibility of the production process made possible by the new technology promises to be one solution for problems of low productivity in the developed world, but it also affects labour relations and, particularly, labour legislation and protection. In response to this situation, policies aimed at reforming labour codes and social security systems are being suggested, but in general they have not been based on a sound analysis of the existing situation or of the relevance of prevailing formulas to the specific characteristics of the region. These are areas in which joint efforts by the North and South could produce greater benefits.

Another area of interest is the management of economic policy instruments within a framework of structural adjustment. It is possible to analyse the effects of most such instruments on employment and income, but only two types need be mentioned here in order to illustrate the issue: public expenditure and wage policies. Undoubtedly, the possibilities of increasing public expenditure will be limited in the future. Indeed, the need to keep fiscal deficits under control will probably require spending cuts. This lends greater importance to the criteria to be followed in order either to increase employment and equity and the role of the public sector as an employer, or, in the case of reductions in public spending, to lessen the effects on them.

A selective management of public expenditure requires a knowledge of the impact that different factors or projects would have on employment and income. A number of studies have already been conducted on the employment effects of public investment (PREALC, 1984), as well as several studies on the impact of public expenditure on the poor (Foxley, Aninat and Arellano, 1979; Rodríguez, 1985; Webb, 1973;

PREALC, 1976). This opens up greater opportunities for a more selective management and targeting of public expenditure, and under these circumstances, research done during the previous decade may well prove, as in the case of the informal sector, to be a useful input for policy design. This, in turn, generates additional research requirements.

The public sector has historically been an important employer in Latin America. Public employment has increased at faster rates than non-agricultural employment and its share has grown even more rapidly in those jobs performed by the more educated (Echeverría, 1985). This has partly been the result of an increase in the functions performed by the public sector, but in part it has also been due to the fact that the sector has served as a buffer in order to diminish the social conflict associated with the inability of the private sector to create jobs at a required rate. If current trends continue, however, it is unlikely that the sector will be able to play this major role in the future, even if massive public employee lay-offs can be avoided. This opens up areas of analysis in which more research is needed. One such area relates to the question of public employees' functions and incentives, particularly in a context where reductions in the wages paid in the sector affect its ability to attract personnel having the required skills and knowledge. Another concerns the impact that a less dynamic role for the public sector could have on the overall employment situation, on unemployment as such and on the demand for given skills. This, in turn, would involve a review of the educational system, particularly at university level.

The second area of economic policy in which additional work is required is that of wages. It is generally acknowledged that real wages have declined during the adjustment period. In many countries, the present wage level is below that which prevailed at the beginning of the 1970s. A key component of any strategy will thus be an adjustment of wages with a view to restoring them, at the least, to their pre-crisis levels. However, macro- and microeconomic constraints usually lead to the adoption of a common formula under which, in the best of cases, wages are to be kept constant in real terms or, more often, further reduced. The constraints do indeed exist, but this approach is inconsistent with a policy

aimed at diminishing the social debt. New options must therefore be found. To this end, research should be undertaken to explore, for example, the degree of wage-structure flexibility which would allow for greater and differentiated readjustments in the minimum wage; the possibilities and operational means of linking readjustments to changes in productivity; and new methods of bringing about a dynamic redistribution of income and wealth through worker profit- or capital-sharing schemes.

The formulation of such wage policies will also heighten the need for further research into how labour markets function in developing countries. In the past, this has been an almost forgotten field of inquiry, inasmuch as it falls between the subject area of concern to those who have approached the employment problem from a growth and equity perspective and that of interest to those who have concentrated on a more traditional sort of labour market analysis. The behaviour of employment and wages in segmented markets has, however, led to a search for alternative analytical frameworks in these cases. The factors determining employment and wages seem to be different depending upon the segments involved, and their interrelationships are a matter that is still under discussion. The setting of wages observed in more organized sectors transfers the weight of the adjustment to unemployment, while the marked accessibility of the informal sector makes wage and income flexibility the variables of adjustment. The choice between employment at low income levels and open unemployment is not yet clear. Further research in this area will therefore be required for purposes of policy design, since con-

ventional analyses do not provide sufficient information in this regard.

Finally, the present political scenario also opens up more opportunities for interdisciplinary research. Increased bargaining and participation by social actors will call for substantive efforts in many fields within Latin America. Firstly, an effort will have to be made to build up the institutional capacity of the agents involved, and this will require a fuller knowledge of the economic situation and an ability to deal with technical issues. Secondly, the stronger the agents involved, the more lasting and equitable will be the outcome of such negotiations, and this in turn creates a need for legitimacy. Thirdly, changes in government will also have to be made in order to establish the procedures for intervention in the event that it becomes necessary, as well as in order to build up the human resources capacity required for such a step. Finally, those not represented by the traditional social actors (workers and employers), such as peasants and informal workers, should also be allowed to participate. This means that the constraints affecting them and, even more importantly, their demands must be identified. It will also require the design of more efficient institutional means of attending to these demands, which are usually made at the local level. In turn, decentralization policies should be explored with a view to increasing the delivery capacity of the public sector. Finally, negotiations between established groups should go beyond questions of equity and consider job creation as an important objective, since in the long run this will be the most effective way of assisting those now working in low productivity sectors.

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