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Director

RAUL PREBISCH

Technical Editor

ADOLFO GURRIERI

Deputy Secretary

GREGORIO WEINBERG



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Unequal development and the absorption of labour

Latin America
1950-1980

*Victor E. Tokman**

Various studies carried out at CEPAL between 1950 and 1980, especially by Raúl Prebisch, have attempted to probe into the principal factors influencing the absorption of labour in Latin America, with special emphasis on the rate of capital accumulation and economic growth, the type of technology used, the proportion of the labour force employed at low levels of productivity and, more recently, the consequences of the mechanisms of appropriation and utilization of the surplus which are an integral part of peripheral capitalism.

In this article, the author calls into question some of the hypotheses presented in these studies, comparing Latin America with the developed countries, especially the United States. This analysis shows that one of the special features of Latin America is the persistence of the employment of a considerable proportion of the labour force at low levels of productivity—a feature which had been pointed out by CEPAL studies from the beginning.

The productive absorption of this labour is made more difficult by the dynamic insufficiency of the economy, which is incapable of reducing this proportion despite the high rates of accumulation and growth of the modern sectors, this being explained, in turn, by the nature of technological change and the distribution and appropriation of wealth. For this reason, the author concludes that policies oriented towards the productive absorption of labour should place more stress on the selection of technology and on the raising of the productivity levels of the most backward sectors: solutions which in most cases require the modification of the predominant patterns of access to reproductive capital.

*Director of the Regional Employment Programme for Latin America and the Caribbean (PREALC).

I

Current interpretations

The purpose of this study is to offer some conceptual elements for interpreting the process of absorption of labour in Latin America during the past 30 years, in the light of the available information provided by PREALC (1981).

The current regional interpretations may be associated in one way or another with the work of Raúl Prebisch and other authors connected with CEPAL, who draw attention to the low level of absorption of labour and associate it with various factors inherent in Latin American development. These interpretations have been changing over time, and those which we will call here the ideas of the 1960s are clearly distinguishable from those of the 1970s.

The former arose as an implicit reaction—since they were not made explicit in any of the studies published—to certain distortions which were appearing in the behaviour of the labour absorption process. These distortions were defined in relation to what should have occurred according to a supposed normal model of growth. The implicitly accepted normal model postulates three basic trends associated with growth. The first is the transfer of population from rural to urban areas; the second is that the secondary sectors (particularly manufacturing) become the most dynamic ones as regards absorption of labour; and the third refers to the growing degree of homogenization resulting from the reduction in the intersectorial differences in productivity (between agricultural and non-agricultural and between tertiary and secondary).

In order to analyse the historical validity of the normal model in other countries of the world, one may refer to two pioneer works by Clark (1951) and Kuznets (1957). Both studies, but especially the second, analyse the changes in the sectoral distribution of the product and of employment, and the differences in productivity. For this purpose, they review the available information for many countries and make comparisons of the position in a number of countries in a given year (around 1947) or of the changes which have occurred in a single country through time (from the middle of the nineteenth century until around 1950).

This analysis makes it possible to test empirically the validity of two of the expected trends, but not the third. There appears to be a clear association between the transfer of labour to the non-agricultural sectors and growth, and differences in productivity tend to decrease as countries develop. This behaviour is observed both in comparisons between countries and over time. However, it is not so clear what role the secondary sectors have played historically in the absorption of labour. The country analysis reaffirms the normal model by indicating a growing absorption of employment in non-agricultural activities and, within these, mainly in the secondary sector. The analysis over time, however, shows that the tertiary sectors are the ones which absorb the greatest proportion of the labour displaced from agricultural activities, while the secondary sectors show asystematic behaviour, with expansion in some countries and contraction in others, albeit in general a lower growth rate than in the tertiary sector.

Studies by Prebisch (1970) and CEPAL (1965) analysing the evolution of the structure of employment in the region until the end of the 1960s show two anomalous trends.¹ In the first place, there is a premature urbanization resulting from the high rates of rural-urban migration, and in the second place, there is a structural deformation in the direction of a premature tertiarization of the non-agricultural labour force, given the inability of the secondary sectors, particularly manufacturing, to absorb it. In turn, this behaviour results from three main factors: firstly, the dynamic insufficiency which leads to a slow expansion of the Latin American economy; secondly, the effect

of technological change, which has meant the use of increasingly capital-intensive techniques, and finally, the need to absorb a high proportion of the labour now employed at low levels of productivity in the artisanal sector of manufacturing.

The most recent works by Prebisch (1976, 1978 and 1981, *inter alia*) probe more deeply into dynamic insufficiency, examining the process of appropriation and use of the surplus and maintaining that the use of inadequate technology resulting from delayed industrialization is another basic explanatory factor. Finally, these studies identify structural heterogeneity (analysed by various authors, but particularly Pinto, 1970) as another important variable in explaining the behaviour of employment in the region. This concept, as opposed to previous ones, brings out not only the intersectoral differences but also the intra-sectoral ones.² It should be noted that the emphasis previously placed on the two basic distortions—premature urbanization and structural deformation—are abandoned in this approach.

The present study explores the relevance of the above-mentioned explanatory factors for the period 1950-1980. For this purpose, comparisons are made with developed countries—particularly with the United States during the significant periods—in order to determine what factors are specific to the Latin American situation. The methodology used in the analysis does not, of course, imply accepting that there is a single process of development at the world level, but on the contrary makes it possible to paint a more precise picture of the characteristics of what Prebisch has called 'peripheral capitalism'.

¹Although not mentioned explicitly, these are understood to refer to the normal model described above.

²The usual dichotomy between artisans and factory workers in the manufacturing sector is only an extreme case of the contrasts which may be observed between different technological strata.

II

Basic structural anomalies

1. *Migrations and premature urbanization*

One of the most outstanding characteristics of the development of the employment situation in Latin America during the past 30 years has been the rapid rate of migration from rural areas to the cities. Thus, in 1950, 55% of the labour force was engaged in agricultural activities, while in 1980 it is estimated that only 35% worked in this field. Although the transfer of population from rural to urban areas is to be expected as normal behaviour when countries are growing, it is noteworthy that there was a premature manifestation of this phenomenon during the 1960s.

In order to assess whether the transfer of population from the country to the city was extremely rapid or occurred during a very brief period, we may examine the experience of some developed countries which showed similar demographic behaviour, such as the United

States, the Scandinavian countries and Japan (the countries of Western Europe displayed types of demographic growth and thus labour growth which are not comparable with those of the Latin American countries).³

Table 1 shows clearly that the experience of the region does not display very different characteristics from those of the United States, Sweden or Japan in respect of its population, labour, and spatial mobility dynamics. The 30 years that it took Latin America for the percentage of agricultural labour to drop from 55% to 35% is a similar period to that required for similar evolution to occur in the United States (between 1870 and 1903), and Sweden (between 1891 and 1920). Similarly, the three de-

³Thus, for example, the increase in the labour force in France since the beginning of the nineteenth century has been 0.3% annually, and even in Italy it grew by only 0.5% annually between 1871 and 1936 (Clark, 1951).

Table 1

POPULATION DYNAMICS AND MIGRATIONS

| | Latin America | United States | Sweden | Japan |
|---|---------------|---------------|------------------|------------------|
| Percentage of labour force working in agriculture | | | | |
| (i) 55% | 1950 | 1870 | 1891 | 1920 |
| (ii) 42% | 1970 | 1890 | 1912 | 1940 |
| (iii) 35% | 1980 | 1903 | 1920 | n.d. |
| Number of years between (i) and (ii) | 30 | 33 | 29 | n.d. |
| Number of years between (i) and (iii) | 20 | 20 | 21 | 20 |
| Annual population growth ^a | 2.8 | 2.0 | 0.7 | 1.2 ^b |
| Annual growth in labour force ^a | 2.4 | 2.7 | 1.5 ^c | 1.6 ^b |
| Annual growth in urban labour force ^a | 3.7 | 3.7 | 3.1 ^c | 2.9 ^b |

Source: Latin America: information provided by PREALC.

United States: Lebergott (1964).

Sweden and Japan: Colin Clark (1951).

^aBetween (i) and (iii).

^bBetween (i) and (ii).

^cBetween (ii) and (iii).

veloped countries included in the table took 20 years, —as did Latin America— to increase the proportion of non-agricultural labour from 45% to 58%.

An analysis of the table also makes it possible to examine the relative validity of the argument which explains Latin America's limited labour absorption capacity by the rapid growth of its population. Although it has been confirmed that the region's population growth rate is the highest of all the countries considered, the differences diminish when referring to the labour force, which is the relevant concept in an analysis of the employment situation. Indeed, during the comparison period the United States showed higher labour force growth rates than those recorded in the Latin American countries.

2. Structural deformation and premature tertiarization

According to the current theories, premature urbanization was partly the cause of a deformation in the sectoral distribution of labour among non-agricultural activities. Thus, both CEPAL (1965) and Prebisch (1970) draw attention to the insufficient labour absorption of the secondary sectors (industry, mining and construction), and particularly of manufacturing. According to various studies, among them the above-mentioned ones by Kuznets and Clark, in proportion as the average income of a country increases, there is likely to be a reduction in the share of agricultural labour and an increase in the importance of employment in the secondary and tertiary sectors, and the increase in the secondary sectors is likely to be more rapid during the first stages of development.

Contrary to expectations, the information analysed by CEPAL going up to 1965 showed a reduction in the share of manufacturing employment in non-agricultural employment. Thus, the 1965 CEPAL report indicates a reduction in the share of manufacturing employment from 35.4% in 1925 to 27.1% in 1960, while Prebisch (1970), dealing with the participation of the secondary sector, shows a drop from 35% to 31.8% and estimates a level of 30% for about 1970.

Table 2, made up from the most recent

Table 2
ABSORPTION OF LABOUR IN THE
SECONDARY SECTOR^a

(As a percentage of non-agricultural labour)

| | 1950 ^b | 1970 ^b | 1980 ^b |
|---------------------|-------------------|-------------------|-------------------|
| Latin America | 42.0 | 39.7 | 40.3 |
| United States | 50.0 | 47.4 | 41.5 |
| Sweden ^c | | | |
| (i) | 36.4 | 50.0 | 53.8 |
| (ii) | 62.2 | 63.2 | 57.8 |
| Japan | 49.0 | 36.9 | |

Source: Latin America: information provided by PREALC. United States, Sweden and Japan: Kuznets (1957).

^aIncluding manufacturing, mining and construction.

^bTime periods are similar to those defined in table 1. Latin America 1950 corresponds to United States 1890, to Sweden (i) 1891 and (ii) 1900, and to Japan 1920. Latin America 1970 corresponds to United States 1890, to Sweden 1912 and 1924, and to Japan 1940. Latin America 1980 corresponds to United States 1903 and to Sweden (i) 1920 and (ii) 1938.

^cThe estimate for (i) corresponds to data from Colin Clark (1951); the estimate for (ii) corresponds to data from J. Svernilson, cited by Kuznets (1957).

PREALC figures, confirms that the secondary sector is not increasing its share in non-agricultural labour, since it decreased from 42% to 40% between 1950 and 1970 and then apparently stabilized at that level. This behaviour too, however, is similar to that shown by the United States, Japan and Sweden (in one of the available estimates) in the relevant comparison period: indeed, these countries showed greater reductions than in Latin America during periods of equal duration. It should be noted that the highest level reached by the countries compared exceeds the Latin American level, which can partly be attributed to the differences in technologies between the periods considered. We will return to this point later.

In addition to looking at the results of the above comparison, it is worth reviewing the conclusions of the studies which suggested that a given behaviour for the structure of employment could be predicted. Thus, as pointed out earlier, Kuznets reaches different conclusions when he analyses the information over time (30-40 years) for 28 countries; although it is true

that there is a reduction in the share accounted for by agricultural employment in the total as income grows, the secondary sector does not show such consistent behaviour as in the international comparisons. In five countries, the share of the secondary sector in the total decreases, and in another five the increases are very small. Finally, the proportion of the labour force in tertiary activities grew in all the countries, and in most of them it did so more rapidly than employment in the secondary sectors.⁴

The behaviour of manufacturing is the main factor determining the evolution observed in the secondary sector, and this gave rise to a series of interpretations which high-

light the insufficiency of the manufacturing sector in the creation of employment. The international comparison shows, however, that, like the entire secondary sector, the share of industrial employment went down slightly from 1950 to 1970 and stabilized around 28% of the non-agricultural labour force as from the latter year. This drop is lower than that recorded in the United States between 1870 and 1903, and the level of the coefficient is on average similar to that of the developed countries after the 1920s, which again suggests the influence of delayed industrialization on the absorption of labour.⁵

III

Explanatory factors

1. *Dynamic insufficiency and accumulation capacity*

The deformation of the structure of employment generated by the low relative capacity of manufacturing to absorb labour would appear in turn to be partly the result of insufficient accumulation capacity. The imitation of the consumption patterns of the central economies leads, according to Prebisch, to the consumption of that part of the surplus which should be used for expanding productive capacity, thus reducing the possibilities for increasing production and employment; this process is known as dynamic insufficiency.

In order to examine to what extent dynamic insufficiency has been a determining factor in the evolution of the employment situation in Latin America in the past 30 years, we should take another look at the international comparisons, particularly with the United States in the relevant period.

⁴Almost all the developed countries cited as evidence of the 'atypical' behaviour of Latin America are also in this position. Among them are England from 1841 to 1951; France from 1866 to 1950; Germany from 1882 to 1933 and Italy from 1871 to 1954 (Kuznets, 1957).

In the first place, the growth of the product of Latin America on average exceeded that of the United States in the period when the latter country was experiencing internal migrations of the same magnitude as those which occurred between 1950 and 1980 in Latin America. In the second place, the investment coefficient in the two cases is practically equal. The selected period in United States economic history shows the highest rates of the past century and a half, since after 1920 the investment coefficient did not rise above 15% there. In addition, it should be remembered that the United States is the country which had the highest investment rates in the world, both during the period between the middle of the nineteenth century and the First World War and from the end of the nineteenth century until around 1960, which were the years analysed by Kuznets (1961).⁶ Thus, if this compar-

⁵The share of manufacturing employment in non-agricultural employment in Latin America in 1970 (28.4%), which was maintained in the following ten years, was similar to that of the United States in the 1920s and of France in the late 1930s, and slightly lower than that of England in this century.

⁶Interestingly enough, the only country which surpassed the United States in the second sub-period was

Table 3
CAPACITY FOR ACCUMULATION AND GROWTH OF THE PRODUCT: LATIN AMERICA
AND THE UNITED STATES

| Years | Latin America | | Years ^c | United States | |
|-----------|------------------------------------|-------------------------------------|--------------------|------------------------------------|-------------------------------------|
| | Growth of the product ^a | Investment coefficient ^b | | Growth of the product ^a | Investment coefficient ^b |
| 1950-1960 | 5.1 | 20.5 | 1869-73/1877-81 | 6.5 | 18.9 |
| 1960-1970 | 5.7 | 20.0 | 1882-86/1892-96 | 3.3 | 22.3 |
| 1970-1980 | 5.7 | 24.0 | 1891-1901/1902-06 | 4.5 | 23.0 |
| 1950-1980 | 5.5 | 21.5 | 1869-73/1902-06 | 4.8 | 21.4 |

Source: Latin America: CEPAL.

United States: product: Kuznets (1956); investment: U.S. Department of Commerce, Bureau of the Census (1960).

^aAnnual growth rate of the gross domestic product at constant prices.

^bRatio between gross fixed investment and the gross domestic product, both at constant prices.

^cThe periods corresponding to the growth rates of the product do not correspond exactly to those of the investment coefficient, due to problems in the original presentation of the data. The first subperiod of the product corresponds to 1869-78/1879-88; the second to 1879-88/1889-98 and the third to 1889-98/1899-1908. The total corresponds to 1869-78/1899-1908.

ison suggests anything it is that Latin America seems to be showing a similar dynamism to that displayed by the United States in the past, so that it is necessary to decide what meaning is to be assigned to dynamic insufficiency.

The evidence of the past three decades indicates that there are limitations to the interpretation of the problem in terms of dynamic insufficiency, at least as regards absolute dynamism, so that it is necessary to look more closely at the absorption of labour by occupational category and the differences in productivity, both between sectors and within some sectors. The first is necessary because it can more precisely reflect the particular situation of employment in Latin America, and the second because it enables us to analyse the cost involved in the creation of production jobs.

2. Structural heterogeneity

(a) The informal sector

Perhaps the most significant phenomenon

Argentina, which is also the only Latin American country included in the comparison. While the United States registered a coefficient of gross fixed investment, not counting variation in stocks, of 18.8% in the 50 years between the period 1894-1913 and 1946-1955, Argentina showed an investment coefficient of 25.7% during the first 54 years of this century.

in the employment situation in Latin America is the presence of an informal urban sector which not only absorbs a considerable share of the urban labour force but also does not seem to show any signs of decreasing. Many studies deal with this subject from very different angles (see for example, PREALC, 1978), but it is not appropriate to analyse them here. It is enough to point out that this sector is made up of activities which are quite easy to enter, require little capital and organization, and are associated generally with small units of production. These characteristics result on average in low levels of productivity per person and a low capacity for accumulation.

Table 4 shows the size and evolution of employment in the Latin American informal sector and compares it with the behaviour shown in the United States in the relevant period.⁷ It can be seen, first, that the informal sector accounts for about 30% of the urban labour force in the region and that this level has remained practically the same during the past three decades. It should be noted that in about 1900 the United States registered a similar share for this sector, but unlike the situation in Latin America there was a clear tendency to

⁷Strictly speaking, due to the availability of information, the period under consideration in the United States begins 30 years after that used so far.

Table 4

URBAN INFORMAL SECTOR: LATIN AMERICA AND THE UNITED STATES^a

| Latin America | | | | United States | | | |
|---------------|--|--------------------|-------|---------------|--|--------------------|-------|
| Years | Non-household informal sector ^b | Household services | Total | Years | Non-household informal sector ^c | Household services | Total |
| 1950 | 20.0 | 10.5 | 30.5 | 1900 | 23.2 | 10.4 | 33.6 |
| 1970 | 19.8 | 9.6 | 29.4 | 1910 | 18.9 | 8.2 | 27.1 |
| 1980 | 20.8 | 9.0 | 29.8 | 1920 | 14.8 | 5.4 | 20.2 |

Source: Latin America: PREALC (1981).

United States: Lebergott (1964).

^aPercentages of the non-agricultural labour force.

^bIncluding own-account workers, except professionals and technicians, plus unpaid family members.

^cIncluding own-account workers plus unpaid family members.

decline in the 20 years under consideration.⁸ This situation occurs both in the informal non-household sector and in the household services sector.

Moreover, as shown in table 5, there are appreciable differences in the sectoral distribution of informal employment. If we observe the sectoral importance of own-account workers (considered as a suitable proxy), we note that the levels are almost similar for the urban total, but in Latin America they are distributed equally between the industrial and services sectors, whereas in the United States these workers are concentrated mainly outside industrial activities. It also confirms that there is a clear asymmetry in the trend, which in the case of the United States appears in all the sectors.

The above comparative analysis suggests at least three conclusions which are useful in interpreting the evolution of the employment situation in Latin America. The first is that the size of the urban informal sector seems to be associated with the beginnings of intense migratory processes, and is not a feature peculiar to the region. The second highlights

the difference in evolution, since in Latin America the sector persists almost without decreasing while in the United States it is gradually absorbed by the urban modern sectors. Finally, the sectoral distribution brings out an additional difference, since Latin America shows a relatively high level of informality in its industrial sector, similar to the average, while this level is low in the United States. These two latter characteristics are among the peculiarities of the employment situation in the region which show that, while the United States has been resolving the problem of its informal sector, the region has been incapable of doing so in the past 30 years, and that the Latin American industrial sector must deal with an additional task compared with the situation faced at the corresponding time by American industry.

It is clear that the size and distribution of the informal sector is only one indicator of the differentiated effort which the Latin American economy must make in order to solve its employment problem. The other indicator concerns the differences in productivity existing both between sectors and within them, since these differences, along with the above-mentioned factors, bring out the magnitude of the adjustment required.

(b) *Intersectoral differences in productivity*

Following the methodology used up to

⁸The estimate for the United States includes professionals and technicians, in the category of own-account workers, thus enlarging the sector. In addition, given the increase shown in this occupational category during the period, the decline in the informal sector proper must have been even greater.

Table 5
OWN-ACCOUNT WORKERS BY SECTORS: LATIN AMERICA AND THE UNITED STATES

| Latin America | | | | United States | | | |
|---------------|--------------------|--------------------|----------------------------|---------------|--------------------|--------------------|----------------------------|
| Years | Total ^a | Urban ^b | Manufacturing ^c | Years | Total ^a | Urban ^b | Manufacturing ^c |
| 1950 | 26.4 | 19.2 | 22.1 | 1900 | 34.0 | 22.2 | 7.2 |
| 1960 | 29.9 | 20.9 | 23.1 | 1910 | 29.4 | 18.1 | 6.0 |
| 1970 | 28.1 | 19.0 | 20.7 | 1920 | 26.2 | 14.1 | 4.4 |
| 1980 | n.d. | 19.9 | n.d. | 1930 | 23.1 | 13.4 | 3.3. |

Source: Latin America: information provided by PREALC.
United States: Lebergott (1964).

^aOwn-account workers as a percentage of the total labour force.

^bUrban own-account workers as a percentage of the urban labour force.

^cOwn-account workers in manufacturing, as a percentage of the labour force of that sector.

now, we can determine the similarities and differences in the productivity differentials among the productive sectors. Table 6 presents the information for Latin America in the past 30 years and that corresponding to the United States, Sweden and Japan during comparable historical periods; its analysis allows us to draw certain conclusions.

Firstly, it seems clear that Latin American agricultural productivity is relatively low, considered both in relation to the other productive sectors and to the other countries included. In addition, even though a tendency is noted for the levels of productivity of agricultural and non-agricultural activities to become more similar, this is occurring at a much slower rate than in the United States and Sweden.⁹

Secondly, low productivity per person in the non-agricultural sectors, particularly in services, may even hide the real differences that exist. It is therefore important to analyse the differentials between the agricultural sector and the secondary sector, and between the latter and services. Comparing agricultural productivity with that of the secondary sector, the above becomes even more clear. Agricultural productivity is extremely low, and its dif-

ference from that of the secondary sector is not diminishing, as occurs in the other countries. In contrast, the differences in productivity among the non-agricultural sectors are small and tend to disappear. All this contrasts with what has happened in the United States, where there is also a decrease in the differentials, but where the productivity of services appears to be relatively higher.

It could be argued that the level and evolution of the productivity differentials suggest, contrary to the previous interpretation, that the productivity of Latin American manufacturing is relatively higher than that registered in the other countries. The higher productivity in Latin American industry could partly be due to the fact that it began its industrialization later, benefiting from the technological progress already made in other parts of the world.¹⁰ However, the comparison with Sweden and Japan, which also began their industrialization late, suggests that although the productivity of the industrial sector is probably greater because of this fact, the magnitude of the differentials in Latin America means that there are very low levels of productivity in the other sectors.

⁹Japan appears to be an exception to this trend, which is also a general trend in most of the countries of the world according to studies by Kuznets (1957). This, however, could be due to the year used in the comparison —1940— since after that the differences between these levels of productivity continued to decrease.

¹⁰Part of the apparently greater relative productivity in the secondary sector could also be due to distortions in the relative prices in favour of this sector, which was subject to preferential treatment in the period analysed in most of the countries of the region.

Table 6
INTERSECTORAL PRODUCTIVITY DIFFERENCES

| | 1950 ^a | | | 1970 ^a | | | 1980 ^a | | |
|---------------------|-------------------|------------------|------------------|-------------------|------------------|------------------|-------------------|------------------|------------------|
| | A/NA ^b | A/M ^c | M/S ^d | A/NA ^b | A/M ^c | M/S ^d | A/NA ^b | A/M ^c | M/S ^d |
| Latin America | 0.20 | 0.24 | 0.75 | 0.22 | 0.23 | 0.97 | 0.24 | 0.24 | 0.96 |
| United States | 0.26 | 0.48 | 0.37 | 0.27 | 0.44 | 0.45 | 0.46 | 0.65 | 0.56 |
| Sweden ^e | 0.43 | 0.46 | 0.90 | 0.45 | 0.46 | 0.93 | 0.59 | 0.64 | 0.84 |
| Japan | 0.44 | 0.51 | 0.77 | 0.29 | 0.26 | 1.23 | | | |

Source: Latin America: *employment*, PREALC; *product*, CEPAL.

United States, Sweden and Japan: Kuznets (1957).

^aThe equivalent years used for the comparison are defined in note^b of table 2.

^bRatio of product per person in the agricultural sector to that of the non-agricultural sector.

^cRatio of product per person in the agricultural sector to that of the secondary sector (industry, construction and mining).

^dRatio between product per person in the secondary sector to that of the remaining urban sectors.

^eRefers to employment estimate according to Colin Clark (see table 2, note^c).

The comparison with the United States indicates that Latin America has greater productivity differentials and that these tend either to lessen at a lower rate (agricultural-non-agricultural) or even not to decrease at all (agricultural-secondary). In contrast with the United States experience, however, there appears to be greater homogeneity among the urban sectors. This apparently contradicts what would be expected from the analysis of the sectoral distribution of the informal sector, since while in Latin America this sector was distributed equally between industry and services, in the United States it was concentrated in the latter. If the informal sector is associated with lower productivity, this should imply a lower intersectoral productivity differential in the United States than that which actually exists, since the productivity of services would tend to fall more than that of industry (whereas in fact the former is usually higher than the latter). To analyse this type of problem it is necessary to examine intra-sectoral differences in productivity).

(c) Intra-sectoral differences in productivity

Information on intra-sectoral differences in productivity is difficult to come by; in this section we will therefore have to resort to some partial comparisons which we feel are useful.

The informal sector (or own-account workers, or the technically backward strata) tends to be associated, within the services sector, with activities generally classified as 'other services', even though commerce—especially in Latin America—also includes a large proportion of informal services, generally in the form of small establishments and street vendors. In manufacturing, the informal sector is concentrated in small businesses, including individual, craft-type activities.

If we observe, first, the differences in productivity between 'other services' and the rest of the services sector (commerce, transport, finance, government and basic services), we see that the United States began in 1870 with differentials lower than 30%, which by 1920 had disappeared. In Latin America, however, the average differential in the 10 countries for which information was available around 1950 was higher than 45%.¹¹

Secondly, the differences in productivity per person in the industrial sector are also significantly lower in the United States and tend to decrease. Thus, if we compare the

¹¹Both estimates are from Kuznets, 1957. Note that these probably underestimate the differential for Latin America because of the greater importance of importance of informal commerce, which is not included in 'other services'.

productivity of establishments with fewer than 20 employees with that of establishments employing more than 500, we observe differentials of around 27% in 1954, but by 1972 these had been reduced to less than 5%. If we look at the situation in Mexico and Brazil, however, we may observe that this differential in both countries exceeds 60%; and in the former, for which information is available for 1970 and 1975, the differences in productivity are on the increase, amounting to over 70% in the latter year.¹²

This partial information suggests that the differences in productivity between informal activities and other activities are not only greater in Latin America but also, contrary to what occurs in the United States, they do not tend to decrease. This means that even if similar figures are registered with regard to absorption of labour in the informal sector (in the early years), the effort in terms of resources needed to transfer the workers from one sector to another must be much greater.

IV

Access to capital and employment at low levels of productivity

In the previous sections, a series of similarities and peculiarities have been noted in the evolution of the employment situation in Latin America as compared with that experienced by some developed countries in corresponding past periods, particularly the United States at the end of the last century and in the first decades of this century.

By way of summing up, we might briefly recall what these characteristics are. Firstly, the fast growth of the labour force, the rapid rate of migration from rural to urban areas, and the sectoral distribution of employment in urban activities do not seem to have been specific to the region. This calls into question the capacity of these variables for explaining the employment situation, although they were undoubtedly assigned an important role in many of such interpretation efforts particularly those made by CEPAL in the 1960s.

Secondly, we have found confirmation of what various diagnostic studies have pointed out as the truly special feature of the employment situation in the region: the existence and permanence of a significant contingent of the

labour force in activities which in PREALC studies are called 'informal' and in the most recent studies by Prebisch are described as activities of the 'lower-productivity technical levels' and 'lower strata'. The analysis also makes it possible to add new factors to this diagnosis, as it is not the relative size of the informal sector at the beginning of the comparison period which is a distinguishing feature of urban employment, but rather the differences in productivity per person which exist between informal activities and the remaining urban activities, and their asymmetrical sectoral distribution. There are also major differences in intersectoral productivity, a particularly striking case being the extremely low agricultural productivity. This picture of sharp inter and intra-sectoral differences makes up what Aníbal Pinto rightly calls 'structural heterogeneity', which is ultimately the main differentiating element in the prevailing situation.

The existence of major differences in productivity at different levels has a clear implication for the dynamics of job creation. It is harder, in terms of resources, to absorb migrants and reconvert urban informal employment into modern employment than it was for the developed countries to do so in the past. The result is that the absorption of employment in the modern urban sectors, despite its intensity by the standards of past international ex-

¹²The information for the United States comes from the United States Department of Commerce, Bureau of the Census, 1979. That for Brazil is from the Industrial Census of 1970, and for Mexico from García (1981).

perience,¹³ is relatively insufficient for the purposes of decreasing the population employed in the informal sector and reducing the degree of heterogeneity.

The reasons why the differences in productivity in Latin America are greater than those in the United States are to be sought in two areas: first, in the nature of technological change, and second, in the structure of the ownership of capital and the unequal access to this capital.

The first aspect is connected with the fact that Latin America entered the process of industrialization quite late. This implies the advantage of having access, without incurring the costs of research and development and technological obsolescence, to technologies which yield greater productivity, but in turn it has the disadvantage that the creation of jobs becomes more costly. The technological change originating in the central countries tends to increase the productivity of resources, but by making more intensive use of capital than of labour. The result is that, generally speaking, the possibilities for growth are greater for a given amount of resources, but on the other hand there is a lower degree of labour absorption.

In addition, the differences in productivity are related to the distribution of wealth and access to this wealth. Thus, the lower relative productivity of the agricultural sector is largely explained by the greater concentration of land ownership, while the differences in the distribution of urban wealth are perpetuated by the existence of mechanisms which restrict access to capital for those who do not already possess some wealth.

Some partial data help to illustrate the differences in the concentration of wealth. The Gini coefficient for land distribution in Latin America was 0.843 around 1950 and remained almost unchanged between that year and 1970.¹⁴ The same indicator of land concentration shows that in the United States in 1900 the

figure was 0.572; around 1910 it dropped to 0.529, and in 1920 it rose to 0.588.¹⁵ The situation in manufacturing is apparently similar. Comparing the value of the entropy index for ten Latin American countries with five Western European countries around 1960, Meller (1978) concludes that the concentration in the Latin American countries as a whole, and individually, is systematically greater than in the European countries as a whole and individually.¹⁶ Pryor (1972), for his part, using a different index of concentration, finds that the United States shows levels of concentration similar to those of Europe.¹⁷ In addition, evidence presented by Lagos (1966) for Chile shows that the 50 largest manufacturing firms generated 38% of the value added in 1957; in comparison, the same number of firms generated between 17% and 25% of the industrial value added in the United States between 1947 and 1970.

The mechanisms which restrict the access to capital are related, *inter alia*, with the segmentation of the international capital market, the absence or segmentation of the domestic capital market, the preference for investment in enterprises connected with the owners of the capital, and biases in public investment.¹⁸ The existence of such restrictions, as well as the initial concentration, generates and tends to perpetuate a differentiation in the productive structure as regards capital intensity, which is true both between sectors (agricultural versus industrial) and within the same sector (formal versus informal enterprises).

¹⁵These coefficients were prepared from information provided by the United States Department of Commerce, Bureau of the Census (1975). In 1974 the Gini index for the total of land, including forests, was 0.726, and if limited to cultivated land, 0.605.

¹⁶The countries included were Argentina, Chile, Colombia, Costa Rica, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela, Germany, Belgium, France, Holland and Italy.

¹⁷Using as a measure of concentration the percentage of sales or production originating in the four largest firms around 1965, Pryor concludes that the industrial concentration in the United States is similar to that of France, Germany, Italy, Holland, the United Kingdom and Japan and is lower than that of Belgium, Canada, Sweden, Switzerland and Yugoslavia.

¹⁸Ramos (1980) identifies these as determining factors and develops an interesting theoretical model which shows how, in conditions of segmentation of the capital market, a

¹³See, for example, Tokman (1981).

¹⁴The information for 1950 and 1960 corresponds to the simple mean of the Gini coefficients of 18 countries of the region; for 1970, information is available for only four countries. Source: Organization of American States, LASI (1975).

V

Insufficient absorption and strategic options

The higher cost associated with the creation of employment in the sectors with the highest productivity theoretically implies the need to increase investment and consequently also the saving necessary to finance it. Given the limits observed in the utilization of the surplus, which are in keeping with the prevailing distribution of income and the consumption habits derived from imitative capitalism, the result is what Prebisch calls 'dynamic insufficiency'. This interpretation, which is correct in its theoretical supposition, points up, however, only one aspect of the solution to the problem, i.e., the expansion of the capacity to accumulate.

An increase in investment would make it possible to accelerate the transfer of persons from low-productivity activities to those of higher productivity. Besides being costly economically, however, this solution inevitably implies prolonged adjustment periods. In addition, its feasibility does not seem clear when we take into account that the empirical evidence of the past 30 years suggests that the investment made by the region is among the highest in the world, and is in fact similar to that made by the United States in comparable historical periods. Nevertheless, it would be worth exploring the possibility of changing the composition of investment with a view to creating reproductive capital rather than consumptive capital (to use Prebisch's terminology).

It is thus necessary to emphasize the reasons for this greater need for accumulation which according to the analysis are basically the characteristics associated with modern technology and the existing differences in productivity. This would imply a need for some complementary action to deal with the factors

determining the greater cost of creating jobs. On the one hand, the pursuit of a more suitable selection of technology would make it possible to absorb more labour without affecting efficiency, either through changes in the composition of production, promotion of plants of a certain size, or changes in the relative prices of the factors of production.

On the other hand, productivity gaps could be narrowed by raising the prevailing levels in the most backward sectors, especially agriculture and the informal urban sector. This would make it necessary to deconcentrate capital (land, in the case of agriculture) and to act upon the determining factors of the segmentation of the capital market which help to perpetuate the original situation.

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situation of underemployment is arrived at, with a lower level of wages than would be socially optimal (in the sense of 'first-best').

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