

CEPAL

Review

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UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
SANTIAGO, CHILE/DECEMBER 1984

CEPAL

Review

Santiago, Chile

Number 24

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Productive Absorption of the Labour force: an Ongoing Controversy

ECLAC *Economic
Projections Centre*

The concept of the productive absorption of labour is a central aspect of ECLAC's analyses, since one of the main challenges of development is to provide productive employment for the unemployed and underemployed labour force, which is deprived of work through the use of more modern methods of production, and is constantly increasing owing to population growth.

A number of studies have been carried out in recent years to find out how the Latin American economies have performed in this respect. The findings are not yet conclusive and the controversy between the different points of view is in full swing. On the one hand, many economies of the region have clearly shown the ability to absorb labour productively, but on the other there is also a notable persistence of high levels of unemployment. Today the widespread crisis has increased open unemployment to such a pitch that its seriousness is clear for all to see. At the same time, preliminary employment figures for 1980 are becoming available from the population censuses, enabling employment trends to be assessed from a longer-term perspective.

In deciding to publish several articles on the problems of employment in this issue, those responsible for *CEPAL Review* have considered it desirable that the Projections Centre, which has been working on this subject for many years, should give its own point of view, while presenting the other articles here contained as critical commentaries. It is felt that heightening the controversy in this way will help to clarify the evolution of this process over the course of recent decades.

I

ECLAC's assessment of the employment situation and its determinants

In ECLAC's original interpretation of the development process, the productive absorption of labour was seen as depending on a number of central characteristics of Latin America peripheral capitalism.

In the first place, it was argued that the relations between centre and periphery have a powerful impact on —among other aspects— technological possibilities, the level and nature of external demand and the terms of trade. Hence the form and rate of economic change were seen as being linked with the external economic relations of the region, without underestimating the importance of the behaviour of the social groups and other typical features of Latin America. Specifically, the possibilities of growth depended to a large extent on the incorporation of capital goods and technical advances coming from the centres. During the period following the war, the difference in technology between the capital installed in the region and the new capital goods imported from the centres gave the absorption of labour features which had not been observed in the central countries when their levels of per capita income had been the same. Moreover, when economic dynamism is low the heterogeneity of production and employment tends to increase and there is little productive absorption of labour.¹ The speeding up of growth and of the demand for labour depends, then, on greater capital accumulation and a suitable choice of technologies. This calls for structural changes in the patterns of saving and consumption, land tenure and the structure and functions of the public sector. Thus the capacity for productive absorption was linked, in ECLAC's view, with the type of development and the system of external relations.

Secondly, the level of the employment problem was seen as being conditioned by the historical situation of the Latin American region in the postwar period, when there was a marked rise in

¹ This subject is dealt with in more detail in the article by Di Filippo, pp. 117 to 134 below.

population growth rates, in internal migration and in the labour force, which reached levels far higher than those recorded in the central countries when they had similar per capita incomes, and which called for higher rates of economic growth. The study of the employment problem was conducted not only in global but also in spatial terms, linking it with internal migration and drawing a distinction between employment needs in rural and urban areas. Thus, the rural problem was closely related to the structure of land ownership, the selection of new technologies and the composition of internal and external demand. Through the channel of demand, prices and labour surpluses, the agrarian problem was linked with the urban and international economies.

Urban transformation and growth depend on the attitude adopted towards the features of the centre-periphery relationship: that is, whether a system of static comparative advantages is preferred or whether the problem is analysed in a dynamic perspective linked with industrialization. In effect, in ECLAC's view, deliberate industrialization policies should play a central role in the creation of the domestic market, in changing the terms of trade and in spreading technical progress to the other sectors, both urban and rural.

The conclusion reached was that, unless poli-

cy reforms of a structural nature were adopted in order to achieve the transformation of production and economic dynamism, it would not be possible to absorb the whole labour force productively and thus —among other effects— the inequality in income distribution would be increased.

In rural areas it would be necessary to select new technologies to counteract the rapid expulsion of labour implicit in excessive mechanization. To this end it was recommended that the policies adopted —especially those concerning relative prices— should induce agricultural entrepreneurs to employ technologies which would make more intensive use of the land, applying systems of irrigation and fertilization, for example, instead of favouring labour-saving technologies.

In urban areas there would be a need for structural reforms in the processes of accumulation and saving in order to solve the great employment challenge. In view of the prevailing trends as regards population growth and labour expulsion from rural areas, reinforced by the entry of foreign capital, the extensive use of land and the selection of capital-intensive technologies in the secondary sector, it was assumed that employment problems would tend to increase, especially in the urban sector.

II

Assessment of the past history and future prospects of employment

ECLAC has been particularly concerned to assess the relative importance of its arguments in the light of the historical data of the Latin American countries.

The probable level of population growth was a first concern. Between 1950 and 1980 repeated analyses were made of the evolution of population growth and its spatial distribution. As a result, evidence was obtained of an acceleration in this growth, which —for the region as a whole— reached its peak in the 1960s at a level of close on

2.9% per annum. In some countries, however, this growth frequently exceeded 3% and the maximum was reached in many of them during the 1970s. This growth far exceeded the historical precedents of the central countries and constitutes one of the bases of the employment problem.

Investigation of the spatial distribution of the population, for its part, revealed an intense internal migration. In this respect, it was often possible to predict annual growth rates of the

urban population bordering on or exceeding 5% per annum. Although there was some degree of uncertainty as to the population retention capacity of agriculture, it was clear that the urban labour force would reach extremely high rates of growth.

The growth of the rural and urban population made it possible to predict that after an interval of somewhat more than a decade there would be a rapid increase in the labour force, the growth rate of which would approach 3% per annum during the 1970s and 1980s; in the urban sector this growth would exceed 4% annually, indicating a particularly difficult situation in those two decades.

Obviously, a rise in economic growth would facilitate labour absorption. Nonetheless, it was not easy to evaluate accurately the relation between the two processes. In particular, a series of technological considerations applicable to both rural and urban sectors made the calculation difficult. Despite this, estimates were prepared by ECLAC (Prebisch, 1970). These took into account, for example, that towards the end of the 1960s the region was accelerating its economic growth and there were grounds for projecting high growth rates when analysing future prospects (these high rates actually occurred between 1970 and 1974, before the change in fuel prices). It was then necessary, however, to consider how far the employment problem could be resolved with that type of economic growth.

With the prevailing form of development, and certain hypotheses of distribution and external trade, it was possible to estimate the sectoral composition of the product and the productivity of the primary and secondary sectors that would correspond to a particular growth in income. Thus an "authentic" demand for employment was forecast in the primary and secondary sectors, which suggested a possible growth of

underemployment instead of open unemployment in the urban sector; it was accepted that, in this case as was already happening in the agricultural sector, the redundant manpower would be absorbed through disguised underemployment, basically in services.

On several occasions, in the conclusions drawn from exercises like those described, reference was made to the dynamic inadequacy of the economic growth attained for solving the employment problem within the development style in force. Global economic growth therefore needed to be speeded-up sufficiently to achieve an increase in economic dynamism and productive absorption in all the sectors, so as to reduce underemployment in the agricultural and tertiary sectors. It is worth pointing out that it was never suggested that the insufficiency was confined to industry and it was always acknowledged that the services sector absorbed productively a large proportion of the labour it employed. Naturally, however, in the urban sector the existence of redundant labour was manifest in the average productivity of services. Thus, in proportion as declining growth made this latter indicator rise less than was required, spurious forms of employment made their appearance.

These exercises were always conducted at the national level and the regional findings reached reflected a problem which differed in magnitude and type from country to country. For the same reason, the date of occurrence and the magnitude of the challenges varied from case to case, as can be deduced from what has been said about population growth. Also important were the differences between countries as regards urbanization, since there were some where this process was considerably advanced, while in others the proportions of rural population were still over 60% in the early postwar years.

III

Elements for a preliminary assessment of the employment situation in the period 1950-1980

Today, half-way through the 1980s, it is worth enquiring how far the evolution of economic growth, migration and sectoral employment in the period 1950-1980 corresponds to the views expressed by ECLAC. The articles included in this issue of the *CEPAL Review* give some of the replies to this question.

It is interesting to consider, in the first place the view taken by Joseph Ramos (see pp. 63 to 81 below). In his opinion, the great economic dynamism of the period 1950-1980—particularly that of the industrial sector—made it possible to absorb large contingents of manpower productively. In his analysis he attaches great importance to the evolution of employment in the informal and services sectors. He refers to the well-known relation between industrial development and the demand for modern services,² and takes the view that this validates the modern character of employment in services. He then extends this reasoning to the informal sector and supports his arguments by the relation existing between urban employment and the urban economically active population—both the total EAP and that employed in the formal sector—and the relation between the growth of tertiary employment and that of the secondary product. He also points out the constancy of the ratio between the economically active population in the informal sector and the total urban economically active population. Finally, he attributes fundamental importance to an indirect indicator of informal-sector wages (that of the construction sector), which according to his data is clearly higher than the average rural wage.

The relations described reveal a positive and significant ratio between the growth of urban production on the one hand and the urban eco-

nomically active population and urban formal population on the other. However, as regards the growth of the economically active population in the tertiary sector and the growth of secondary production, the fact that only a cross section (1950-1980) is used, instead of observations by decades for each country, makes it impossible to draw significant conclusions.³ Likewise, the constancy of the percentage of the urban informal EAP in the urban total might also be interpreted as the persistence of the underemployment problem. At all events, the main argument sustained by Ramos seems to be that the informal urban wage is clearly higher than the rural average wage, the former being measured by an indirect indicator.

This difference in wages would seem to imply a failure to make use of the growth potential, owing mainly to the lack of mobility of the factors of production (labour and capital) between the rural and urban areas. As is well known, the neoclassical analysis assumes that this wage differential conceals a growth potential that is not exploited. On the basis of his findings, the author proposes the study of the effects of policy measures aimed at speeding-up internal migration to correct this difference in wages and fill the gaps between the sectoral levels of productivity. Further, he proposes, with the same objectives, it would be necessary to channel more technology, capital and entrepreneurial know-how into the rural sectors. In sum, according to Ramos, the existing mode of development, contrary to ECLAC forecasts, would have been able to provide an adequate solution to the Latin American employment problem.

A different view is taken by García and Tokman (see pp. 103 to 115 below), who sustain that the growth rate of labour absorption by

² In this respect, it should be noted that many estimates of the product by branches of the services sector in the national accounts are prepared on the basis of the evolution of the goods-producing sectors.

³ It should be recalled that ECLAC emphasized that the problem would be more serious in the 1970s. In effect, the findings for the period 1970-1980 do not coincide in general with those obtained for the period 1950-1980.

modern activities was relatively high compared with that of the developed countries in their period of transition. Nonetheless, the levels of underemployment in the region remained relatively high, although trends varied appreciably between different groups of countries.

According to these authors, there was an increase in absorption in the region as a whole, but owing to the dimensions reached by the employment problem during the postwar period, with the acceleration of population growth and the intensification of internal migration, it was not possible to absorb productively the whole of the increased supply, especially in urban areas. In this respect, they point out that the expulsion of the rural labour force as a result of the inequitable structure of land tenure, the selection of new capital-intensive technologies and the limited and unequal conditions of access to credit, coupled with the natural growth of the cities, led to a relative redistribution of the underemployed between rural and urban areas. In effect, the proportion of underemployed living in urban areas rose in 1980 to more than half the total of underemployed.

The authors emphasize at the same time that the relative insufficiency of productive absorption is not due to low levels of accumulation, for in some countries of the region the accumulation rates surpassed even those of the developed countries in their period of transition. Nevertheless, the high rates of domestic accumulation were not enough to create productive employment for everyone, owing, on the one hand, to the relatively large amounts of resources required to create employment in the conditions produced by present-day technology and, on the other, to the dimensions of the employment problem. They point out that the new technologies are characterized not only by their relatively high levels of productivity but also by their greater resource requirements compared with the levels and amounts registered in the transitional period of the industrialized countries. Hence the Latin American transition process, in order to attain the higher growth potential made possible by the new technologies, must reach a higher level of capital accumulation than before, and this, in its turn, tends to lengthen the period needed to achieve this growth.

They therefore argue that the mode of de-

velopment in the region during the postwar period was characterized by a relative insufficiency of productive labour absorption, which has been reflected in a greater heterogeneity both in terms of productivity and in wages, above all in relation to the divergent trend of basic wages compared with the rest and the rising trend of urban underemployment. Underemployment is the predominant form of underutilization of labour, and this is why there has not been an increase in open unemployment during the period. Moreover, they interpret the wage levels differently from Ramos, since they evaluate the urban incomes of the informal groups in relation to poverty lines instead of comparing them with rural wages, concluding that certain low incomes, associated with certain occupational categories, reflect underemployment. Thus, in general terms their assessment of what occurred in the period 1950-1980 approximates to the position of ECLAC.

Another standpoint examined in this issue of *CEPAL Review* is that of A. Couriel (see pp. 39 to 62 below), who bases his analysis on a differentiation between groups of Latin American countries. With regard to employment during the postwar period, he distinguishes two main groups of countries, according to the magnitude of the employment problem in the first year of the period. The first group consists of countries with more than a third of their total workforce situated in the traditional rural sector in the year 1950; these had to solve a greater employment problem than the countries in the second group (with less than a third of their workforce in the traditional agricultural sector in 1950).

Within each main group, he distinguishes between the countries that improved their employment situation and those in which this remained static or deteriorated, and he attempts to find factors of explanation.

Regarding the first group, i.e., those with the greater employment problem, Couriel maintains that a first subgroup, comprising Mexico, Guatemala, Panama and Colombia, achieved notable reductions in their underemployment levels compared with Brazil, El Salvador, Bolivia, Peru and Ecuador, this being basically explained by the fact that the latter applied agricultural technologies characterized by a high degree of

mechanization and a low level of irrigation and fertilization. Consequently, they did not retain the same proportion of labour in the agricultural sector as those of the first subgroup, which applied technologies more intensive in the use of land.

Special mention must be made of the evolution of certain countries. Brazil achieved a very slight improvement in underemployment (less than 4 points), owing to the dynamic growth of the urban sector. Even so, there was no improvement in the urban employment structure, because of the massive rural-urban migration.

In Ecuador, in addition to the rural expulsion factor, a second factor accounting for the rise in underemployment was the lower absorption of labour in the urban areas compared with that observed in the other countries of the subgroup.

In the countries of the second group the differential factor that accounts for the favourable trend of underemployment in Costa Rica and Venezuela was the capacity for absorption of the urban formal sector, in consequence of the rapid growth of income. By contrast, in Chile, Argentina and Uruguay the conditions of underemployment remained the same or even worsened through the lack of dynamism of their economies.

To sum up, Couriel's assessment distinguishes between countries which were relatively successful in terms of employment and those which failed to solve the problem. According to him, the most outstanding challenge was faced by the countries which in the postwar period had a predominantly rural and traditional population. In this group the application of appropriate agricultural technology policies was a key element in meeting the challenge. Thus, the dynamism of the urban economy, though indispensable in all cases, would not have been sufficient in this first group of countries if the agrarian problem had not been adequately solved. In the second group, in which the traditional rural population represented less than a third of the total postwar population, the outcome of the problem depended mainly on urban dynamism. Couriel's assessment, which is more specific in sectoral terms than the two foregoing evaluations, arrives at conclusions similar to those of García and Tokman and different from

those of Ramos. Probably the most controversial aspect of his assessment relates to the criteria with which he judges the success of the agricultural policies in promoting employment and the distribution among types of technology employed in the sector.

In his article (see pp. 17 to 38 below), Aníbal Pinto gives a highly critical assessment of the type of development prevailing in the region, especially as regards the marked trends towards metropolitanization. In the present development style, he argues, even a greater degree of dynamism would not be able to solve the problems of employment and persistent heterogeneity, with the resulting inequitable income distribution. In addition to the features typical of the postwar period there are today the diseconomies of scale characteristic of the great metropolises, and their excessive absorption of available resources to the great detriment of the agricultural sector. Pinto contends that the type of development prevailing in the region is characterized by heterogeneity and inequality in income distribution which tend to be sustained by the reciprocal relations between domestic demand, the sectoral growth pattern and the distribution of income. Thus, while a considerable segment of the population is unable to meet its basic needs, there is a rapidly declining trend in the relative share of agriculture in both the productive and the employment structure as a result of the unequal distribution of income. This last factor, according to Pinto, is the cause of the structural malformation of the great metropolises and generates an abnormal structure of effective demand for goods and services which tends to concentrate the receipt of income and the accumulation of resources in the higher-income strata.

In considering alternative development styles, the author is strongly in favour of the better spatial distribution of economic activities and of population in the region; hence he adds regional equity to the global criteria for evaluating styles of development. He sustains that the form of development prevailing in the region, besides accentuating heterogeneity of production, promotes the over-concentration in the metropolis of economic activities and population, which far exceeds this area's capacity for productive labour absorption. Part of the absorption begins to be linked with obvious disecono-

mies connected with the size of the city, as, for example, those associated with urban congestion. He consequently recommends a more even spatial distribution of economic activities and especially of population than has prevailed in the years since the war, and especially one which seeks to reduce the heterogeneity of production and unequal income distribution by the active promotion of productive labour absorption, above all in the agricultural sector.

Finally, in relation to the controversial assessment of services, it seems useful to quote some data from an evaluation prepared by the ECLAC Economic Projections Centre towards the end of the 1970s with provisional figures and projections for 1980. Three aspects appear to be of special interest.

In the first place, if the countries are classified as large, medium-sized and small, as was done in the Centre's publication (*CEPAL*, 1981), it can be seen that in the 1970s there was a notable difference in the relation between global economic growth and that of the services sector, excluding basic services.⁴ While in the large countries, where growth was over 6%, the said service branches grew at a similar rate, in the medium-sized countries that grew around 3% these branches increased by 5%. All this suggests that the relative nature and composition of the services sector in the countries with high and low growth rates differ appreciably and that the growth in the medium-sized countries deserves closer study and more detailed analysis at the national level.

Secondly, the growth of employment in the service branches in question did not vary much between groups of countries. In the large countries it grew by 4%, in the medium-sized by 4.8%

and in the small by 4.2%. Hence it is surprising that employment in services increased more in the group of countries in which the global product rose less and on the contrary grew less where global production improved the most. As a result of this anomaly the product per employed person in the medium-sized and small countries hardly increased at all between 1970 and 1980, whereas it grew by over 2% annually in the large countries.

Finally, the ratio between the product per person employed in these branches of services and the average for the economy as a whole declined in all the groups of countries between 1960 and 1980. In the medium-sized countries the coefficient was less than one, which shows the deterioration in production in these branches. In contrast, both in basic services and in manufacturing this indicator rose in all the country groupings, which points to the growing heterogeneity of production in the economy.

In general, the Centre's figures tend to confirm the basic hypotheses sustained by ECLAC. The economic dynamism in the current development style, though high in many cases, has been insufficient to diffuse technical progress evenly, and the trend towards heterogeneity has increased. In the case of the group of medium-sized countries with little dynamism, absorption into the services sector has grown faster than in the groups with high growth, and consequently productivity has tended to stagnate. This shows indirectly that the said absorption and even the economic growth of the sector are different in content from what is usually considered in the objectives of development. Thus, a given equilibrium between the production of goods and services would reflect an evolution of demand in accordance with desirable distributive patterns. In contrast, stagnation, inequitable income distribution and the excessive growth of the cities end up by altering these proportions and mean that the prevailing model is associated with the inordinate growth of services of low productivity.

⁴ That is to say, including commerce and finance, real estate, public administration, defence, personal services and other services, but excluding electricity, gas, water and sanitary services, transport and communications.

IV Conclusions

In summary, with the exception of the analysis made by Ramos, the articles reviewed agree on the general diagnosis: i.e., that the development style prevailing in the region since the war has not been able to solve the employment problem. Nonetheless, there are important differences between the various positions taken respecting the nature of the productive absorption of the different economic sectors, the degree of economic dynamism and capital accumulation required, the assessment of the urbanization process, and the possibility of solving the employment problem through a continuation of the existing development model. In particular, the discussion tends to concentrate on the aspects relating to intrasectoral evolution. The basic question is: what happened within the various economic sectors—especially the agricultural sector, with particular regard to the peasantry and the services sector, with particular regard to the spurious character of the absorption there?

The ECLAC Economic Projections Centre and the Division of Statistics and Quantitative Analysis are engaged in a study of the most recent figures regarding branches of production and occupational groups. The aim is to ascertain the degree of penetration of modern enterprises into the agricultural sector and the situation of the peasantry in terms of employment and productivity.

At the same time, a more detailed study of the services sector is being conducted in order to clarify the nature of the absorption at a disaggregated level of production. In branches of services where the greatest doubt exists there are undoubtedly some highly productive enterprises, such as part of the banking and commercial sectors. This leads one to suspect that in some branches of the services sector in the less dynamic countries there may have been appreciable falls in the product per employed person during the 1970s.

The findings of the population censuses held around 1980, which are now gradually being published, have enabled a deeper study to be made in this respect. Nonetheless, great caution is called for in the handling and interpretation of

the categories of classification of manpower and economic activities used in the population censuses. Owing to the heterogeneity of production in Latin America an occupational category or an economic activity does not *per se* enable conclusions to be drawn as to the productive or spurious nature of an occupation, though this is feasible in the central countries, where there is more homogeneity.

In other words, whereas the criteria used in the international classifications are usually effective in separating relatively homogeneous categories in the conditions prevailing in developed countries, the persistent heterogeneity characterizing the Latin American countries also manifests itself within each category. This means that the criteria of the international classifications are not always adequate, of themselves, for classifying either economic activities or employment in relatively homogeneous categories.

Great caution is therefore needed in the handling and interpretation of statistical results obtained through the use of these categories.

In this connection, mention may be made of the results obtained by Kaztman (see pp. 83 to 101 below) through the application of a classification developed by Browning and Singelmann (1978) in his analysis of the trends within the economic sectors, especially the services sector. This author contends that a group of services, known as "productive services", grows at very high rates compared with other groups denominated "social services", "distributive services" and "personal services". On the basis of these findings he concludes that apparently the absorption of manpower within the services sector does not show signs of being spurious or informal. It must be pointed out, however, that the classification which he uses to support his thesis probably includes economic activities and patterns of manpower employment which are very heterogeneous as regards the income and productivity levels within each grouping. Consequently, before reaching definite conclusions in this respect it would be necessary to introduce at least some variables, such as levels of schooling, income or productivity, to guarantee that the elements in-

cluded in each category are reasonably homogenous.

Similarly, in assessing the significance of high rates of growth in certain categories of economic activity, such as productive services, their initial relative weight must be taken into account, since, if this was very low the subsequent growth rates will normally be high without significantly affecting the final weight of the category.

Hence, to facilitate future research, some thought should be given to the designing of cross-classifications, applying variables such as income, productivity or education which will enable an analysis to be made of the evolution of economic activities typically associated with labour absorption on the basis of categories which are pertinent and relatively homogeneous both in terms of productivity and of income or education.

As regards employment prospects in Latin America, there is no doubt that the present crisis has seriously aggravated the problems of the region, a view taken also by García and Tokman. The decline in the growth rate in 1981 and the depression in the biennium 1982-1983 have given rise to a marked increase in open unemployment and underemployment. In these conditions the problem has reached dimensions going beyond anything experienced before in

the period since the war. The mere increase in the economically active population in Latin America during the triennium 1981-1983 amounts to something more than nine million persons. Naturally, if no new sources of employment are created the greater part of this population, mainly young people, will not find work. Moreover, there is every indication that many of those currently employed are losing their jobs, so that the problem is becoming still more acute. The outlook in 1984 does not encourage any optimism regarding an appreciable absorption of manpower. Thus, even on the assumption that the rest of the decade will not see a repetition of the depression of the years 1982-1983, this contingent of unemployed will be a burden for the remainder of the 1980s, as a relic of that crisis. Only towards the end of this decade can it be hoped that a decline will begin to take place in the growth rate of the economically active population of the region as a whole. Until then, growth rates of close on 3% will continue to pose a serious employment problem. When added to the contingent of unemployed produced by the crisis and to the modest expectations of growth, which are not very high even in the best of cases, this means that the solution of the employment crisis will call for radical changes in the style of development.

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