

# CEPAL

## Review

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## Review

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## Urbanization and the labour market

*Joseph Ramos\**

In the postwar period, as is known, Latin America underwent a process of demographic growth and urbanization unprecedented in its history. From 1950 to 1980 its total population doubled in size and its urban population more than tripled, to the point that the increase in urban population alone in those 30 years was almost equivalent to the total size of the continent's population in 1950.

This article examines the way in which this rapid demographic growth was absorbed in the labour market, especially when it turned towards the towns. In the author's view, this increase in the supply of labour found an outlet in the accompanying increase in demand, with productive employment being created as a result of the region's rapid economic growth over the last decades.

Since 1980 Latin America has been undergoing an acute economic crisis which is reversing this trend, confirming how sensitive employment is to economic growth rates. The author concludes therefore that concentrated and heterogeneous growth like that of 1950-1980 does create problems, but many fewer than those produced by the kind of economic recession experienced in recent years.

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## I

### Models of urbanization and employment

In the light of illustrative models of the process of urbanization, consideration will be given to the extent to which urbanization was healthy, in the sense of responding to a greater demand for labour, or whether it was unhealthy, excessive or premature, responding more to the pressures of an oversupply of manpower.

#### *1. Rural expulsion: dynamic supply and static demand*

According to this analysis, which was first formulated by ECLAC, the problems of growing overurbanization and underemployment in the postwar period resulted from the impact of rapid demographic growth on the sectors with little absorptive capacity: agriculture and livestock, and industry. The absorption capacity of agriculture was restricted by a concentrated structure of ownership which left a large part of the land underutilized and condemned the bulk of the rural workforce to underemployment in marginally productive activities on the little remaining land. Given this underemployment, when the postwar population explosion interrupted the process of urbanization was speeded up, for the countryside offered few job opportunities.

Furthermore, it was argued that modern industrial technology —generally intensive in its use of machinery and economical in manpower— was not flexible enough to adjust to a growing supply of labour; its absorption capacity was in fact limited by technological requirements and the level of production. When this greater supply burst upon the towns it encountered an industrial sector that was incapable, for technological reasons, of significantly expanding its absorption of manpower. Consequently this urban labour force turned towards easily accessible marginal activities in the tertiary sector on in the informal secondary sector. Thus, the postwar period was characterized by premature urbanization, which was not justified owing to the slow growth of secondary light-manufacturing employment, and by excessive recourse to the tertiary and informal sectors with resulting underemployment. "The problem of

urban growth in Latin America (is due to the fact that) it is running ahead of economic development and that it is a response to autonomous social stimuli and forces... Since there were few opportunities to find work in the high-productivity sectors, the workforce was compelled to move to jobs with low productivity and meagre wages" (ECLA, 1965).

### 2. *A lure: the siren city*

According to this argument, first developed by Harris and Todaro (1970), the migration resulted from the attraction of artificially high urban wages (hence the siren city). These wages are high, the argument goes, owing to the combined effect of policies of exaggerated legal readjustment and minimum wage rates, trade-union pressures and inflated salary scales for the public sector. The apparent difference in remuneration generates excessive migration. Although not everyone finds work, the migration continues until the point when the desired income levels in rural and urban areas become equal. To put it in more concrete terms since there is the alternative of employment in easily available activities with flexible wages (the unprotected or informal sector), the migration continues until the point when the desired income in rural and urban areas becomes equal (this is equivalent to the probability of obtaining a high wage in the formal sector plus the greater probability of getting a lower informal wage or of being unemployed) (Piñera and Selowsky, 1976 and 1978, and Fields, 1975). Accordingly, it is not wages that balance the labour market and regulate the migratory flows but rather urban unemployment and increases in employment in

low-productivity tertiary or informal activities which serve to absorb or rather to disguise unemployment. Consequently, this migration resulting from artificially high wages reduces agriculture and livestock production without increasing urban production (Harris and Todaro, on the increase in unemployment) or increasing urban production by less than the reduction in agriculture and livestock (Fields, on the increase in informal employment).

### 3. *Genuine attraction: industrialization requires tertiary employment*

According to this argument, first expounded by Galenson (1963), modern industrialization requires much less manpower per product unit than in the nineteenth century, but it requires a better qualified workforce than before. Industrial employment will therefore increase very little, especially where unskilled labour is concerned. However, it is argued that tertiary employment is a function not of secondary employment but of the secondary product. Despite the fact that, for technical reasons, the post-war industrialization has not led to such large increases in industrial employment as in the nineteenth century, it will generate a genuine demand for labour on the part of tertiary activities. Tertiary employment is a kind of demand derived from the product and productivity of the industrial sector, and there will therefore be growing urbanization with greater industrial production, in which tertiary employment will have an increasingly important role, while the creation of secondary employment will remain fairly low.

## II

### Facts and interpretations

#### 1. Overview

In the evolution of employment in Latin America from 1950 to 1980 three facts stand out:<sup>1</sup>

a) The population explosion and the faster rate of urbanization of the postwar period were absorbed without any increase in the unemployment rate. Total employment grew at an annual rate of 2.5%, more than doubling over the period.<sup>2</sup> Urban employment grew at an annual rate of 3.8% (easily tripling over the period).

b) There was a massive sectoral switch of labour from the primary sector,<sup>3</sup> which declined from 56% of the economically active population (EAP) in 1950 to 36% in 1980, with a concomitant expansion of activities in both the secondary and tertiary sectors. Although tertiary employment tended to grow more than secondary, a feature of the whole period was the relative stability in the proportions of the urban workforce employed in the secondary sector (40%) and tertiary (60%).

<sup>1</sup>Although it may seem hard to believe, owing to the slowness with which censuses are processed, hardly any of the countries of the region can provide census data on the workforce for 1980. This is why in this article almost all the 1980 figures are based on estimates made by PREALC on the basis of 1950-1970 census trends and the subsequent evolution of the workforce according to occupation censuses taken in the 1970s (PREALC, 1982). These PREALC data (percentages) have been applied to the CELADE estimates of population of working age (1983).

<sup>2</sup>Unless otherwise indicated, the data on the urban workforce and product and their movement refer to non-agricultural and non-mining labour, i.e., to the secondary and tertiary workforce or its production. This approximation, although not ideal, is necessary for the purpose of estimates for 1980, since the information available is not broken down for urban and rural. Nevertheless, the author thinks it probable that the movement of the urban workforce is similar to the secondary plus tertiary, since they constitute the bulk of the urban workforce.

<sup>3</sup>The definitions are as follows: *primary sector* = agriculture, fisheries, forestry and mining; *secondary sector* = manufacturing, construction, electricity, gas and water; *tertiary sector* = transport and communications, commerce and finance, public administration and defence, services, others.

c) Even more important than the changes in the sectoral composition of the workforce were the notable improvements in labour productivity within each sector (sectoral product + sectoral EAP). This more than doubled in the 30 years in both primary and secondary sectors, while it increased by 70% in the tertiary sector.

The advances in the postwar period can be better appreciated if compared with the figures for 1925-1955<sup>4</sup> (table 1). The demographic growth accelerated from 2.2% (1925-1955) to 2.7% per year (1950-1980); the absorption of employment by the primary sector declined (1.4 to 1.0% per year) but the proportion of EAP in the primary sector fell only 20 percentage points from 1950 to 1980 as against 10 in the period 1925-1955. Hence urban activities were under pressure to generate employment. They responded well: tertiary employment grew at an annual rate that rose from 3.3. to 3.9% and secondary employment increased from an annual rate of 2.2. to 3.7%. Although the share of both sectors in EAP increased, the most remarkable change occurred in the performance of manufacturing EAP: its share rose by little more than 0.5% per year from 1925 to 1955 and by more than 4% from 1950 to 1980.

All this was achieved without any reduction in the growth rate of productivity. On the contrary, productivity grew rapidly both in the primary sector (1.2 to 2.6% per year) and in the tertiary sector (0.4 to 1.8% per year). Productivity in the secondary sector maintained a strong growth rate.

At first sight and without going into details for countries, it would seem that the fears that the postwar population explosion and the acceleration of the process of urbanization might give rise to an employment crisis were unfounded. The three sectors showed dynamic development in both employment and productivity. Although tertiary employment increased little more than secondary and its productivity to a

<sup>4</sup>For lack of data, I refer to 1925-1955 and not to 1920-1950.

Table 1  
EVOLUTION OF POPULATION, EMPLOYMENT AND  
SECTORAL PRODUCT AND PRODUCTIVITY (1925-1980)  
(Annual growth rates)

	1925-1955		1950-1980			
<i>Totals</i>						
Population	2.2%		2.7%			
Urban population	3.5		4.1			
Total EAP	2.0		2.5			
"Urban" EAP <sup>a</sup>	2.9		3.8			
"Rural" EAP <sup>b</sup>	1.4		1.0			
<i>Distribution of EAP by sector</i>						
	1925	1955	1950	1980		
Primary	62.3%	51.1%	56.2%	35.9%		
Manufacturing	13.7	14.3	14.1	18.3		
Other sectors	24.0	34.6	29.7	45.8		
<i>Annual growth of product, EAP and productivity</i>						
	1925-1955			1950-1980		
	GDP	EAP	Productivity	GDP	EAP	Productivity
<i>Total economy</i>	3.7%	2.0%	1.6%	5.5%	2.5%	3.0%
Agriculture	2.7	1.4	1.3	3.5	1.0	2.5
Primary	2.6	1.4	1.2	3.6	1.0	2.6
Secondary <sup>c</sup>	4.9	2.2	2.7	6.5	3.7	2.7
Tertiary <sup>d</sup>	3.7	3.3	0.4	5.7	3.9	1.8
"Urban" <sup>a</sup>	4.0	3.0	1.0	6.0	3.8	2.1

Source: ECLA, 1965 and 1978; PREALC, 1982.

Statistics Division of ECLAC, unpublished estimates of the 1980 product. The evolution of EAP and population in the period 1950-1980 were taken from following tables.

<sup>a</sup>Urban EAP means non-agricultural and non-mining EAP.

<sup>b</sup>Rural EAP means agricultural and mining EAP.

<sup>c</sup>For 1925-1955 taken as the evolution of manufacturing GDP and EAP.

<sup>d</sup>For 1925-1955 taken as the evolution of non-primary and non-manufacturing GDP and EAP.

lesser extent, it did achieve a remarkable improvement in its absorption capacity and its productivity over the levels of 30 years earlier. Thus, despite the slowing-down of primary employment, there were increases both in the employment-absorption rate of the economy as a whole (2.0 to 2.5% per year) and in total productivity (1.6 to 3.0% per year).

If this development had not taken place, the situation in the postwar period would have been very different. Without the greater demand for labour that resulted from increased production, it would not have been easy to absorb the greater increases in the supply of labour without a dim-

inution of its productivity.<sup>5</sup> Instead, it proved possible to increase both the generation of employment and labour productivity, or at least this is the theory that emerges from a pre-

<sup>5</sup>The reasons why production accelerated in the postwar period — massive spread of education, professionalization of entrepreneurial and bureaucratic élites, industrialization, increased savings and investment, utilization of modern technology and of the advantages of late development, favourable external climate, etc— is a matter for another work. Sufficient to point here to the fact that this accelerated economic growth produced a greater demand for labour, large enough to compensate for the faster rate of demographic and urban growth.

liminary study of the global statistics at the regional level.

Would it not be possible, even with the sharp increase in production, for the demand for labour to have grown more slowly than the supply, so that the urban employment generated would have been underemployment rather than productive employment? In other words, is it not possible that the greater volume of jobs and the higher average sectoral productivity reflect a combination of a) slow growth in employment but rapid increases in productivity in formal activities with modern technology and b) faster expansion of employment in low-productivity activities in the informal and tertiary sectors?

## 2. The detailed analysis

Only a detailed study (by period and country) will establish the extent to which this apparently positive development of employment is due to a faster rate of economic growth or to increasing heterogeneity in production and greater segmentation of the employment market—in other words, whether it is due to an expansion of employment generated by demand or by supply (the informal sector).

### a) Total of jobs generated

Broadly speaking, the population reached its maximum growth during the 1950s and 1960s (2.8% annually as against 2.2% for 1925-1955) and then began to decline in the 1970s. As it takes

12 to 15 years for these new members of the population to reach working age, the period 1960-1980 was the most difficult with regard to the need to absorb labour (table 2).

It is worth dwelling on two facts (table 2). For the first time, in the decade 1970-1980 EAP grew faster than the population, both in urban areas and in each country as a whole. In addition, as the data (PREALC, 1982, table II-1) indicate that overt unemployment did not worsen over the period, the ratio of employed persons (or earners) and inactive or unemployed persons in each family would apparently not have increased, and family income would therefore have risen faster than per capita income.

On the other hand, and again for the first time, in the period 1970-1980 the workforce (and employment) grew faster than the population of working age, even though the latter had reached its maximum rate. This was because the proportionate numbers of persons of post-school age (over 20) tended to stabilize for men and increase for women. The fact that these numbers had risen without any increase in overt unemployment supports the argument that employment was generated more by a greater demand for labour than by a greater supply (unless labour productivity or real wages, or both at the same time, had fallen—something which, as we shall see below, did not happen).

### b) Growth of urban employment

#### i) Urbanization without industrialization?

Table 2  
GROWTH OF POPULATION, POPULATION  
OF WORKING AGE AND EAP BY  
DECADE 1950-1980  
(Annual growth rates)

	1950-1960	1960-1970	1970-1980	1950-1980
Population	2.8	2.8	2.5	2.7
EAP	2.1	2.5	3.0	2.5
Population of working age	2.6	2.9	2.9	2.8
Urban population	4.4	4.3	3.5	4.1
Urban EAP <sup>a</sup>	3.6	3.6	4.2	3.8

Source: ECLA, 1981; and CELADE, 1983.

<sup>a</sup>Urban EAP means non-agricultural and non-mining EAP.

Although there is no doubt that the process of industrialization accelerated in the period 1950-1980, especially in the 1970s, it is equally true that both the urban and the secondary-sector products also showed dynamic advances, which suggests that the growth in the urban workforce was stimulated by a greater demand for labour rather than by a greater supply.

In order to explore this point more deeply, a study was made of the relationship between the increase in urban product (secondary and tertiary) as an indirect indicator (proxy) of the demand for productive urban labour, and the growth of the urban workforce from 1950 to 1980 for the nine countries that have the region's largest product and amount of employment (figure 1A).<sup>6</sup> That this relationship proved positive indicates that over these 30 years urbanization has been a response to a growing demand for labour rather than supply.

In order to check the fact that the urban workforce increased more quickly —without greater urbanization— in proportion to any rise in the rate of population growth, the difference between the growth rates of the urban EAP and the population of working age was compared with the increase in urban product for the same period 1950-1960 (figure 1B). Once again the relationship was positive, significant and more marked.<sup>7</sup>

Finally, to check the fact that urbanization might be a function of the greater increase in the urban product rather than in the primary product, the difference between the growth rates of the urban EAP and the population of working age was compared to the primary product (figure 1C)

<sup>6</sup>The simple regression between these variables was: the growth rate of urban employment =  $0.7 + (0.83)$  (the growth rate of the urban product)  $R^2 = 94\%$ ,  $t = 7.3$ . Because of the small number of observations, not much importance should be accorded to the magnitude of the coefficients. The important thing is to recognize that there is indeed a relationship—at least it is much more probable than the contrary assertion, which is that there was over-urbanization. This holds good for this and for the other regressions in this work.

<sup>7</sup>The simple regression was: the difference between the growth rates of urban employment and the population of working age =  $-0.7 + (0.32)$  (the growth rate of the urban product).  $R = 90\%$ ,  $t = 5.6$ .

this relationship was also positive, significant and very marked.<sup>8</sup>

ii) *Urbanization and informalization*. Despite the foregoing, might it not be possible for the urban product to have increased without there being any proportional increase in productive urban employment, owing to greater heterogeneity of production? In other words, might it not be possible for urban production to have expanded as a result of greater use of modern techniques without modern employment having increased in the same way, owing to the remarkable rise in its productivity? If this is so, the employment generated would have been in activities of low productivity and easy access, i.e., in the informal sector, where employment adjusts to demand, rather than in formal activities, which are a clear indicator of greater demand for productive labour.

On the basis of PREALC estimates on the evolution of formal employment<sup>9</sup> between 1950 and 1980 it can be seen that:

—The growth of formal employment was much higher than that of the population of working age in the region as a whole throughout the period and in each of the three decades (table 3). Furthermore, when looked at in detail the nine countries in question show hardly any exceptions. The only one is Uruguay, a country in which formal employment has been growing at a slighter lower rate than the population of working age, but —and this is very suggestive— it is the country with least growth of urban product in the period.

—Formal employment tended to increase at a rate equal to or slightly higher than that of urban employment in the region as a whole and in seven of the countries; the exceptions are Uruguay and Argentina, the two countries with least growth of urban product in the region. (See the

<sup>8</sup>The simple regression was: the difference between the growth rates of urban employment and the population of working age =  $-0.04 + (0.5)$  (the difference between the growth rates of the urban and primary products).  $R^2 = 82\%$ ,  $t = 3.9$ .

<sup>9</sup>For these estimates PREALC considered as formal employment all waged urban work, with the exception of domestic employment and self-employment by professionals and technical specialists.



Figure I  
RELATIONSHIPS BETWEEN PRODUCT GROWTH AND EMPLOYMENT GROWTH

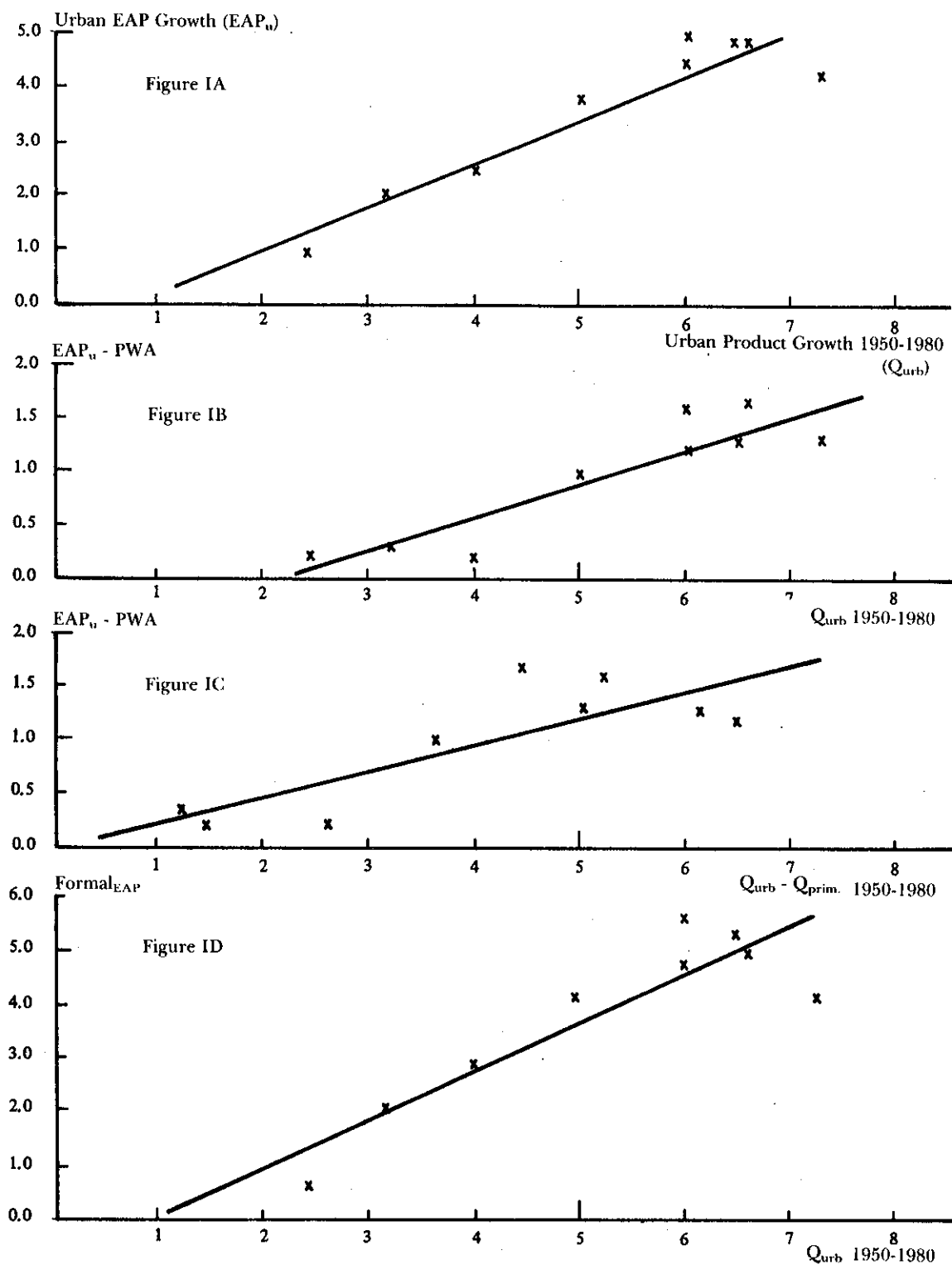


Table 3  
RELATIVE GROWTH OF FORMAL EMPLOYMENT  
(Annual growth rates)

	1950-1960	1960-1970	1970-1980	1950-1980
Economically active population	2.1%	2.5%	3.0%	2.5%
Population of working age (PWA)	2.6	2.9	2.9	2.8
Urban population	3.6	3.6	4.2	3.8
Formal employment	3.6	3.8	4.1	3.9
<i>Population of working age</i>				
Argentina	1.9	1.7	1.5	1.7
Brazil	2.9	3.1	2.9	3.0
Colombia	2.6	3.2	3.0	2.9
Costa Rica	3.2	3.9	3.7	3.6
Chile	2.2	2.4	2.3	2.3
Mexico	2.7	3.3	3.4	3.1
Peru	2.2	2.7	3.1	2.8
Uruguay	1.2	1.1	0.4	0.9
Venezuela	3.4	4.0	4.1	3.8
<i>Formal employment</i>				
Argentina	2.7	1.7	1.3	1.9
Brazil	3.7	4.8	4.5	4.3
Colombia	3.6	6.4	4.2	4.7
Costa Rica	4.5	5.8	6.0	5.4
Chile	2.3	3.2	2.8	2.8
Mexico	6.5	3.3	5.2	5.0
Peru	3.4	4.2	4.6	4.1
Uruguay	1.3	1.2	0.1	0.9
Venezuela	5.3	4.4	7.0	5.6

Source: PREALC, 1982; ECLA, 1981; CELADE, 1983.

ratio of formal EAP to urban EAP from 1950 to 1980 in table 4.)

—More fragmentary comparisons for six countries<sup>10</sup> suggest that in the secondary sector formal employment grew at a higher annual rate (4.1%) than the informal sector (2.9%) and the total workforce (2.5%) and the urban workforce (3.8%).

Since 70% of urban employment is usually in the formal sector, at least 70% of the new employment generated in the sector should have been in response to the demand for productive manpower (formal activity) and not to supply. This is the reason why, when the growth of formal employment is compared with the growth of

the urban product (figure 1D), the result is a strong positive relationship, almost identical to the one produced when the growth of all urban employment is compared with the urban product (figure 1A).<sup>11</sup>

Furthermore, although the informal sector helps to fulfil an absorptive function in the face of an oversupply of labour, this does not mean that informal employment is generated solely or

<sup>10</sup>Brazil, Costa Rica, Chile, Panama, Peru and Venezuela (Katzman, 1983).

<sup>11</sup>The simple regression is: the growth rate of formal employment = 0.9 (0.91) (the growth rate of the urban product).  $R^2 = 91\%$ ,  $t = 5.7$ . The same relationship with urban employment gave a regression coefficient of 0.83 and a constant of -0.7 with  $R^2 = 94\%$ ,  $t = 7.3$ . In other words, the results are statistically virtually identical. The same thing happens when the other two regressions are repeated, with the growth rate of urban employment replaced by the growth rate of formal employment.

Table 4  
FORMAL EMPLOYMENT IN RELATION TO TOTAL EAP  
AND URBAN EAP, 1950-1980

	Formal EAP Total EAP				Formal EAP Urban EAP <sup>a</sup>			
	1950	1960	1970	1980	1950	1960	1970	1980
Whole region	30.1%	34.9%	39.8%	44.6%	69.2%	69.1%	70.2%	69.7%
Argentina	56.8	63.4	66.0	65.0	78.9	81.7	80.9	77.0
Brazil	28.5	31.8	38.6	45.2	72.7	67.4	72.1	72.8
Colombia	23.9	28.0	38.7	42.6	61.0	62.1	68.6	65.6
Costa Rica	29.7	35.1	44.1	52.9	70.7	73.4	77.4	81.0
Chile	40.8	44.5	53.1	54.1	64.9	68.5	76.1	72.9
Mexico	21.6	32.2	33.9	39.5	62.6	70.5	65.1	64.2
Peru	19.1	23.7	29.8	35.0	53.1	57.0	59.0	59.5
Uruguay	63.3	63.6	64.2	63.3	81.4	80.3	79.3	76.9
Venezuela	34.7	43.1	48.9	62.6	67.9	68.3	68.6	79.2

Source: PREALC, 1982.

<sup>a</sup>Urban EAP means non-agricultural and non-mining EAP.

mainly by supply pressures. If that were so, its productivity and wage levels would decline (which does not seem to have occurred). In fact, the striking features are both the tiny variation in the high proportion of the urban workforce in the formal sector in countries with very different levels of development ( $70\% \pm 10\%$ ) and its relative constancy over time in countries with rapid development (Brazil) and slow (Argentina). This suggests that a large part of informal employment is a demand derived from formal activity—occupying complementary spaces (García, 1979, chapter 1). This explains the relative stability in the relationship with formal employment. Thus, the expansion of informal employment might represent demand stimuli rather than supply. In that case, of course, its productivity would increase, the reverse of what would happen if it was acting only as an absorbent.

iii) *Over-tertiarization*. In some cases underemployment manifests itself not so much in the proliferation of informal activities as in the over-expansion of the tertiary sector. As this sector includes activities of very different kinds and productivity—banking and wholesale trade; travelling and retail trade; teachers and doctors; domestic service staff; civil servants; porters and waiters—its expansion might be an indication either of progress or of stagnation, according to

the type of activity and function which is expanding.

Table 5 shows the relative growth of tertiary employment in relation both to total EAP and to urban and secondary EAP. The share of the tertiary sector in the total labour force rises sharply, while the share of primary activities declines, continuing the trend observed since 1925. The tertiary share in the urban labour force is much more stable, maintaining itself over the last 30 years at about 1.5 times that of the secondary sector.<sup>12</sup> The same relationship is found both in highly developed countries, such as Argentina, and in less developed, such as Colombia and Peru, which suggests that there is perhaps a causal relationship between the two, as Galenson believes.

There is little information about the kinds of tertiary activities that have expanded. Kaztman's data (1984) for five countries show that the services that are most productive and most closely linked to demand, such as social services (education, health and government) and productive services (finance, business services, warehousing)

<sup>12</sup>In case this relationship should be considered excessively high, it must be pointed out that today it is in the order of 2 to 1 in the OECD countries and was already 1.5 in 1930 in the United States.

Table 5  
CHANGES IN THE COMPOSITION OF THE LABOUR FORCE IN  
THE SECONDARY AND TERTIARY SECTORS, 1950-1980

	Secondary EAP				Tertiary EAP			
	Total EAP				Total EAP			
	1950	1960	1970	1980	1950	1960	1970	1980
Latin America	18.1	20.2	22.6	25.9	25.7	30.5	34.2	38.2
Argentina	29.9	34.5	33.2	30.4	42.1	43.1	48.4	54.1
Brazil	16.9	18.4	21.5	28.0	22.3	28.8	32.0	34.1
Colombia	15.6	16.9	20.2	22.8	23.7	28.2	36.2	42.1
Costa Rica	15.9	17.9	21.3	23.9	26.1	30.1	35.7	41.4
Chile	25.3	25.5	27.5	25.6	37.6	39.5	42.3	48.6
Mexico	14.1	18.5	23.0	25.4	20.4	27.2	29.1	36.1
Peru	16.1	15.9	18.9	19.2	19.9	25.7	31.8	39.6
Uruguay	...	31.1	30.7	31.2	...	48.1	50.3	51.1
Venezuela	17.6	20.1	22.9	30.0	33.5	43.0	48.4	49.0

	Secondary EAP				Tertiary EAP			
	Urban EAP <sup>a</sup>				Urban EAP <sup>a</sup>			
	1950	1960	1970	1980	1950	1960	1970	1980
Latin America	41.3	39.9	39.8	40.4	58.7	60.2	60.2	59.6
Argentina	41.5	44.5	40.7	36.0	58.5	55.5	59.3	64.0
Brazil	43.1	39.0	40.2	45.1	56.9	61.0	59.8	54.9
Colombia	39.7	37.5	35.8	35.1	60.3	62.5	64.2	64.9
Costa Rica	37.9	37.3	37.4	36.6	62.1	62.7	62.6	63.4
Chile	40.2	39.2	39.4	34.5	59.8	60.8	60.6	65.5
Mexico	40.9	40.5	44.1	41.3	59.1	59.5	55.9	58.7
Peru	44.7	38.2	36.6	32.6	55.3	61.8	63.0	67.3
Uruguay	...	39.3	37.9	37.9	...	60.7	62.1	62.1
Venezuela	34.5	31.9	32.1	38.0	65.6	68.1	67.9	62.0

Source: PREALC, 1982.

<sup>a</sup>Urban EAP means non-agricultural and non-mining EAP.

are the ones which have grown most rapidly; on the other hand, personal and distributive services, which generally have lower productivity and easy access and adjust flexibly to demand, are the ones that have lost ground. However, the conclusions based on these data can be no more than very preliminary since only five countries were considered and in four of them the data refer only to the period 1950-1970.

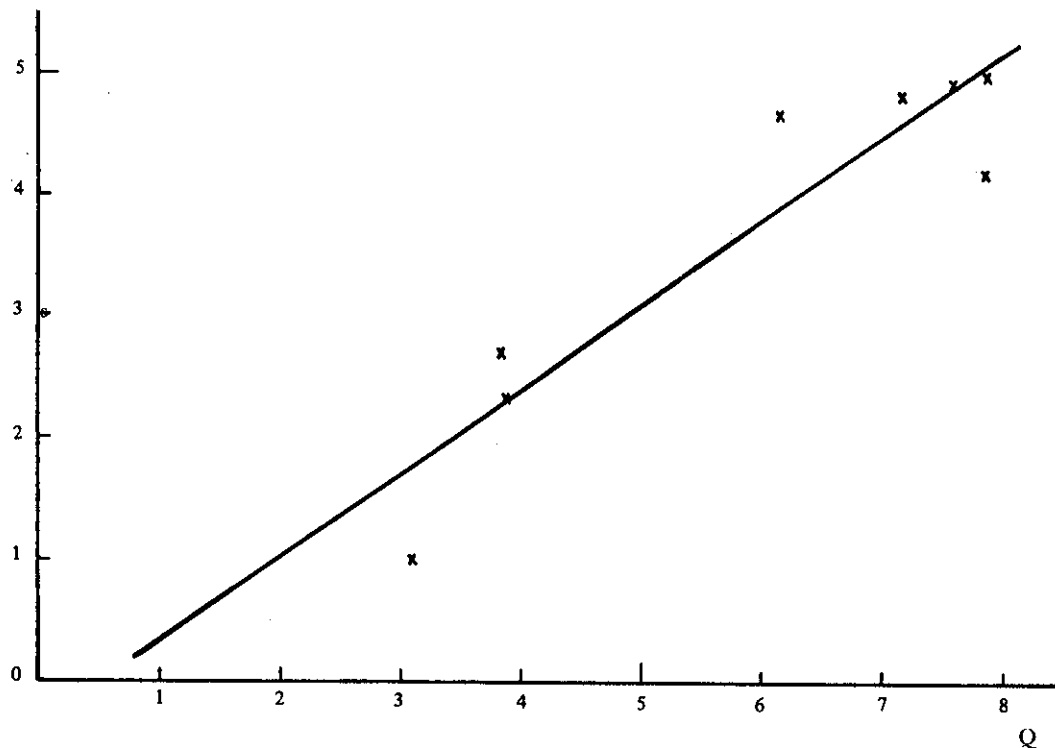
In view of the lack of information on the evolution of employment by subsector of the tertiary sector, an attempt was made to check Galenson's theory on the basis of total data for the whole tertiary sector; i.e. that the bulk of tertiary employment was generated by a demand derived from secondary production. Modern industrial technology would absorb less labour per work unit than in the past—which is why secondary

employment represented a lesser share of urban employment than in the past in Europe and North America—but it would generate much employment in tertiary activities, since a large part of trade and transport, financial services and business services, as well as education and health services, either represented a demand derived from secondary production or depended on this production for their financing (the case of many government social services). The theory states that tertiary employment will grow with the level of industrialization (secondary production), although secondary employment may not increase very greatly. Conversely, if the expansion of tertiary employment was a response fundamentally to a need to absorb an oversupply of labour and not to a real demand, there would be a very loose relationship between the growth rate

of tertiary employment and the secondary product (figure II). It can be seen that there was a positive, strong and significant relationship between those two variables in the period 1950-1980.<sup>13</sup> The theory of over-tertiarization may thus be rejected. But one can endorse the argu-

ment that the bulk of the growth in tertiary employment was a response to a growing demand for productive manpower, and was not excessive, for that would have been an indication of increasing underemployment.

Figure II  
GROWTH OF TERTIARY EMPLOYMENT IN COMPARISON TO THE GROWTH  
OF THE SECONDARY PRODUCT 1950-1980



### III

## Evolution of productivity

Although the changes in the sectoral composition of the labour force in Latin America were very important, of greater relevance were the changes within each sector reflected in marked improvements in sectoral productivity (product per man). Between 1950 and 1980 the product per worker in Latin America increased 2.4 times, from US\$ 1 150 to US\$ 2 750 (table 6). Of this increase, 25% was due to higher productivity

resulting from the reduction of 20 percentage points in the labour force engaged in low-productivity primary activities and their shift to jobs in the secondary and tertiary sectors with production levels 3 to 5 times higher. In other words, if the 1950 levels of sectoral productivity had been maintained, the productivity of the Latin American economy in 1980 would have risen only 25%. The remaining 90% (in multiplication form,  $1.9 \times 1.25 = 2.4$ ) was due to productivity increases within each sector.

Although the inter-sectoral differences in productivity were large—from a maximum of 8

<sup>13</sup>The simple regression is: the growth rate of tertiary employment =  $-0.4 + (0.68)$  (the growth rate of the secondary product).  $R^2 = 93\%$ ,  $t = 6$ .

Table 6  
PRODUCTIVITY LEVELS AND GROWTH AND RELATIVE  
SECTORAL PRODUCTIVITY, 1950-1980

	Productivity levels (1970 dollars)				Productivity growth rates (annual)			
	1950	1960	1970	1980	1950-60	1960-70	1970-80	1950-80
Primary	480	670	840	1 060	3.3	2.3	2.4	2.6
Secondary	1 600	2 100	2 780	3 500	2.8	2.8	2.3	2.7
Tertiary	2 280	2 500	3 130	3 840	1.0	2.2	2.1	1.8
Total	1 150	1 520	2 060	2 750	2.9	3.1	2.9	3.0

	Secondary productivity Agriculture and livestock productivity				Tertiary productivity Agriculture and livestock productivity			
	1950	1960	1970	1980	1950	1960	1970	1980
Latin America	3.9	3.9	4.1	4.1	5.5	4.7	4.6	4.5
Argentina	1.6	1.3	1.5	1.4	2.1	1.7	1.4	1.1
Brazil	6.9	7.8	7.8	7.3	8.2	7.0	7.6	7.6
Colombia	1.8	2.1	1.8	1.4	2.7	2.4	1.9	1.6
Costa Rica	1.8	1.9	1.8	2.1	3.6	3.7	2.5	2.4
Chile	3.2	3.8	4.5	3.7	3.6	3.9	4.2	3.5
Mexico	5.3	4.0	4.7	5.0	9.4	6.7	7.1	6.3
Uruguay	...	1.7	1.3	1.7	...	2.2	1.7	1.9
Venezuela	5.0	4.3	3.3	2.4	9.6	5.2	3.9	3.4

Source: PREALC, 1982; for the sectoral product, data from the Statistics Division of ECLAC based on official figures.

and 9 to 1 in Brazil and Mexico to a minimum of 2 to 1 in Argentina in 1950—they declined over the 30 years (table 6), reaching in 1980 a maximum of 6 and 7 to 1 in Brazil and Mexico and a minimum of 1.4 to 1 in Argentina. Moreover, with few exceptions and as was to be expected, it was the initially lowest sectoral productivity, i.e. that of the primary sector, which grew fastest; and the highest at the outset—that of tertiary activity—which grew slowest (table 7), although in any event it still increases over the 30 years at the far from negligible average rate of 1.8%, with considerable variation between countries and periods. It is difficult to reconcile this growth in the average productivity of the tertiary sector with a large increase in the proportion of the sector employed in absorption activities.

The fastest-growing occupational groups in this period were qualified non-manual employees (professionals, technical and clerical), which increased at an annual rate of the order of 6% between 1950 and 1970 (the only period for which data are available)—a much higher rate than that of EAP (2.3% per year) or of the pop-

ulation of working age (2.7% per year) or of the urban EAP (3.6% per year) for the same period (table 8). Since these employees represent the highest-qualified manpower and since the bulk of them are found in tertiary activities, there must have been a strong improvement in the level of qualification of the tertiary workforce. Moreover, as the annual EAP growth rate for employees of this type (6%) was lower than the estimated growth of the workforce with higher-than-primary education (8%) in this same period 1950-1970 (table 8), the implication is that: i) the smaller but rapid growth of highly qualified non-manual employees centred on the tertiary sector was a response to increases in the demand for their services rather than to a greater supply, and ii) that other workers—not only non-manual but especially urban manual workers—<sup>14</sup> must also

<sup>14</sup>It is assumed that it was primarily the urban labour force that improved its level of schooling as a result of the extension and improved quality of the education system in the towns and the greater selectivity of rural-urban migration, depending on the level of schooling.

Table 7  
EVOLUTION OF SECTORAL PRODUCTIVITY BY COUNTRY, 1950-1980  
(Annual growth rates)

Sectors <sup>a</sup>	1950-1960			1960-1970			1970-1980			1950-1980		
	P	S	T	P	S	T	P	S	T	P	S	T
Argentina	3.3	0.5	0.6	3.9	4.6	0.8	2.3	1.9	-0.1	3.1	2.3	0.4
Brazil	3.4	4.6	1.6	2.0	1.6	2.3	4.9	3.8	4.6	3.4	3.3	2.8
Colombia	2.3	3.6	1.1	3.0	1.5	0.3	3.3	1.0	2.1	2.9	2.0	1.2
Costa Rica	2.6	3.5	2.9	4.0	3.0	—	0.7	2.4	0.2	2.4	3.0	1.1
Chile	1.7	3.1	2.0	2.7	3.3	2.4	1.9	-0.7	-0.4	2.1	1.9	1.4
Mexico	4.2	1.3	0.5	2.6	3.9	2.9	3.1	2.4	0.8	3.3	2.5	1.4
Peru	3.9	6.4	1.3	4.0	2.0	0.7	0.2	0.6	-0.9	2.7	3.0	0.4
Uruguay	—	0.2	—	2.3	0.2	—	1.7	4.0	2.5	2.0 <sup>b</sup>	2.1 <sup>b</sup>	1.2 <sup>b</sup>
Venezuela	7.1	4.3	-0.4	2.5	1.7	1.6	-2.8	-0.7	1.2	2.2	1.8	0.8

Source: PREALC, 1982; for the sectoral product, data from the Statistics Division of ECLAC based on official figures.

<sup>a</sup>P = primary sector

S = secondary sector

T = tertiary sector

<sup>b</sup>1960-1980.

have increased their average level of qualification (at least of schooling). In other words, there was considerable professionalization of the urban labour force in the period, which must in itself have tended to raise the sectoral productivity.

Even better than the data on productivity—if it was not for the fact that the available information is so patchy and fragmented—are the data referring to wages and salaries. These show that the wages of low-skilled urban manpower are much higher than for rural workers; even

Table 8  
GROWTH OF QUALIFIED EAP, 1950-1970  
(Annual growth rates)

	EAP	Population of working age	Urban EAP <sup>a</sup>	Formal EAP	Qualified EAP <sup>b</sup>	EAP with higher- than-primary education
Latin America	2.3	2.7	3.6	3.7	6.1	8.4
Argentina	1.5	1.8	2.1	2.2	2.3 <sup>c</sup>	10.8
Brazil	2.7	3.0	4.3	4.3	6.5	8.5
Colombia	2.5	2.9	4.4	5.0	8.1	...
Costa Rica	3.1	3.5	4.7	5.1	6.0	7.9
Chile	1.4	2.3	2.0	2.8	2.3	2.8
Mexico	2.5	3.0	4.7	4.9	5.9	5.9
Uruguay	1.2	1.1 <sup>c</sup>	1.3 <sup>c</sup>	1.3 <sup>c</sup>	2.7 <sup>c</sup>	4.4
Venezuela	3.1	3.7	4.8	4.8	6.6	9.6

Source: ECLA, 1981; Ramos, 1970 and PREALC, 1982.

<sup>a</sup>Urban EAP means non-agricultural and non-mining EAP.

<sup>b</sup>Professional, technical and clerical.

<sup>c</sup>1960-1970.

wages in the informal urban sector are higher than rural wages.<sup>15</sup> We must therefore dismiss—at least as far as Latin America is concerned—theories that attribute the shift to the towns to the attraction of the artificially high wages in the formal urban sector, for even the non-inflated wages of the informal sector are higher than rural wages, and not lower, as the Harris, Todaro and Fields models imply.

Furthermore, although the evolution of real urban wages and salaries is somewhat irregular—with varying cycles (connected with the stabilization policies that followed the two price jumps of energy products) superimposed on a bullish historical trend (PREALC, 1982, table III-3)—the available data show no systematic tendency for informal wages (or their indirect

indicator, construction wages) to fall or to grow less than those of the formal sector (the industrial sectors covered by wage surveys).<sup>16</sup> If there had been a systematic rise, the pressure of a greater supply of urban labour would have brought about declines in informal wages and construction wages. The fact that these maintained their relationship with wages in the industrial sector suggests that this greater pressure of urban labour supply did not exist or (as I maintain) that it was, regrettably, offset by an even greater demand for productive labour, a genuine demand derived from the higher growth of the urban product (secondary and tertiary). In other words, the pressure of a greater demand for labour won the day.

## IV

### Problems and forms of adjustment

The fact that the demand for labour generally increased more than the supply in the period 1950-1980 does not mean that there were no employment problems. Within this general, strong and positive trend there were problems in some periods and countries, likewise, there were groups of workers whose position deteriorated in absolute terms, as happened with the absolute decline in tertiary productivity in the decade 1970-1980 in Argentina, Chile and Peru (table 7). And tertiary employment grew more quickly than the secondary product in the 1970s: an annual 2.7% as against 2.6% (Argentina), an annual 4.0% as against 1.1% (Chile) and an annual 4.9% against 3.4% (Peru). This explains why the relationship between the growth of tertiary employment and the secondary product was so

weak in 1970-1980<sup>17</sup> and was so markedly different from the good results obtained in 1950-1980 and the decades of the 1950s and 1960s taken separately.<sup>18</sup>

<sup>16</sup>The report cited distinguishes between the construction sector (indirect indicator of the informal sector) and the industrial sector (indirect indicator of the formal sector). The few works which directly compare the evolution of wages in the formal and informal sectors produce similar results (Gregory, 1980; Pfeiffermann and Webb, 1979; PREALC, 1980).

<sup>17</sup>In Argentina and Chile at least, it is possible that part of this growth of tertiary employment was not spurious but real and was a response to a demand for labour resulting from larger imports of capital goods and inputs that characterized this period of greater openness in finance and trade. It is also possible that this factor may have come into play, although to a lesser extent, in the other countries of the region in this period in the form of the stronger inflow of foreign capital that they all experienced and the larger volume of imported goods to be marketed, with the more vigorous financial activity that this implied. If this is the case, the phenomenon has not continued into the 1980s, for which a slow-down in the entry of capital is forecast.

<sup>18</sup>The relationship continued positive but not statistically significant in 1970-1980; however, it was positive, strong and significant in 1950-1960, 1960-1970, and throughout the period 1950-1980 as a whole.

<sup>15</sup>ECLA (1973) and Erikson (1966) suggest differences at least of the order of 2 to 1. There may well have been non-monetary differences between the two areas, but it is not clear whether all these differences (education and public health, for example) are always and systematically lower in the towns. Furthermore, it is highly improbable that they would be able to offset differences of 100% in monetary income.



When growth in tertiary employment is accompanied by increases in urban unemployment, it is fairly certain that this is a response to supply rather than demand pressures. This was the case in Chile, where the average unemployment rate between 1975 and 1980 was in the order of two and three times the historical rate. However, the adjustment to an insufficient demand for labour often takes the form of increases not in unemployment but in underemployment. For example, as a result of the policy of stabilization and liberalization pursued in Argentina from 1975, salaried industrial employment declined by one-third. Nonetheless, the unemployment rate remained below 5%. Own-account employment increased sufficiently to compensate for the drop in salaried employment. (Argentine Government - UNDP/ILO Project, 1980 a) and b), and Lagos and Tokman, 1983.) And as those who lost their jobs received generous compensation—since in Argentina a large part of the labour force is employed in large enterprises—own-account employment provided a decent income (although the bulk of it was income from capital rather than from work). Furthermore, as it was quite common for a person to hold two jobs, a large part of the reduction in demand did not lead to unemployment but to one job rather than two. Finally, a high proportion of the reduction in demand fell on migrant workers and thus did not greatly affect the unemployment rate, but rather the amount of migrant work.

Another form of adjustment was seen in Peru between 1975 and 1978. Instead of increasing the unemployment rate—which in fact did not rise any great amount—the economic recession in those three years, when there was a sustained and strong supply of labour, resulted in greater underemployment in the form of low incomes; in other words, there was an increase in the number of persons in the labour force who worked 35 hours or more per week but earned less than the minimum wage. This affected the secondary labour force in particular—young people, women and old people—who were employed in low-income and low-productivity jobs which they would not normally have accepted but in that time of crisis did accept, at least temporarily, in order to supplement the reduced family income. This is the reason why those three

years saw large increases in the participation rates, especially of women, and a significant increase in the members of unpaid family members. Finally, it seems that more young people joined the labour force as trainees—since it was not possible to find any other adequately paid work—for this legal loophole was used to avoid paying the minimum wage (Henríquez and Iguñiz (comp.), 1983; R. Grampone, 1983; Verdera, 1983; and Wicht, 1983).

The experience of these three countries clearly suggests that the employment was generated as a response not to a greater demand for productive labour but to a greater supply, i.e., the greater supply created its own demand, inflating easy-access urban activities in which underemployment can always be “generated” simply by sharing out the available man-hours of work among more people.

It must, however, be pointed out that, with a single exception,<sup>19</sup> these three cases were the only ones in 30 years (and in the decade of the 1970s) in which the growth of tertiary employment exceeded that of the secondary product. It is extremely suggestive that these are the three cases of slowest growth of secondary product in the 30 years. In other words, if the secondary product had grown vigorously, there would not have been drops in tertiary productivity nor, probably, the subsequent increases in underemployment.

Although the general employment situation tended to improve or not to worsen in the countries that had strong and stable economic growth, they, too, were not free of employment problems. For example, Brazil underwent a period of fast development between 1965 and 1980, but its benefits were distributed very unevenly, among regions, rural and urban sectors, and within the urban sector and the modern sector itself. In particular, and where employment is concerned, although modern employment grew vigorously in the decade of the 1960s, within the modern sector the demand for qualified labour (technical and non-manual) grew much more than the demand for unskilled manpower. This

<sup>19</sup>Uruguay in the decade of the 1960s, when tertiary employment grew at an annual rate of 1.6%, while the secondary product increased by 1% per year.

explains why the wages of less-qualified workers fell in this period in comparison with the wages of qualified workers and why the growth rate of jobs for qualified workers was four times greater in the modern sector than for unskilled manpower (Pfeffermann and Webb, 1979; Bacha, 1977; Wells, 1974; and Pastore and Cabral de Castro, 1983).

Furthermore, as the supply of low-skilled labour remained large, other sources of employment had to be created to absorb it. In this period there was therefore a degree of "urbanization" of the agricultural labour force, especially in the State of São Paulo; in other words, agricultural workers moved to the towns owing to the lack of land or regular work in the countryside, but they were employed in agricultural work as temporary workers (*boias frias* or *volantes*) in times of greater demand.

Despite all this, the employment situation in Brazil did generally improve during this period; the only implication is that the relative position of the urban poor deteriorated. However, their absolute income levels increased owing to the period's vigorous economic growth and they improved much more in all respects, in comparison with the 1981-1983 economic crisis, when the Brazilian product plummeted.

In many countries the growth process was accompanied by large regional imbalances and, in particular, by a kind of metropolization of the labour force. The growth of Mexico City is perhaps the most graphic example of this phe-

nomenon, for its population almost tripled in 1960-1980. Owing to the solid economic growth of the postwar period, the general development of employment in the country was dynamic. This general trend, however, hid a dangerous phenomenon; up to the oil industry's peak the qualifications demanded were increasingly rigorous, since the economic expansion was based on increasingly intensive use of capital. The oil bonanza and, in particular, the price increases produced a complete reversal of this situation. The increase in the country's revenues was so great—because of the increase in the prices of sources of energy—that a demand for manpower of all kinds, qualified or not, was generated, especially in the tertiary sector. However, this employment was very dependent on the liquidity produced by the oil bonanza. When this turned out to be ephemeral (1982) the recently arrived urban manpower found itself in a very precarious situation. Because it was little trained, it could not easily take to the more skilled jobs in the secondary urban sector. Incapable of moving forward to jobs in the formal urban sector and already uprooted from their customary means of economic support in the rural areas, these workers swelled the ranks of the urban unemployed and underemployed. Unemployment, the acutest manifestation of the employment problem, increased swiftly from a little over 4% in 1981 to almost 13% in 1983 (Muñoz, Oliveira and Stern, 1977; García, Oliveira and Muñoz, 1980; Trejo, 1973; and Gregory, 1981).

## V

### Conclusion

The transformations in the sectoral composition of the labour force, the sustained growth of secondary and formal employment, and above all the strong rise of productivity (and wages) within each sector endorse the conclusion that the great increase in the urban labour force in Latin America in the postwar period was a reflection of a vigorous demand for productive man-

power (a positive sign) rather than of a rise in supply (a sign of weakness). This explains how the dynamic process of industrialization could take place without excesses of urbanization, informalization or tertiarization.

It was fortuitous that it happened in this way, since, *ceteris paribus*, it was to be feared that the population explosion of the 1950s would ex-

acerbate unemployment problems in the following decades. However, as a result of the unprecedented growth of the region's product, this greater supply of labour was absorbed not only without any fall in productivity but even, as we have seen, with a considerable increase in all sectors

Of course, if the growth rate of the product had not accelerated, the outcome would have been different. In fact, the post-oil crisis of 1979 led in 1980-1983 to a drop in the region's per capita product, with a consequent decline in the demand for labour and a sharp increase in unemployment in the majority of the countries of the region.

The fact that in the period 1950-1980 economic growth was sufficient to absorb productively the bulk of the urban workforce does not mean that there were no problems. Frequently, urban unemployment and underemployment flourished or over-tertiarization took place in periods of slow economic growth (for example, in Argentina, Chile and Peru); there were even individual problems in countries that had strong economic growth and no general employment difficulties, such as, for example, the problem of unskilled labour in Brazil or that of metropolitan labour in Mexico. Nevertheless, the common direction was generally confirmed. Without economic growth unemployment problems get worse; with growth, they tend to resolve themselves. The relationship may not perhaps be a strictly linear one, but the postwar experience in the region shows that economic growth was the decisive factor in the easing of employment problems. The inverse example also confirms this result: during the economic crisis that afflicted the region in 1981-1983 when the per capita product fell for the first time since the 1930s for three consecutive years, unemployment took a sharp upswing.

The fact that this growing demand for labour in the period 1950-1980 went unnoticed and that, on the contrary, there were fears of the employment problem worsening during this time, was due in part to the close attention that observers paid to the accelerated growth of population of working age and, consequently, to the need to generate jobs. Another reason was that between 1925 and 1955 manufacturing employment had risen slowly (2.2%) despite a sustained

increase in the sectoral product (4.9%); in other words, the secondary sector absorbed workers at a rate equivalent to only 45% of the growth in its product. Happily, this absorption capacity increased in the following 30 years, so that in the decade of the 1970s secondary employment expanded at a rate equal to 65% of the increase in the sectoral product. It is probable that this increasing generation of jobs by the secondary sector was due to the fact that in the dawn of industrialization in Latin America enormous increases in productivity accompanied the introduction of modern technology, for the process of industrialization had begun late.<sup>20</sup> As it continued, however, the productivity differences grew less, since the existing industrial community became increasingly less traditional. To put it another way, despite the speed with which modern (and qualified) secondary employment expanded, total secondary employment did not rise to any great extent, even though the component of traditional secondary employment (or secondary underemployment) to be absorbed was not relatively low. It was not therefore until the 1960s and 1970s that the growth of secondary employment speeded up and was noticed.

As Galenson maintained, the strong growth of tertiary employment in the period seems to have been connected with the increase of the secondary product; this demonstrates the close reciprocal relationship that exists between the sectors. However, as many of the activities of the tertiary sector are of easy access, this linkage does allow of exceptions, due primarily to supply pressure, when the tertiary sector performs the function of absorbing surpluses of manpower.

Despite the fact that in this period the demand for urban labour increased faster than the supply, there would still have been a shift of workers to the towns even if that demand had grown slowly, for urban wages, in both formal and informal sectors, were much higher than rural wages. It is my contention that this imbalance has been maintained, or that it has been only partly corrected, despite the shift to the towns, because, owing to a variety of causes, tech-

<sup>20</sup>This hypothesis was first formulated on the basis of data for 1950-1980 (Ramos, 1970). The later acceleration of secondary employment would seem to confirm it for 1960-1980.

nological progress has tended to spread more rapidly in industry than in agriculture, thereby increasing capital and labour productivity faster in the town than in the country.

At root, the labour market has not been an integrated and balanced whole, but rather two labour markets, one rural and the other urban, existing in a state of imbalance, as if there were two countries with imperfect lines of communication between them. Workers have not moved to the towns in search of higher wages in sufficient numbers to restore the balance, nor have the necessary capital, technology and entrepreneurial ability moved from the towns to the countryside, seeking the greater profitability that their very scarcity would produce, in sufficient quantity to equalize productivity. Thus, the most useful model for an understanding of the migratory flow to the towns may be the model of two countries: one poor and rural and the other rich and urban, with different amounts of capital, technology and entrepreneurial ability per worker, greater in the town than in the country, only slow changes in all these factors and, consequently, big differences in productivity and return on them over time. Accordingly, the wage levels in each zone are largely determined by the relative scarcity or abundance of these factors within each zone, as if they were two countries,

and not so much by the supply of factors in both (as if they were a single country). To correct the urban-rural wage difference it would be necessary to channel more technology, capital and entrepreneurial ability from the town to the country and actively promote faster migration to the town. Only in this way will the sectoral levels of productivity in the economy tend to equalize.

Owing to these differences in productivity and as long as they persist, there will be a migration to the towns, even though the demand for productive urban labour does not increase. This is why it is necessary for one sector—the tertiary, for example—to absorb this low-skilled labour arriving from the countryside in activities of a productivity which, while low, is still higher than rural productivity. The tertiary sector will expand by reason of demand (with the secondary product) in times of economic upsurge—as Galenson maintains—and it will expand under supply pressure, the result of urbanization, in periods of stagnation. Both developments are possible; the first predominated in the period 1950-1980, a time of marked economic growth for the majority of the countries of the region. It may be assumed, on the other hand, that in the recession of 1981-1983 supply pressures predominated and that this led to greater unemployment and underemployment in the towns.

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