

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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Changes in employment and the crisis

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In several earlier works —PREALC (1981), Tokman (1982) and García (1982)— the authors analysed and interpreted the main long-term trends of employment, underemployment and unemployment observed in Latin America. In this article they have updated their analysis, making use of new information for 1980 in several countries and incorporating a study of the effects of the 1981-1983 recession.

The article is divided into two parts. The first describes the changes in the structure of employment between 1950 and 1980, re-examines some of the interpretations that have been made and highlights the diversity of situations found in the various countries of the region. The second concentrates on the effects that the present crisis has produced on employment, above all the increases in open unemployment, visible and invisible underemployment, and the fall in real wages.

They conclude that during recent decades Latin America was slowly overcoming its employment problems and transforming its employment structure, while at the same time undergoing rapid urbanization; but it was doing so in a markedly heterogeneous framework in which modern urban employment increased while underemployment persisted. The current crisis has been a serious obstacle to the productive absorption of labour and has impaired the levels of income and standards of living, thereby converting employment into one of the most outstanding and intractable economic and political problems of the present time.

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Introduction

In previous studies —PREALC (1981), Tokman (1982) and García (1982)— an analysis was made of the main long-term trends of employment, underemployment and unemployment observed in Latin America, and their respective interpretative hypotheses.

Both the availability of new information for 1980 in several countries and the effects of the recession of 1981-1983 make it desirable to update these analyses. The present study sets out to do this by summarizing the main trends of 1950-1980 in the light of new information and interpreting the events of 1981-1983 in accordance with these long-term trends.

I

Long-term trends

In the first place, there is no sign during the period under consideration of a rising trend in open unemployment. Nor is this the main cause of under-utilization of the labour force. When the coverage of underemployment is weighted in terms of its intensity, it is seen that total under-utilization declined from 23% to 19% between 1950 and 1980 (PREALC, 1981). Of this latter figure, only about four percentage points are accounted for by open unemployment. The rest represents the intensity and coverage of underemployment. Thus, during the three decades, underemployment was the main form of under-utilization of the labour force. Moreover, as regards its composition, open unemployment mainly affected the secondary work force —persons who are not heads of household, women and young people— whereas underemployment affected heads of household and helps to explain their state of poverty. Hence the analysis of the longer-term trends must be directed in particular towards the changes in the employment structure.

The two main phenomena observed in the period 1950-1980 were the massive transfer of labour from the agricultural sector to urban activities, and the slow but steady progress made in overcoming underemployment, which was the chief problem confronting the region in this period. In the following parts of this article the main

processes relating to these phenomena will be analysed, first for the region as a whole, and then by groups of countries.

1. *Latin America 1950-1980*

a) *The facts*

Between 1950 and 1980 there was a rapid transfer of labour in Latin America to non-agricultural activities. In that period the proportion of the agricultural labour force in the total fell from 54.7% to 32.1%: a decline equal in magnitude to that recorded in the United States from around 1870 to 1910.

The change in the employment structure took place in a context of rapid growth of the non-agricultural labour force, explained by the rural-urban migrations, the behaviour of participation rates, and natural urban growth. Between 1950 and 1980 the non-agricultural labour force in Latin America grew at the high rate of 4% per annum: i.e., even slightly higher than that recorded in the United States between 1870 and 1910, which is one of the cases of highest growth of urban labour supply on record (table 1).

Non-agricultural modern activities—or urban formal activities in PREALC terminology—absorbed labour at a high rate. The employment generated in these activities grew by 4.1% annually—that is to say, slightly faster than the growth of the urban labour force. Around 1950, however, non-agricultural modern activities only represented 70% of the urban labour force. As a result, even with slightly high-

er growth rates, the expansion of urban modern employment was lower in absolute terms than the growth of the urban labour force. In other words, despite the high rates of modern job creation, the increased urban labour supply could not be entirely absorbed (tables 2 and 3).

This *relative* insufficiency explains the growth of informal activities, in which the greatest concentrations of urban underemployment are found. Between 1950 and 1980 the share of informal activities in the total labour force rose from 13.5% to 19.4%.

To avoid confusion, it should be stressed that the growth of the informal sector and of the urban underemployment associated with it is explained by the speed of rural-urban migration and the relative incapacity of the non-agricultural modern activities to absorb this high pressure of supply. Thus, the share of informal employment in the urban labour force declined between 1950 and 1980 from around 31.0% to 29.0%, which confirms that its increased share in the total labour force was a result of the massive shift of labour to urban activities. In the United States, in contrast with what occurred in Latin America, there was a marked decline in the share of informal employment in the urban labour force, which culminated around 1920. Moreover, whereas in the United States informal activities tend to be concentrated in the services sector, in Latin America they are spread over the different urban activities.

The behaviour of underemployment reflects the net effect of two opposing trends: the reduction of agricultural underemployment and the growth of urban underemployment, the former being greater than the latter. In consequence, the coverage of underemployment fell between 1950 and 1980 from 46.1% to 38.3% (table 2). In 1980 more than half of the underemployment was already concentrated in the urban informal sector, which shows that the problem had been transferred to the cities. In view of the foreseeable future trends, this urbanization of the employment problem will be even greater in the future.

In brief, the trends observed in Latin America in the last three decades can be characterized as follows: in the transfer of labour to activities of greater productivity, Latin America does not seem to have departed much from the pattern followed by the currently developed countries; in

Table 1
LABOUR FORCE DYNAMICS
(Annual growth rates, per cent)

	Latin America 1950-1980	United States 1870-1910
1. Population	2.8	2.0
2. Labour force	2.5	2.7
3. Non-agricultural labour force	4.0	3.7

Source: Data for United States: Lebergott (1964). Data for Latin America: prepared by PREALC.

Table 2
LATIN AMERICA: SEGMENTATION OF THE ECONOMICALLY ACTIVE
POPULATION AND UNDEREMPLOYMENT COVERAGE: 1950 AND 1980
(Percentages)

		Share in the total EAP						Mining (7)	Under- employ- ment coverage (8)=(2)+(5)
		Non-agricultural			Agricultural				
		Formal (1)	Informal (2)	Total (3)	Modern (4)	Tradi- tional (5)	Total (6)		
Latin America	1950	30.6	13.5	44.1	22.1	32.6	54.7	1.2	46.1
	1980	47.7	19.4	67.1	13.2	18.9	32.1	0.8	38.3
Group A	1950	26.4	12.2	38.6	22.4	38.0	60.4	1.0	50.2
	1980	48.2	18.6	66.8	14.1	18.4	32.5	0.7	37.0
Mexico	1950	21.6	12.9	34.5	20.4	44.0	64.4	1.1	56.9
	1980	39.5	22.0	61.5	19.2	18.4	37.6	0.9	40.4
Panama	1950	34.9	11.8	46.7	6.2	47.0	53.2	0.1	58.8
	1980	51.6	14.8	66.4	11.4	22.0	33.4	0.2	36.8
Costa Rica	1950	29.7	12.3	42.0	37.3	20.4	57.7	0.3	32.7
	1980	54.2	15.3	69.5	20.5	9.8	30.3	0.2	25.1
Venezuela	1950	34.7	16.4	51.1	23.3	22.5	45.8	3.1	38.9
	1980	60.9	18.5	79.4	6.5	12.6	19.1	1.5	31.1
Brazil	1950	28.5	10.7	39.2	22.5	37.6	60.1	0.7	48.3
	1980	51.6	16.5	68.1	12.4	18.9	31.3	0.6	35.4
Colombia	1950	23.9	15.3	39.2	26.2	33.0	59.2	1.6	48.3
	1980	42.6	22.3	64.9	15.8	18.7	34.5	0.6	41.0
Group B	1950	17.1	14.9	32.0	23.2	43.0	66.2	1.8	57.9
	1980	29.1	21.8	50.9	12.0	35.9	47.9	1.2	57.7
Guatemala	1950	16.6	14.0	30.6	20.6	48.7	69.3	0.1	62.7
	1980	23.8	18.9	42.7	19.4	37.8	57.2	0.1	56.7
Ecuador	1950	21.5	11.7	33.2	27.4	39.0	66.4	0.4	50.7
	1980	25.6	28.6	54.2	12.1	33.4	45.5	0.3	62.0
Peru	1950	19.1	16.9	36.0	21.9	39.4	61.3	2.7	56.3
	1980	37.7	19.8	57.5	8.9	31.8	40.7	1.8	51.6
Bolivia	1950	9.1	15.0	24.1	19.0	53.7	72.7	3.2	68.7
	1980	17.9	23.2	41.1	5.2	50.9	56.1	2.8	74.1
El Salvador	1950	18.5	13.7	32.2	32.5	35.0	67.5	0.3	48.7
	1980	28.6	18.9	47.5	22.3	30.1	52.4	0.1	49.0
Group C	1950	54.0	16.6	70.6	20.4	7.6	28.0	1.4	24.2
	1980	61.5	21.4	82.9	9.2	7.0	16.2	0.9	29.4
Argentina	1950	56.8	15.2	72.0	19.9	7.6	27.5	0.5	22.8
	1980	63.5	21.4	84.9	7.8	6.8	14.6	0.5	28.2
Chile	1950	40.8	22.1	62.9	23.1	8.9	32.0	5.1	31.0
	1980	55.5	21.7	77.2	13.2	7.4	20.6	2.2	29.1
Uruguay	1950	63.3	14.5	77.8	17.3	4.7	22.0	0.2	19.2
	1980	63.3	19.0	82.3	9.5	8.0	17.5	0.2	27.0

Source: Data prepared by PREALC.

Table 3
LATIN AMERICA: ANUAL GROWTH OF THE
LABOUR FORCE AND OF NON-AGRICULTURAL
MODERN EMPLOYMENT, 1950-1980
(Percentages)

	Total EAP	Non-agri- cultural EAP	Modern non-agri- cultural employment ^a
<i>Latin America</i>	2.5	4.0	4.1
<i>Group A</i>	2.9	4.8	5.0
Mexico	2.5	4.5	4.6
Panama	2.4	3.7	3.8
Costa Rica	3.4	5.2	5.5
Venezuela	3.3	4.8	5.2
Brazil	3.2	5.1	5.2
Colombia	2.4	4.1	4.4
<i>Group B</i>	2.1	3.7	3.9
Guatemala	2.2	3.3	3.3
Ecuador	2.5	4.2	3.1
Peru	2.0	3.7	4.3
Bolivia	1.5	3.3	3.8
El Salvador	2.7	4.1	4.0
<i>Group C</i>	1.4	1.9	1.8
Argentina	1.3	1.9	1.7
Chile	1.8	2.5	2.6
Uruguay	0.8	1.0	0.8

Source: Data prepared by PREALC.

^aOr urban formal employment in PREALC terminology.

fact, if any feature of this process in the region should be stressed, it is its intensity. There are three aspects peculiar to the region which seem to play a significant part in these trends. The first is the greater pressure of urban labour supply in Latin America. The second is the relative insufficiency of the modern sectors to absorb this supply fully, which results in an expansion of informal employment. The third is the tardy reduction of employment in traditional agricultural activities. This explains why, after 30 years of rapid absorption, the coverage of underemployment is still considerable.

b) *The explanatory factors*

In earlier studies we analysed various hypotheses accounting for the aforesaid behaviour. In the first place, we questioned the

interpretation centred on the dynamic insufficiency of Latin America, since the region's record for 1950-1980 in respect of investment and growth was equal or superior to that of the United States in the period 1870-1910, when that country underwent a transformation in its employment structure similar to that of Latin America. Thus, the investment coefficient for Latin America as a whole averaged 21.5% between 1950 and 1980: a figure similar to that recorded in the United States between 1870 and 1910, when that country's rate of accumulation of capital was one of the highest among the countries now classed as developed. Similarly, the growth rate of the product in Latin America was 5.5% per annum on average, in comparison with 5% in the United States in the aforesaid period.

Moreover, although the growth of the urban labour supply was greater than that recorded in the United States and other developed countries—in the parallel period of change in the employment structure—this magnitude does not *per se* explain the dissimilar results as regards the absorption of underemployment observed in Latin America.

Finally, the data available enable us to identify an association between the longer period required and the higher cost to Latin America of transferring labour to more productive sectors in comparison with the cost to the United States in an equivalent historical period. The transfer of an equal percentage of the labour force from the traditional agricultural sector to urban modern activities would have necessitated in Latin America a volume of resources greater than that required in the experience of the United States. This fact explains why investment coefficients equal or superior to those recorded in the United States had a smaller incidence on employment.

As the resource requirements for the transfer must be understood in their broad sense, the point of interest is the difference between the resources needed to generate urban modern employment and those required to create jobs in traditional agricultural activities. In so far as the differences in productivity reflect differences in the utilization of resources in a broad sense—including capital, technology, organization, entrepreneurial capacity, manpower skills, etc.—these differences themselves reflect the differences in the cost of generating jobs in urban

modern sectors compared with those in traditional agricultural sectors and urban informal activities.

In particular, earlier studies —Tokman (1982), García (1982)— suggest that the differences in productivity between urban modern activities and traditional agricultural and urban informal activities have been higher in Latin America and show no sign of diminishing, as they did in the United States and other currently developed countries. Thus, agricultural productivity in Latin America was low in relation to the non-agricultural sectors in 1950, and continued to be so in 1980 —in contrast with the experience of the United States at the end of the last century. Further, the difference between the productivity of the secondary sectors and that of agriculture is very big in Latin America and has not diminished with time. Both phenomena are the exact opposite of the situation observed in the United States at the end of the last century. Similarly, the differences in productivity within services and within industry are greater than those registered in the currently developed countries. These traits are connected with a distinctive feature of the development of the region: its structural heterogeneity (Pinto, 1970).

With regard to the reasons why the differences in productivity in Latin America are greater than those found in the United States in a comparable historical period, two hypotheses have been put forward (Tokman, 1982): i) the nature of the technological change; ii) the structure of ownership of capital and land and the segmented access to capital.

The historical period in which the industrialization of Latin America took place meant that there was access to technologies of greater productivity, but these entailed higher costs for the creation of modern jobs. The problem is not just one of factory technology. It also includes the imitative reproduction of production infrastructure, social infrastructure and differences in consumption between those employed in modern and in traditional activities, which considerably increases the volume of resources required to generate employment in modern activities (García, 1982). Moreover, the lower relative productivity of the Latin American agricultural sector —compared with other historical cases— is largely explained by the greater concentration of land ownership,

while the concentration of wealth in urban areas tends to persist owing to the existence of mechanisms restricting access to capital (Tokman, 1982).

The greater heterogeneity in production is also reflected in greater wage dispersion. Not only are the differences great and associated with the levels of average productivity, but in most of the countries of the region there is a trend towards further increases in the differences between wages paid in manufacturing and agricultural and minimum urban wages. At the same time, the scant information available suggests that the dispersion of wages within the sectors has also increased in recent decades as a result of the functioning of segmented labour markets (Tokman, 1979).

Finally, in this context of heterogeneity, mention must be made of the performance of the rural sector. Employment in traditional agricultural activities has only declined slowly, and the modern ones have shown little retention capacity owing to the type of modernization adopted. Both phenomena have helped to slow down the reduction of underemployment, directly in the first case and indirectly in the second, since the consequent expulsion of labour has resulted in additional pressures on the urban labour market.

2. *Diversity by countries*

The foregoing analysis refers to Latin America as a whole. The experience of 1950-1980 is also instructive in pointing up another aspect of the employment problem in Latin America: the growing diversity of national situations. In this study three groups of countries (A, B and C) are defined, according to the degree of progress made in overcoming underemployment and the particular features of the latter (tables 2, 3 and 4).

Group A, consisting of Mexico, Panama, Costa Rica, Venezuela, Brazil and Colombia, is characterized by having achieved a higher rate of economic growth and investment than the average for Latin America. Nevertheless, the persistence of a high degree of structural heterogeneity —particularly serious in Mexico and Brazil with regard to agricultural productivity— has weakened the investment and growth efforts and diminished their effect on employment creation. The transfer of labour

Table 4
LATIN AMERICA: EVOLUTION OF THE GROSS INVESTMENT COEFFICIENT IN
RELATION TO THE GDP; BY QUINQUENNIA, 1950-1980

(Simple average of the annual coefficient,
in percentages)

	1950-1954	1955-1959	1960-1964	1965-1969	1970-1974	1975-1979
Group A						
Mexico	17.6	17.8	18.7	21.0	21.3	22.2
Panama	14.0	16.6	17.9	21.6	27.5	22.4
Costa Rica	17.4	18.8	18.6	20.2	22.1	26.5
Venezuela	47.0	42.9	26.1	26.8	30.6	41.4
Brazil	23.9	22.8	21.9	22.7	26.8	29.8
Colombia	24.2	24.2	21.5	20.5	20.5	10.1
Group B						
Peru	24.2	22.6	19.6	18.4	15.6	15.4
Ecuador	11.3	13.6	12.6	12.5	21.4	22.8
Bolivia	10.1	13.4	14.2	17.3	17.7	20.5
El Salvador	11.3	12.2	14.7	15.4	15.6	19.8
Guatemala	10.1	15.6	11.3	12.8	13.1	16.5
Group C						
Argentina	15.2	14.8	18.7	17.9	20.2	20.6
Chile	15.1	14.4	15.4	15.1	13.1	9.0
Uruguay	17.5	13.3	12.5	9.8	11.0	14.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), Statistics Division.

from the agricultural sector to non-agricultural activities took place in these countries at a higher rate than the Latin American average, and they also show a more rapid decline in agricultural underemployment than the regional average.

The magnitude of the investment effort is manifest in high rates of labour absorption in non-agricultural modern sectors, reaching an annual average of 5% in 1950-1980. Nonetheless, in these countries there were also high rates of growth of the urban labour force: 4.8% annually. Hence, even with the aforesaid absorption rate, the share of the informal sector in the total labour force rose from 12.2% to 18.6% between 1950 and 1980. Thus, the countries in this group are those which have achieved the greatest relative decline in underemployment in the region and are the most dynamic, yet which have experienced the greatest pressure of supply during the period.

Group B—composed of Ecuador, Peru, Bolivia, El Salvador and Guatemala—displays long-term economic growth rates and investment

efforts very much below those of the group A countries. The differences in productivity (agricultural as against non-agricultural) are similar to those of the former group and likewise show no signs of diminishing. Here, the transfer of labour from agricultural activities to the urban sectors took place at a lower rate than the Latin American average and was much slower than that observed in group A. Around 1980, some 48% of the group B labour force was still employed in the agricultural sector. This slower process, coupled with the fall in the absorption capacity of the modern agricultural sector, is the main feature of the group. These are the countries which display the highest levels and smallest declines in agricultural underemployment during the three decades. In this group, in contrast to groups A and C, the coverage of agricultural underemployment in 1980 exceeded that of urban underemployment.

The countries included in this group are those where the greater part of the indigenous population was engaged in agricultural tasks,

generally in high-altitude areas. This introduces another dimension into the analysis of the employment problem, since through their form of organization and peculiar features, for which there is no historical parallel elsewhere, it is difficult to predict their "normal" evolution. Moreover, the growth of the urban labour force in these countries was lower than in group A, although still rapid (3.7% per annum), and at the beginning of the period the growth of non-agricultural modern employment affected only a small proportion of the labour force (17%). Hence in this group also there has been a notable rise in the proportion of the total labour force engaged in urban informal activities. The net result in the long term has been a high level of total underemployment which has remained almost unchanged. Around 1980, more than 57% of the labour force of the group B countries was still underemployed.

The countries in group C —Argentina, Chile and Uruguay— are defined by two main features. The first is that already in 1950 they had an urban labour force proportionately much greater than the rest of Latin America. In close relation to the foregoing, their levels of underemployment and under-utilization were lower than the regional average. The second feature

is that, contrary to the situation in the other countries, they show changes in trend between the two first decades analysed and the last ten years. This is due to the changes made in the economic policy of the three countries during the latter period, which had a negative effect on labour absorption. Hence the three countries are characterized by abrupt increases in the proportion of the total labour force working in the urban informal sector in the last decade and, in the cases of Chile and Uruguay, marked rises in unemployment also.

The two characteristics mentioned, coupled with the continued transfer of labour from the agricultural sector, explain why in 1980 these countries had global underemployment rates below the Latin American average, but rates of urban underemployment —measured by the coverage of the informal sector— equal or superior to the regional average. They are clearly countries in which the problem of underemployment is predominantly urban. It is also evident that the more a country has advanced in the process of transferring labour to non-agricultural modern activities, the more sensitive employment and income structures are to the handling of economic policy.

II

Crisis and employment

In 1980 the implications for the labour market of the crisis and of the adjustment policies adopted to meet it began to make themselves felt. The effects of the adjustment reflect the transformations that the employment structure of the region has undergone and the problems that remain. On the one hand, after three decades of urbanization and modernization, most of the countries have to absorb the impact of the crisis using criteria similar to those of the developed countries. On the other hand, the persistence of still high levels of underemployment introduces forms of adjustment of the labour market which are characteristic of the region.

The fall in the level of economic activity in

most of the countries of the region has created a marked decline in the rate of job creation in the urban modern activities. In some cases the intensity of the recession is so great that the level of employment in these activities has actually been reduced. As the labour force, and particularly the urban one, continues to grow, various effects are produced: an increase in the rate of open unemployment, accompanied by a change in its composition; a rise in visible underemployment through the shortening of the working day; higher invisible underemployment, both in coverage and in intensity, owing to the expansion of employment in activities of low productivity and the contraction of the average real wage

which they generate, and —deriving from the fall in the activity level and the adjustment policies— a reduction in real wages. Two additional effects will not be considered here through lack of information: they are concerned with employment and wages in the modern agricultural sector and the productivity and average income of those employed in traditional agricultural activities.

Although in this section we refer only to the region as a whole, it should be borne in mind that the form in which the labour markets are adjusted varies from country to country. There are different combinations of the effects mentioned, whether by way of open unemployment or by increased underemployment, or through a fall in real wages. The relative impact of each effect will vary according to the national experience and depends on the structural features of the country, on the form and intensity of the incidence of the crisis on it, and, particularly, on the type of adjustment policy pursued.

1. *The increase in open unemployment*

Urban open unemployment rose from around 7% in 1980 to 10.4% in 1983¹ (table 5).

This rise in the rate of open unemployment was due to the decline in the rate of activity in the countries and was not associated with real increases in the cost of labour. The magnitude of the rise in open unemployment put an end to a historical process characterized by small variations in the unemployment rate. The previous cyclical fluctuations had been less intense and of shorter duration and occurred in an employment context where agricultural and low-productivity employment still predominated. In those circumstances the adjustments of the labour market adopt less visible forms, mainly

through increases in the coverage and intensity of underemployment.

A second effect, related to the foregoing, is the decline in the rates of participation (PREALC, 1984). This suggests, at least for several countries, the "discouraged worker" effect, in which part of the labour force —mainly young people and women— gives up actively seeking work in view of the few opportunities available. The presence of this effect introduces an underestimation of the unemployment rate, since any economic reactivation might gradually stimulate the discouraged element, with a resulting rise in the participation rates. The size of the distortion is significant since, for example, in Peru and Venezuela, if the 1979 participation rate had been maintained in 1982, the unemployment rate would have amounted to close on 8.6% instead of the 7.0% and 7.8% recorded respectively.

The rise in open unemployment has been accompanied by qualitative changes in its composition. Studies for four countries (PREALC, 1984), and partial information in other cases, indicate that the rate of open unemployment in the secondary workforce —women who are not heads of household and young people— tends to grow less than the rate of open unemployment in the primary labour force —heads of household. At the same time, there is a proportionately greater increase, among the total of unemployed, in those who have lost their jobs than in those seeking work for the first time —an indication of expulsion from the modern sector— and there is a rise in the proportion of men, of persons in the more active age-groups (24 to 44 years), and of those with less education. There is also a greater proportion of manual workers (unskilled and semi-skilled) and an increase in the duration of unemployment. These indicators suggest that unemployment is affecting the primary labour force and is not, as in the past, merely reflecting insufficient absorption of new entrants into the labour market.

Finally, it may be recalled that, according to previous estimates (PREALC, 1981), Latin America needed three decades to reduce the total underutilization rate by three percentage points. Consequently, the mere increase of around two points in the weighted average of the open un-

¹The foregoing refers to the simple average since there are doubts about the figures available for Brazil, a country which has a powerful influence if the weighted average is used. In Brazil, the rate of urban open unemployment grew from 6.2% to 6.7% between 1980 and 1983. Another source of information, on the other hand, indicates a fall in the level of urban employment of 8.2% between 1980 and 1983. In view of the short-term persistence of population and migration pressures, consistency between the two indicators would imply a fall of unusual dimensions in the rate of participation.

Table 5
LATIN AMERICA:
RATES OF URBAN OPEN UNEMPLOYMENT¹

Country	1970	1978	1979	1980	1981	1982	1983
Argentina ^a	4.9	2.8	2.0	2.3	4.5	4.7	4.0
Bolivia ^b	...	4.5	7.6	7.5	9.7	9.4	13.3
Brazil ^c	6.5	6.8	6.4	6.2	7.9	6.3	6.7
Colombia ^d	10.6	9.0	8.9	9.7	8.2	9.3	11.8
Costa Rica ^e	3.5	5.8	5.3	6.0	9.1	9.9	8.5
Chile ^f	4.1	13.3	13.4	11.7	9.0	20.0	19.0
Mexico ^g	7.0	6.9	5.7	4.5	4.2	4.1	6.9
Panama ^h	10.3	9.6	11.6	9.8	11.8	10.4	11.2
Paraguay ⁱ	...	4.1	5.9	4.1	2.2	5.6	8.4
Peru ^j	6.9	8.0	6.5	7.1	6.8	7.0	8.8
Uruguay ^k	7.5	10.1	8.3	7.4	6.7	11.9	15.5
Venezuela ^l	7.8	5.1	5.8	6.6	6.8	7.8	9.8
Latin America ^m	6.5	7.2	7.2	6.9	7.2	8.9	10.4

Source: Prepared by PREALC on the basis of available household surveys.

^aGreater Buenos Aires. Average April-October.

^bLa Paz. 1978 and 1979: second half-year; 1980; May-October; 1983: April.

^cMetropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Average 12 months; 1980: average June-December.

^dBarranquilla, Bogotá, Cali and Medellín. Average March, June, September and December. 1978: average March, June and December.

^eNational urban rates. Average March, July and November.

^fGreater Santiago (INE). Average four quarters.

^gMetropolitan areas of Mexico City, Guadalajara and Monterrey. Average four quarters. 1983: average three quarters.

^hNational urban rates. 1980: advance census data; 1981 to 1983: urban metropolitan region.

ⁱAsunción, Fernando de la Mora, Lambaré and urban areas of Luque and San Lorenzo.

^jMetropolitan Lima. 1970: August-September; 1978: July-August; 1979: August-September; 1980: April; 1981: June.

^kMontevideo. Average two half-years.

^lNational urban rates. Average two half-years. 1983: first half-year.

^mIncludes only the countries for which information for all the years is available. Simple average.

employment rate recorded in the last three years slashes that advance by half.

2. *The increase in visible underemployment*

The labour market is also adjusted by a reduction in the working day, which means a rise in visible underemployment. The contraction of demand for goods and services signifies a fall in the demand for labour, and in view of the uncertainty as to its duration and the eventual cost of retraining skilled manpower, this fall is absorbed in the

first instance through a reduction in the number of hours worked.

The information available suggests that this form of adjustment has been considerable. In Buenos Aires the number of persons working less than 35 hours and who would like to work more has risen from 4% to 8%. In Santiago the rise is from 10% to 18% and in San José from 3% to 7%. In Lima and Buenos Aires the rise in visible underemployment is equivalent to an additional percentage point of open unemployment. Just as in the case of the "discourage work-

er", reactivation will first absorb the increased visible underemployment and only later will reduce unemployment.

3. *The fall in real wages*

The adjustment of the organized labour market seems to take place in three stages. First, there is the reduction of hours worked and the dismissal of staff who are not essential in periods of crisis. Next, when the duration of the recession is prolonged, comes the dismissal of labour. Finally, those who remain employed have to face a reduction in real wages.

The reduction in real wages is at once the instrument and the result of the policy of adjustment to external constraints and of the policy of price stabilization. The reduction can be more severe when based on the premise—mistaken—that the existing unemployment is due to excessively high real wages. The desire to improve competitiveness, to achieve a reallocation of resources towards the sectors of tradeable goods and to reduce price increases also helps to explain the marked fall in real wages. To this must be added the lack of foresight regarding the effect that expectations will have on the behaviour of cost and prices.

There is the further factor of the loss of bargaining power by the workers, whether through the rise in unemployment and underemployment, or through direct restrictions applied to trade-union action, or because in situations of soaring inflation the wage adjustment systems are eroded and cannot prevent the loss of purchasing power.

The information available on wages (tables 6 and 7) indicates that the fall in real wages during the adjustment period—which varies from country to country—is generalized irrespective of the wage indicator employed. The only exception is Colombia, since Guatemala—the other country in which industrial real wages rose between 1979 and 1983—was then recovering from a severe adjustment carried out earlier.

This conjunctural fall forms part of a longer-term trend in which no growth in real wages is observed. Thus, the industrial real wage in Argentina, Chile, El Salvador, Guatemala, Mexico, Nicaragua, Paraguay, Peru and Uruguay was in 1983 lower or no higher than in 1970 (table 6).

Moreover, judging from the information available (table 7), there seems to be a halt in the trend indicated in the first part of this study towards increased wage dispersion. The difference between industrial wages on the one hand and the minimum wage and construction wages on the other is less in the period 1979 to 1983 than in 1970. This is partly due to the contraction in Latin American manufacturing during the crisis, which was greater than the fall in the total product. Between 1981 and 1983 the manufacturing sector contracted by 9.2%, this being a general phenomenon in practically all the countries. At the same time, the loss of bargaining capacity in the more unionized sectors, which are generally to be found in the industrial sector itself, could also be part of the explanation. Lastly, the shortening of the working day and the progression from the compression of profit margins to the reduction of the higher levels of wages may also help to explain the declining trend in average wages and in the intra-sectoral wage dispersion.

4. *The increase in invisible underemployment*

The contraction of the level of activity in the modern sectors diminishes the absorption of labour. This contraction, however, also affects the product generated in traditional activities and particularly in the urban informal sectors.

Consequently, and especially in those cases in which there were pronounced contractions in the domestic product and in the product of the modern sectors, there tends to be an increase in the coverage and intensity of invisible underemployment, this being the result of two factors. On the one hand, there is a rise in the supply of labour for the traditional sectors since the possibilities of absorption in the remaining sectors are restricted. On the other hand, the decline in the activity of the modern sectors also affects the product of the informal activities. Hence the adjustment implies a lower urban informal product, yet a rapid increase in those engaged in these activities. As a result of these two trends the productivity and income per person employed in these activities tend to decline, with a resulting increase not only in the coverage of underemployment but also in its intensity.

Unfortunately we have no detailed informa-

Table 6
EVOLUTION OF REAL WAGES
(Indexes 1970 = 100)

Countries	Minimum wages					Industrial wages					Construction wages				
	1979	1980	1981	1982	1983	1979	1980	1981	1982	1983	1979	1980	1981	1982	1983
Argentina	46.8	55.0	53.6	56.8	84.1	83.1	93.1	83.1	74.4	96.2	56.4	66.5	58.7	52.8	80.2
Brazil	99.4	101.7	100.6	101.1	89.3	147.5	155.5	165.6	177.9	156.3	113.1	113.7	115.4	120.0	101.1
Colombia	96.0	127.3	124.7	130.7	139.1	97.4	97.6	97.8	101.6	104.6	109.3	117.2	110.8	...	...
Costa Rica	151.5	153.5	138.9	131.9	152.7	131.6	131.8	119.0	98.2	112.7	133.3	133.7	117.8	93.5	96.6
Chile	75.8	76.0	75.8	73.9	59.5	92.5	103.8	115.9	112.5	99.9	101.0	102.3	108.1	105.0	78.5
Ecuador	115.2	203.7	175.0	154.2	129.2	140.2	167.9	160.9	157.2	...	97.7	123.0	128.9	130.5	...
El Salvador	104.2	118.8	110.4	99.0	89.5	81.9	95.3	87.6	...	...	...	...	...	...	...
Guatemala	53.2	85.1	91.5	91.5	87.2	69.1	68.6	76.4	78.8	81.8	106.0	111.6	136.4	135.9	126.5
Honduras	85.5	78.3	74.7	80.7	70.3	150.0	103.7	112.5	122.1	123.5	109.2	97.6	110.4	119.0	117.8
Mexico	117.7	110.0	110.7	99.9	80.2	128.0	115.4	119.0	117.3	88.0	114.2	118.5	111.1	102.2	...
Nicaragua	89.3	75.1	67.8	55.8	42.5	23.6	60.0	60.8	53.1	41.1	62.2	53.5	54.2	53.4	41.3
Panama	84.2	74.1	69.0	66.3	74.3	...	...	...	...	...	...	...	...	...	...
Paraguay	65.6	66.2	69.0	68.7	67.5	26.6	88.0	93.7	90.9	83.8	74.6	71.8	75.9	72.5	64.2
Peru	67.3	83.2	70.8	65.2	62.3	73.8	87.8	86.1	86.9	68.5	78.0	87.4	86.4	93.6	78.6
Uruguay	84.6	80.7	82.7	83.4	n.e.	50.3	47.8	51.4	50.8	39.3	68.6	65.3	65.0	56.1	46.2
Venezuela	64.9	106.9	92.0	84.0	n.e.	121.1	122.0	118.4	122.0	118.2	122.5	119.0	110.1	...	...

Source: PREALC based on data for each country.

Table 7
EVOLUTION OF INTERSECTORAL
DIFFERENCES IN WAGES

	W_i/W_m		W_i/W_c		R_i/R_m
	1979	1983	1979	1983	1970
Argentina	1.8	1.1	1.5	1.2	2.5
Brazil	1.5	1.7	1.3	1.5	3.0
Colombia	1.0	0.8	0.9	0.9	3.1
Costa Rica	0.9	0.7	1.0	1.2	2.3
Chile	1.2	1.7	0.9	1.3	2.0
Ecuador	1.2	1.0 ^a	1.4	1.2	2.1
El Salvador	0.8	0.8	n.d.	n.d.	2.0
Guatemala	1.3	0.9	0.6	0.6	2.2
Honduras	1.5	1.7	1.2	1.1	1.4 ^b
Mexico	1.0	1.1	1.1	1.1 ^a	2.0
Nicaragua	0.8	1.0	1.2	1.0	2.5
Paraguay	1.3	1.3	1.2	1.3	1.2
Peru	1.1	1.1	0.9	0.9	2.0
Uruguay	0.6	0.6	0.7	0.8	n.d.
Venezuela	1.9	1.5	1.0	1.1	2.9

Source: Table 6.

Notes:

W_i : Real industrial wages. Index 1970=100.

W_m : Real minimum wages. Index 1970=100.

W_c : Real construction wages. Index 1970=100.

R_i : Industrial wage received in 1970. In national currency.

R_m : Minimum wage in force in 1970. In national currency.

^aRefers to 1982.

^bRefers to 1974.

tion which would permit us to analyse the magnitude of this adjustment in the period 1980-1983. There are, however, some partial data which confirm its impact. The first piece of evidence is the greater proportion of own-account workers in the urban labour force between 1979 and 1982 in Colombia, Costa Rica, Venezuela and Peru. The second consists of specific estimates for Peru and Brazil, which indicate that the proportion of informal activities in the urban labour force grew in Peru from 41.0% in 1981 to 41.6% in 1982 and to around 46.0% in 1983. Similarly, in Brazil (POLEMP, 1984), non-organized workers appear to have increased their share in the total labour force from 47.0% to 53.0% between 1979 and 1983. The same estimates also suggest that the average income of non-organized workers in Brazil and of those employed in urban informal activities in Peru has fallen more rapidly than real wages, which had already suffered a considerable decline in both countries in 1983.

III

Conclusions

The long-term trends suggest that during the period 1950-1980 Latin America was slowly but surely overcoming its employment problem. In particular, this period was characterized by a rapid absorption of employment in the non-agricultural modern strata, as a result of high dynamism achieved both in accumulation and in growth of the product. This was accompanied by a slow decline in agricultural underemployment and a gradual growth of urban underemployment. There were also urban labour supply pressures and poor retention capacity in the modern agricultural sector. All this took place against a background of scant modernization in the early years of the period and high productive heterogeneity, which resulted in the apparent

paradox of a high rate of growth in urban modern employment coupled with a sluggish decline in underemployment.

The urbanization and modernization of the Latin American economy are the most important aspects of the last 30 years and are reflected in the transformation of the employment structure. Around 1980 two-thirds of the labour force of the region was employed in urban areas and close on 48% was engaged in non-agricultural modern activities. Nonetheless there was a persistence of important sectors of underemployment, which was being increasingly transferred to the urban areas. These processes were taking place, with varying intensity, in all three of the groups of countries analysed.

The effects of the international crisis and of the adjustment policies pursued bear out the employment transformations indicated, with the forms typical of organized labour markets existing side by side with others more specific to the region. This employment context is fundamentally different from those of previous crises. The crisis has caused a recession in the employment situation, but this has not been lineal. On the contrary, the modifications in the employment structure have given rise to new forms of adjustment.

The problem becomes clearer with the growth of unemployment and visible underemployment and the fall in income of the more organized groups. Nonetheless, the adjustment still remains partly concealed and is transferred to the underemployed, who are driven into a situation of enforced solidarity, through

having to share both the limited markets to which they have access and the scarce resources available for their survival. Ultimately, the distribution of income deteriorates, since unemployment means no income for those affected; the reduction of modern employment and the fall of real wages have a negative effect on functional distribution; and the underemployed, generally found in the lowest strata, suffer a further fall in their income. Moreover, the visibility of the problem is also associated with the capacity to exert pressure for the introduction of policy changes, since it affects the more organized sectors. This is combined with the incapacity for prolonged resistance in situations of unemployment and incomes below the minimum subsistence level. Employment thus ceases to be a technical matter and is converted into a political problem.

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