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The Latin American labour market, 1950-1990

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This article contrasts the behaviour of the labour market in the region between 1950 and 1980 with that registered after the onset of the crisis of the 1980s.

The first part of the article analyses various elements of change and continuity in employment, including such variables as the growth of the population in general and of the economically active population; the sectoral distribution of employment; the social mobility of labour, and trends in the under-utilization of labour. Employment in the traditional sectors in the region behaved differently from what was observed in the industrialized countries, and the same was true of the informal sector. At the same time, the share of wages in the gross domestic product showed a strong element of continuity.

The crisis of the early 1980s, with the consequent adjustment processes, changed some basic characteristics of the labour market: it increased the structural heterogeneity and changed the trends both in the under-utilization of labour and in its shift towards an increasingly precarious basis. Medium-sized and large private sector enterprises lost part of their capacity to absorb labour, and small-scale enterprises and the informal sector came to be the most dynamic elements in the generation of jobs. The labour absorption capacity of the public sector, for its part, was halted or reduced. Agricultural employment registered a relative decline, although the indicators in the modern and peasant sectors maintained great stability, albeit with an increase in the temporary nature of the jobs involved. The wage levels prevailing towards the end of the 1980s were generally lower than those before the crisis.

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Introduction

This article analyses the behaviour of the labour market in Latin America over the 40 years between 1950 and 1990. It is divided into two sections: part I analyses the structural trends in employment between 1950 and 1980, and this diagnosis serves as the framework for part II, which describes the impact of the crisis on the labour market during the 1980s.

I

Structural background, 1950-1980

This section indicates the processes of change which have altered the nature of employment over this period and the elements of continuity which have remained relatively constant in the labour market.

The first change concerns the volume and nature of the labour supply, and the point which should be noted in this respect is the heavy population growth and the variations in the rates of participation. The highest population growth rate was in the five-year period 1960-1965, when it came to an annual average of 2.9%; this was subsequently reflected in rapid growth of the population of working age, which reached its peak growth rate, of similar magnitude, in the 1970s. At the same time, there was an increase in the participation of women in the labour force, with faster growth between 1970 and 1980. In the 1970s, the annual growth rate of the female labour force was 4.7%, while that of the male labour force was 2.8%.¹ This increase was due largely to the higher rate of participation of young women, which increased significantly for the 20-24 age group. In contrast, the rate for young men went down, particularly for the 15-19 age group, which explains the relative stability of overall participation for men.

As a result of the foregoing, the economically active population (EAP) grew rapidly over the three decades between 1950 and 1980, in spite of general

¹At the regional level, the incorporation of women into the labour force grew fastest in the 1970s. In countries such as Argentina, Colombia and Panama, however, this phenomenon took place in the 1960s, whereas in other countries such as Bolivia, Guatemala, Honduras and Nicaragua it took place in the 1980s or is expected to take place in the 1990s (IDB, 1987; CELADE, 1985).

declines in participation in the first two decades of this period. Thus, in 1980 the EAP for the region came to 119 million persons (CELADE, 1990). Its highest growth rate was observed in the 1970s, when the increase in participation combined with growth of the working-age population to give an annual growth rate of 3.2% in the labour supply. This growth was very different for rural and urban areas, however, because of the heavy migration flows. In 1950, Latin America was a rural and agricultural continent whose inhabitants were mostly peasants and farm workers. Thirty years later, however, in 1980, the average Latin American lived in enormous urban agglomerations. This process of migration from the rural sector to the cities, which was undoubtedly one of the most important economic and social phenomena in the second half of the 20th century, brought with it profound changes in the structure of employment.

Thus, whereas in 1950 55% of the population worked in agriculture, in 1980 only 32% did so (table 1). While the share of agriculture in total employment went down, that of industry and services increased considerably. The increase was particularly great in the services sector, whose share grew by 16 percentage points, whereas that of industry rose by seven percentage points (Wells, 1987). This change in the employment structure has meant, *inter alia*, a massive transfer of labour to activities of greater productivity and possibly higher income. Thus, the change in employment from the agricultural sector to other sectors played an important part in reducing the extent of rural poverty (ECLAC, 1985 and 1990b; Altimir, 1979).

Table 1
LATIN AMERICA: STRUCTURE OF ECONOMICALLY
ACTIVE POPULATION, BY SECTORS OF
ECONOMIC ACTIVITY, 1950-1990
(Percentages)

	1950	1980	1990
Agriculture	55	32	26
Industry ^a	19	26	26
Services ^b	26	42	48
Total	100	100	100

Source: PREALC(1982) and ECLAC(1990a). For 1990, the data used came from PREALC estimates based on the information contained in the household surveys for Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica and Venezuela, which cover 60% of the economically active population of the region.

^a Includes mining, manufacturing, construction and electricity.

^b Includes commerce, transport and services.

A third very important change in the labour market was the change in the occupational structure due to the shift towards the tertiary sector already mentioned, which was reflected in turn in generalized social mobility of labour. Thus, as the occupations of lowest productivity went down, there was also a reduction in the lowest social strata (agricultural wage earners, manual workers and peasants), there was slow growth in the strata made up of manual workers as a whole, but there was rapid growth in non-manual occupations with higher skills and incomes (ECLAC, 1989b). In this latter process, the growing incorporation of women and young people into the labour market played a significant role, since these persons mostly occupied non-manual urban jobs, especially in services, where the employment of women grew by 4.7% per year.

In this context of mobility due to changes in the occupational structure, special mention must be made of the generation of public employment. With the evolution in the agricultural economy and the consequent process of urbanization, the State had to increase government employment in order to face the new challenges in the public sector, including the execution of new infrastructural works, the provision of social services, and even the modernization of the State apparatus itself. Consequently, the growth in employment was not just a result of these processes but also a necessary antecedent for bringing them about. At the same time, this type of employment helped to create a Latin American middle class (table 2). Around the 1980s, public employment accounted for 15% of total urban employment and 20% of formal urban employment, and in some countries 60% of professionals worked in the public sector.² (Echeverría, 1985).

The fourth change which should be emphasized concerns the under-utilization of labour, which naturally underwent changes as a result of the

²These figures refer to Argentina, Bolivia, Colombia, Costa Rica, Panama, Peru, Uruguay and Venezuela and include central, provincial and municipal government, public administration, defence, quasi-autonomous public institutions and public enterprises.

Table 2
LATIN AMERICA: ESTIMATED TRENDS IN STRUCTURE OF EMPLOYMENT, 1950-1989
(Percentages)

Latin America	Structure						Annual growth rates	
	1950		1980		1989		1950-1980	1980-1989
Total population							2.7	2.2
Working-age population							2.8	2.6
Total EAP	100		100		100		2.5	2.8
Non-agricultural EAP	45		68		74		3.8	3.7
Non-agricultural employment	42	100	63	100	70	100	3.9	3.9
Formal sector	32	76	47	75	48	69	3.9	3.0
Public	6	(14)	10	(16)	10	(15)	4.5	3.7
Private	26	(62)	37	(59)	38	(54)	3.7	2.9
Informal sector	10	24	16	25	22	31	3.9	6.7
Non-agricultural unemployment	3		5		4			
Agricultural EAP	55		32		26		0.7	0.7
Agricultural employment	54	100	31	100	25	100	0.7	0.6
Modern sector	22	41	13	42	10	40	0.8	0.5
Peasant sector	32	59	18	58	15	60	0.7	0.6
Agricultural unemployment	1		1		1			
Indicators of under-utilization								
Total rate of unemployment	4		6		5			
Urban	7		7		5			
Rural	2		2		3			
Total rate of underemployment (traditional sectors/EAP)	42		34		37			

Source: Estimates prepared by the Regional Employment Programme for Latin America and the Caribbean (PREALC), on the basis of national censuses and household surveys, and ECLAC (1978). For 1980 and 1989, the data correspond to Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Venezuela, which account for 80% of the total economically active population (EAP) of the region.

Note: For purposes of comparison, it may be noted that during the period in question the annual growth rates of some major economic indicators were as follows (ECLAC, 1990a):

	1950-1980	1980-1989
Total GDP	5.5	1.2
Agricultural GDP	3.5	2.1
Non-agricultural GDP	5.8	1.1
Industrial GDP	6.2	0.5
Per capita GDP	2.7	-1.0
Per capita GDP	2.7	-1.0

above processes. Between 1950 and 1980 the percentage of under-utilization (underemployment plus unemployment) went down from 46% to 40%; that is to say by 13%.³ Since the EAP slightly more than doubled over this period, however, in absolute terms the number of under-utilized employed persons rose from 27 million to 49 million.

³This percentage was measured using occupational category as the criterion for defining underemployment, which means that it only partially reflects the real extent of the latter.

There is a very close relation between the status of persons in the labour market and the poverty of their households, so that the latter should display a similar downward trend in relative terms, and indeed, in 1960 (the year for which a first estimate exists) 50% of the households were poor, while in 1980 the figure had gone down to 35% (table 3). Nevertheless, however, due partly to the increase in the population, the number of poor increased from 112 million to 136 million between those years, and they were increasingly concentrated in urban areas. Thus, already by about 1980 half of them lived in the cities.

Table 3
LATIN AMERICA: EVOLUTION OF POVERTY, 1960-1989
 (Percentage of households)

	Total		Urban		Rural	
	Poverty	Indigence	Poverty	Indigence	Poverty	Indigence
1960	50	...	...	...	...	...
1970	40	19	26	10	62	34
1980	35	15	25	9	54	28
1986	37	17	30	11	53	30
1989	37	17	31	12	54	31

Source: 1960-1970: ECLAC (1985) and Altimir (1979); 1980-1989: ECLAC (1990b).

In spite of the major changes which took place in the labour market, it maintained one feature which did not vary: the persistence of the traditional sectors. Thus, unlike what happened in the countries which are now industrialized, whose modern sectors rapidly absorbed the labour previously employed in low-productivity activities, in the region this process has been not only slower but structurally different.

Although the greater part of the population has become concentrated in the urban sector, the internal structure of employment in the various sectors has not significantly changed. It may be seen from table 2 that the traditional rural sector and the informal urban sector have maintained shares which are practically equal as a proportion of the respective populations. Thus, the peasant sector covers more or less 60% of those employed in agriculture, while the informal sector covers about 25% of those employed in urban areas: magnitudes which have remained constant for 30 years. This structural heterogeneity, which characterizes the economic development process in Latin America and reflects the co-existence of forms of production with different levels of productivity, gives rise *inter alia* to the segmentation of the labour market into a modern high-productivity stratum and a traditional low-productivity stratum.

Furthermore, growing economic and social differences are to be observed within the traditional sectors, against a background of persistent structural heterogeneity. Although more empirical data are available regarding the peasant sector and there has been a more exhaustive theoretical discussion than that concerning the informal sector, it may be stated that processes of differentiation of labour

have taken place within each one of these segments. Thus, in the peasant sector a group of small producers has managed somehow to latch on to the process of agricultural modernization and is enjoying its benefits, above all in terms of greater income through increased productivity. Other groups, however, have remained on the sidelines and have not managed to overcome the poverty barrier. In this process of differentiation, a very important role was played by the agrarian reform and colonization policies applied in various countries of the region, which formed part of the overall set of policies aimed at modernizing agriculture. These modernization policies, which did not reach all sectors and excluded certain groups for various kinds of reasons, succeeded in improving the levels of productivity and income of the groups at which they were directed, thus increasing the distance between them and other groups which were not incorporated into these programmes.

A similar phenomenon is to be observed in the informal sector. Although initially, and above all at the conceptual level, belonging to the informal sector was closely identified with poverty, the process of internal differentiation already referred to has taken place in this sector too. Already in the 1970s PREALC was talking of areas within the informal sector which had growth potential and was drawing a distinction between them and others which really were marginal and non-viable occupations to which it was not possible to apply policies aimed at increasing productivity (PREALC, 1975). In addition, an analysis was made at the level of branches of activity in order to identify sectors of production where this potential was most markedly present: for example, repair services, food, footwear, wood

products, some subsectors of commerce, etc. (PREALC/STPS, 1976). To sum up, what we are saying is that even in the traditional sectors a process of differentiation is taking place, and one of its effects is the generation of a social group with higher income levels and good development prospects in the economic field. It is very likely that this process began in the agricultural sector before the informal one, because the modernization policies were applied earlier there, and it is argued that these policies help to heighten social differentiation.

A second element of continuity is the share of the remuneration of wage earners in the gross domestic product of most of the countries. Thus, between 1960 and 1980 this share remained relatively constant at around 35%.⁴ Although the proportion of wage-earners increased, wages grew in direct proportion to productivity.⁵ No precise information

is available on the evolution of informal sector incomes, but estimates based on the one hand on the hypothesis of a constant share of the urban informal sector in the gross domestic product and, on the other, on the existence of a link between the growth of demand in the wage-earning sector and the income of the urban informal sector suggest that there was an increase in the average real wages in the latter sector over the decades in question. The reduction in urban poverty is another proof of this increase in informal sector incomes.

Finally, it may be noted that the level of open unemployment was low and also remained stable within the overall under-utilization of labour. Estimates by PREALC (1981) show that the rate of unemployment remained at around 5% of the EAP, which means that this form of under-utilization only accounted for about a quarter of the total under-utilization of the labour force.

II

Changes in the labour market in the 1980s

As we shall see in this section, some of the aspects related with the labour market in the 1980s had their origin in the processes described in the previous section. Particularly important among them, *inter alia*, were the opposing trends in the participation of women and youths in the labour market and the growth in urban employment, particular in the services sector.

However, the beginning of this decade was marked in the industrialized countries by a significant slackening in their economic growth and a generalized process of structural adjustment. In the Latin American region, the crisis situation was even more severe, leading to

serious deterioration in production conditions and in the labour situation, with a consequent process of adjustment.⁶

As a result of this adjustment process, the labour market in the region underwent changes which decisively affected its functioning compared with that of the previous 30 years. In global terms, there was a change in the basic characteristics of the functioning of the labour market: structural heterogeneity increased, and there was a change in the trends regarding both the under-utilization of labour and the shift towards more precarious forms of work. This section will analyse the general trends for Latin America, while fully recognizing that there are differences between the individual countries and that these became even more marked in the second half of the 1980s (table 4).

⁴This figure was estimated from the national accounts data of the countries of the region (ECLAC, 1989a). This means that between 1950 and 1980 average real wages increased at the same rate as the product per person employed in the modern sector. Over this period, that product grew by 5.5% per year, while employment in the modern sector increased at the rate of 3.9% per year (table 2). Consequently, the product per person employed grew by 1.6% per year.

⁵The percentage of wage earners among the economically active population, or the sum of the urban and rural formal sectors, rose from 54% to 60% between 1950 and 1980 (table 2).

⁶For more details on the subject of the restructuring of the world and Latin American economies see, *inter alia*, OECD (1985 and 1989); Fallon and Riveros (1989); ILO (1985, 1987 and 1989); PREALC (1990b), and Bianchi, Devlin and Ramos (1987).

Table 4
SELECTED LATIN AMERICAN COUNTRIES: LABOUR MARKET
GROWTH RATES AND TRENDS, 1985-1989
(Percentages)

	Annual growth rate 1985-1989			Rate of urban unemployment		Percentage of informal employment in urban EAP ^a	
	GDP	Real wages		1985	1989	1985	1989
		Industry	Minimum				
Argentina	0.1	-7.7	-11.8	6.1	7.8	27.6	28.7
Bolivia	1.4	...	...	5.8	7.01	25.0	27.0
Brazil	3.6	2.4	-4.9	5.3	3.3	28.7	28.6
Colombia	4.9	1.0	0.3	14.0	9.6	28.4	27.3
Costa Rica	4.6	-0.7	-0.4	6.7	3.8	21.3	22.0
Chile	6.8	6.8	2.0	17.0	7.2	26.2	30.0
Jamaica	4.1	...	...	25.0	18.0	23.0	25.0
Mexico	0.5	-0.3	-8.3	4.4	2.9	28.1	34.8
Paraguay	4.2	...	8.2	5.1	6.1	36.4	35.6
Peru	-1.0	-14.5	-19.1	10.1	7.9	35.0	39.0
Trinidad and Tobago	-3.4	...	...	15.0	21.0	23.0	19.0
Uruguay	3.9	4.7	-4.4	13.1	8.6	19.0	19.0
Venezuela	3.3	0.5	-5.2	14.3	9.7	22.5	23.3

Source: PREALC estimates, based on household surveys of the countries, and ECLAC (1991). In the case of Jamaica and Trinidad and Tobago, the employment data come from Witter and Anderson (1991) and de Pantin (1991).

^a Informal employment includes own-account workers, family helpers, and domestic service.

1. *Changes in the nature of the employment problem*⁷

Firstly, the share of the informal sector in urban employment increased from 25% (its traditional level in the past) to 31%, while the share of the peasant sector in agricultural employment rose from 58% in 1980 to 60% towards the end of the decade (table 2).

This change in the composition of employment, involving an increase in the share of activities of lower productivity, together with the fact that open unemployment (although it grew during the crisis) remained relatively constant between 1980 and 1989, meant that total under-utilization of the labour force (underemployment plus unemployment) increased from 40% to 42% during the decade. This represented a reversal of the historical downward trend registered by under-utilization of labour between 1950 and 1980.

Furthermore, during the period of adjustment there was a change in the structure of the under-

utilization of the labour force: the importance of underemployment increased, but that of unemployment remained relatively constant (table 2). What is more, urban underemployment and unemployment became responsible for the major part (70%) of the overall employment problem of the region.⁸

In addition to these trends, there was an intensification of the shift towards more precarious forms of work in such respects as lower labour stability, replacement of full-time employment by part-time work, and increasing use of subcontracting, which are the main features of the current functioning of the labour market (Wurgalt, 1988).

These changes in the labour market were the result, as we shall see below, of the dynamics of the labour supply, the restructuring of urban employment and the behaviour of rural employment.⁹

⁸ Equals the proportion of the sum of urban underemployment (22%) and unemployment (4%) in total underemployment (37%). (See table 2).

⁹ It should be noted that the trends of the main labour market variables for the years 1980-1989 are the result of provisional estimates made on the basis of data from the household surveys of the countries. For the 1950-1980 period, in contrast, the data were prepared on the basis of population censuses. Consequently, the trends displayed by the two types of figures for the periods in question should be analysed with caution.

⁷ This subsection reflects the main conclusions of the analyses made by PREALC on the changes in the labour market during the decade (see in this respect PREALC, 1983, 1985, 1987, 1988a and 1988b).

a) *Labour supply trends*

In the 1980s, the demographic effects of the decline in the growth rate of the working-age population which had begun in the 1970s began to make themselves felt in the labour market. The growth rate of the economically active population slackened significantly, despite the increase recorded in rates of participation: thus, on average it grew by 2.7% per year, which is significantly less than the rate of 3.1% registered for the 1970s. Towards the end of the 1980s, the EAP consisted of 157 million persons (CELADE, 1990).

One of the elements which determined the evolution of the labour supply in the 1980s was undoubtedly the increase in the participation of women in the labour market, which, as already noted, had made a significant start in previous decades. The household surveys of a number of countries¹⁰ reveal a constant increase in rates of female participation. Likewise, since the male rates did not show any appreciable change, there was also an increase in the proportion of women in the labour force. Thus, the rate of participation by women increased by almost one-fifth during the decade, from 32% to 38%, and consequently, the contribution by women to the increase in the economically active population over that period was 42%.

Another factor which affected the evolution of the EAP during the period was the dynamics shown by the young section of the population, which continued the trends of the previous two decades. The participation rates of the 15-19 group continued to go down, while those of the 20-24 group continued to increase because of the higher participation by women, which made up for the decline in male participation rates. The slackening in the growth rate of the younger section of the population continued to follow the pattern begun in the previous decade, which, since its rate of participation remained more or less constant, meant that the relative pressure of this age group on the labour market went down during the decade.

Finally, it is also necessary to take into account the relevant factors of the trends and location of the labour supply. The non-agricultural EAP continued to grow at the high annual rate of 3.7%,

while the agricultural EAP maintained its historical trend towards lower growth rates, with an increase of 0.7% per year in the decade (table 2). These trends in the evolution of the labour force meant that at the end of the 1980s 74% of the total EAP corresponded to non-agricultural activities and 26% to the agricultural sector.

b) *Restructuring of urban employment*

Although in the 1980s the region was under less population pressure than in the previous decade, the sharp contraction in economic growth slowed down the creation of jobs in the modern sector, whose feeble expansion was markedly below the growth rate of the labour supply. Because of this, at the beginning of the crisis unemployment rose to levels almost twice as high as the historical rate of open unemployment, and such jobs as were generated were almost entirely in the sectors of lower productivity, thus reversing the downward trend registered in the previous three decades in the underutilization of the labour force.

Although this type of adjustment was observed in most of the countries, the restructuring of employment was less marked in those which set about processes of structural change during the decade (Chile, Costa Rica and Colombia). In these countries, the reduction in the proportion of the urban EAP engaged in modern employment was less than in the others, and there was also a less rapid increase in low-productivity employment (in small urban enterprises, for example).

i) *Loss of dynamism of modern urban employment.* Within the general scheme of the adjustment policies, an important role was assigned to the labour market in the process of transferring labour from the sector producing goods not tradeable on the international market to the sectors producing tradeable and exportable goods. In this context, the modern labour market was called upon to play a central role by reallocating employment and lowering real wages in order to bring them into line with the new situation of openness to the exterior.

The severe recession generated by the external debt crisis caused the level of economic activity of the non-agricultural sectors to drop by 1.4% per year during the period 1980-1983 (table 5). The response of modern employment to this drop in the product was not uniform, however. On the one hand, employment in medium-sized and large private sector enter-

¹⁰The countries in question are Brazil, Chile, Colombia, Costa Rica, Mexico, Uruguay and Venezuela, which account for approximately 71% of the population of the region.

prises reacted very flexibly,¹¹ going down by 2.1% per year between 1980 and 1983. This, combined with the deterioration in real wages, enabled the entrepreneurial sector to largely offset the higher financial costs deriving from the increased interest rates. In this period of recession, public sector employment policy was of a markedly anticyclical nature, reflected in the expansion of the demand for government staff and/or the implementation of emergency employment programmes. Thus, between 1980 and 1983 government employment expanded at the rate of 4.3% per year, which meant that during the crisis the public sector maintained the government employment policies which it had been applying in the past.

After these years of recession, the region experienced a period of recovery (1983-1986) in which the non-agricultural gross domestic product grew by 3.8% per year, followed by another period of relative stagnation (1986-1989), when that product grew by only 1.1% per year. In both periods,

modern employment in medium-sized and large enterprises reacted with a high degree of elasticity with respect to the product: it rose by 3.2% per year in the recovery phase, and by 0.9% in the stagnation phase (table 5). The public sector, for its part, accentuated its compensatory policy during the period 1983-1986, when government employment grew at the rate of 4.8% per year. Towards the end of the decade, however, the need to reduce the public deficit, together with the application of reforms in the State apparatus, led to a substantial reduction in the State's capacity to absorb labour.¹²

In short, the 1980s witnessed a significant decline in the rate of creation of jobs in medium-sized and large enterprises of the modern private sector, together with a trend towards increasingly precarious employment status. The growth rate of the product was only 1.2% per year, and employment in the modern sector grew by only 0.5% per

Table 5
LATIN AMERICA: ESTIMATED TRENDS IN URBAN EMPLOYMENT STRUCTURE, 1980-1989
(Percentages)

Urban areas	Structure				Annual growth rate				Index 1989 (1980=100)
	1980	1983	1986	1989	1980- 1983	1983- 1986	1986- 1989	1980- 1989	
Population	-	-	-	-	2.2	2.2	2.1	2.2	121.6
Working-age-population	-	-	-	-	3.6	3.6	3.4	3.5	136.3
EAP	100.0	100.0	100.0	100.0	4.1	3.7	3.4	3.7	139.1
Employment	93.0	91.0	93.0	95.0	3.3	4.7	3.8	3.9	141.5
Public sector	15.0	15.0	15.0	14.0	4.3	4.8	2.0	3.7	138.4
Formal private sector	55.0	50.0	50.0	51.0	1.1	4.1	3.4	2.9	128.8
Large and medium-sized enterprises	40.0	33.0	32.0	30.0	-2.1	3.2	0.9	0.5	104.9
Small enterprises ^a		15.0	17.0	18.0	21.0	8.6	6.4	7.5	191.6
Informal sector	24.0	26.0	28.0	30.0	7.1	6.3	6.6	6.7	172.4
Unemployment	7.0	9.0	7.0	5.0	14.4	-7.7	-3.0	0.8	107.5

Source: PREALC estimates on the basis of household surveys. Provisional figures. The data correspond to Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Venezuela, which account for 80% of the total EAP of the region.

^a Enterprises employing up to ten workers.

Note: According to estimates based on ECLAC (1990a), the evolution of GDP and GNP in the region over these periods was as follows:

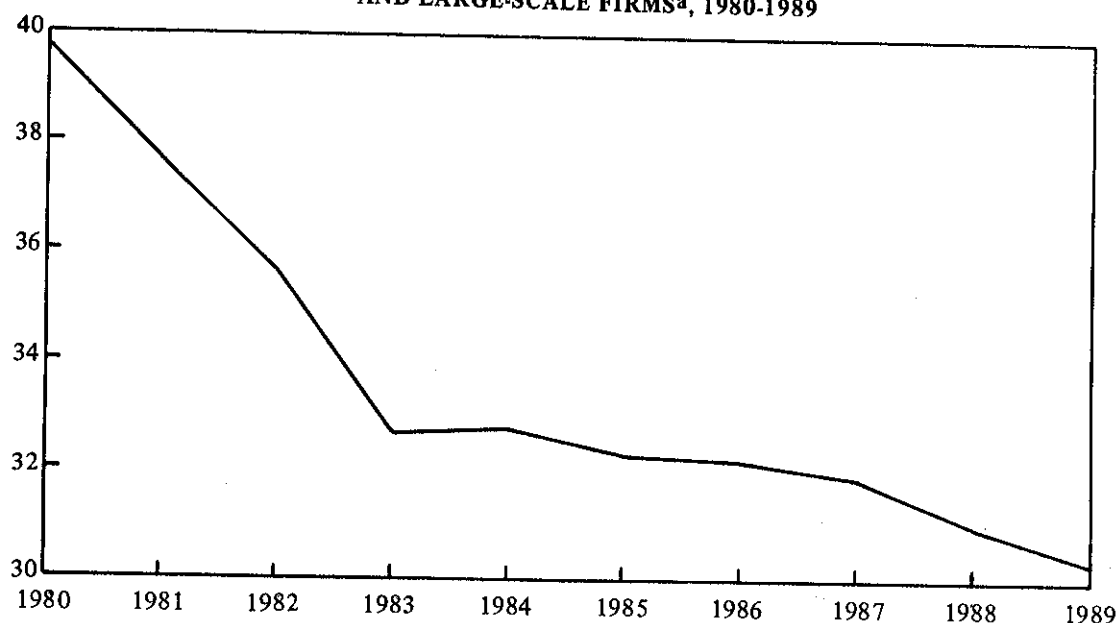
	Annual growth rate				1989 index (1980=100)
	1980-1983	1983-1986	1986-1989	1980-1989	
GDP	-1.3	3.6	1.5	1.2	111.7
Agricultural GDP	1.7	1.8	2.7	2.1	120.6
Non-agricultural GDP	-1.4	3.8	1.1	1.1	110.0
Industrial GDP	-3.8	4.6	0.6	0.5	102.9
Per capita GDP	-3.5	1.4	-0.7	-1.0	91.7

¹¹ Aspects related with employment flexibility include labour stability, which tended to go down during the crisis (Wurgalt, 1988).

¹² Thus, between 1986 and 1989 the annual growth rate of government employment was only 2% (table 4).

Figure 1

**LATIN AMERICA AND THE CARIBBEAN: PERCENTAGES OF NON-AGRICULTURAL
ECONOMICALLY ACTIVE POPULATION EMPLOYED IN MEDIUM-
AND LARGE-SCALE FIRMS^a, 1980-1989**



Source: Table 5.

^aCorresponds to private sector firms with over 10 employees.

year, while that sector's absorption of the non-agricultural EAP went down from 40% in 1980 to 30% in 1989 (figure 1). The public sector, for its part, also showed a slight tendency to absorb a smaller percentage of the non-agricultural labour force, with the respective figure going down from 15% in 1980 to 14% in 1989 (table 5). Thus, as a result of the external crisis and the adjustment policies applied, the proportion of the non-agricultural labour force of the region employed in strictly modern activities¹³ went down from 55% at the beginning of the 1980s to 44% at the end of the decade.

ii) *The high growth rate of urban employment in lower-productivity sectors.* In view of the sluggishness of the modern sector, the expansion of employment in lower-productivity activities was a decisive element in the restructuring of the labour market. Both the expansion of employment in small enterprises and the significant increase in the informal sector helped to prevent an increase in open unemployment.

During the crisis years, there was a high rate of increase of employment in small enterprises, reach-

ing annual growth rates of 8.6%, or a cumulative figure of 28% between 1980 and 1983 (table 5).¹⁴ This high growth rate was maintained, albeit at a slightly lower level, during the periods of recovery (1983-1986) and relative stagnation (1986-1989), so that over the decade as a whole employment in small enterprises increased at an average annual rate of 7.5%.

For the region as a whole, this behaviour of employment in small enterprises meant that their share of the total EAP increased from 15% in 1980 to 21% in 1989, with this sector generating 40% of the total jobs created in urban areas in that period.

This increase registered in employment in small enterprises should be analysed carefully, however, in view of the various factors that could be behind it. In this respect, it is argued in PREALC (1988b) that the phenomenon could be due to a process of restructuring of medium-sized and large enterprises, which reduced the number of persons employed per unit of production during the crisis. At the same time, as noted by Wurgaft (1988), the growth in employment in small enterprises may be considered as part of the general process of the spread of precarious employment which took place

¹³These correspond to employment in the public sector and in medium-sized and large enterprises in the modern sector.

¹⁴For operational purposes, small enterprises are defined as those units of production which have up to 10 employees.

over the period, for during the 1980s the medium-sized and large enterprises tended to replace the hiring of permanent or temporary labour with subcontracting arrangements with small enterprises, as one of the expedients used to get round labour legislation. Likewise, it must be borne in mind that the greater part (70%) of the sector of small enterprises is made up of micro-enterprises with up to five employees, whose informal nature is reflected in low levels of productivity and income. In the final analysis, even though small enterprises made an important contribution to the generation of employment during the crisis, this was due to very varied types of phenomena and it is therefore not possible to assign a structural nature to this new trend in employment.

The traditional urban informal sector, for its part, showed a similar type of evolution, although it had a more important effect on the adjustment of the labour market, since it was responsible for 45% of the urban jobs created during the decade.¹⁵ The majority of informal workers are in the tertiary sector (80%), with the remainder working in industry (10%) and construction (10%), at low levels of productivity and income (Pinto, 1984).

The expansion in informal employment was rapid during the crisis (7.1% per year), slackening off slightly in the subsequent phases of recovery (6.3%) and stagnation (6.6%). As a result, the average growth rate of informal employment during the decade was 6.7% per year, that is to say, 1.8 times the annual growth rate of the urban EAP. This expansion in the urban informal sector caused its incidence in the employment of urban labour (or the "degree of informality") to increase from 24% in 1980 to 30% in 1989 (table 5). All this leads to the conclusion that this process meant a transfer of labour from agriculture to the services sector, whose incidence in the EAP increased from 42% in 1980 to 48% in 1989 (table 1).

iii) *The increase in open urban unemployment and changes in its composition.* In contrast with what happened in the developed countries, the labour market in the region had been adjusting in ways which influenced the occupational structure rather than the rate of open unemployment. This underwent a significant change at the beginning of

the 1980s, affecting both the level and the composition of open unemployment.

Firstly, during the period of recession (1980-1983) the combined effects of the rise in rates of participation and the decline in modern private sector employment were not offset by the rapid increase in employment in low-productivity sectors. As a result, open unemployment reached levels close to 10% between 1983 and 1984. It may be concluded from this phenomenon that the labour market of the region, which was subjected to policies of a recessionary nature, responded with increases not only in underemployment but also in open unemployment, whose level rose in only three years by 40% over the historical average. Moreover, although open unemployment increased in an extremely sensitive manner during the crisis period, in the phase of economic expansion it tended to go down relatively slowly. Thus, starting in 1983, the rate of open unemployment took six years to return to 5%, close to the historical level.

Secondly, the decade witnessed important changes in the profile of the unemployed. On the one hand, there was a change from the historical composition of open unemployment made up of secondary workers, that is to say, young persons and women who are not heads of households. Thus, in the crisis period there was an increase in the incidence of the primary labour force in unemployment: this was reflected in disproportionately high growth of the number of unemployed who were heads of households, males and persons at the ages of greatest activity (24 to 44 years). At the same time, the increase in the number of manual workers with low levels of education among those who lost their jobs indicates that during the adjustment unemployment essentially affected unskilled workers. The absorption of open unemployment as from 1984, however, substantially reduced the proportion of the unemployed made up of heads of households who are the mainstay of family income. This was perhaps the most important change in the features of the unemployed, since the other characteristics, connected with age and sex, varied only slowly.

In spite of the changes in the composition of unemployment during the decade, the problem has continued to affect the groups which are historically most affected by this problem. Thus, the rate among women is higher than that among men, and

¹⁵This segment includes non-professional own-account workers, unpaid family members and domestic servants.

there continues to be a high rate of unemployment of workers who are not heads of households or who are young persons.

As may be seen from the above, the policies of adjustment to the external crisis led to growing under-utilization of the labour force in the urban labour market. Thus, whereas in 1980 31% of the urban labour force was employed in informal activities or was unemployed (table 5), this proportion gradually increased until it amounted to some 35% towards the end of the decade.

c) Evolution of rural employment

During the crisis of the 1980s, agriculture performed better than the other economic sectors: thus, between 1980 and 1989 the agricultural gross domestic product grew by 2.1% per year, while the non-agricultural product rose by only 1.1% per year over the same period.¹⁶

At the same time, the growth of 0.6% per year in agricultural employment meant that the average product per worker increased at the rate of 1.5% per year. Moreover, the agricultural sector performed satisfactorily during the crisis, since the per capita availability of food remained almost constant over the decade. Indeed, if the efficiency of agriculture during this period is evaluated in terms of the availability of calories, it will be noted that this increased from 2 673 calories per head per day in 1980 to 2 705 in 1986 (ILO, 1990).

The structure of agricultural employment favours a certain stability in the labour market. According to the estimates given in table 2, 60% of those employed in Latin American agriculture are small producers and their families, who own small areas of land used for the production of food for their own subsistence and for the domestic market. This occupational group is not subject to the conjunctural fluctuations in the demand for labour, and consequently unemployment is not a valid category for analysing their potential employment problems, as it is in the case of urban workers analysed earlier. Furthermore, the peasant sector of certain countries absorbed labour during the decade, as shown by an FAO study (FAO, 1988) which mentions that over this period the level of agricultural employment did not go down, and in fact in some countries peasant employment actually increased. García Huidobro, Hintermeister, Ponce and Pollack

(editors) (1990) mention a similar phenomenon. It is not clear, however, up to what point this labour was absorbed in a productive manner, since it must be borne in mind that the sector of small holdings is precisely that in which labour productivity is low and underemployment is common.

It may also be noted that because of the particular features of the crisis of the 1980s, and as a means of saving foreign exchange, the prices of agricultural food products for domestic consumption were relatively favourable for producers, as was observed empirically for some countries during the decade (PREALC, 1990a). It has also been observed that the terms of trade for non-exportable agricultural products (which are mostly produced by peasants) improved during the crisis at an annual average rate of 2%. This improvement in prices may have furthered the process of peasant differentiation, by favouring producers who sell on the market more than mere subsistence producers. Furthermore, an ILO study (ILO, 1990) points out that the adjustments in the real exchange rate have also been positive for agriculture, giving a suitable price framework for a corresponding response in the form of production, which has particularly favoured the group of agricultural entrepreneurs producing exportable goods.

At the same time, however, those working in agriculture are a heterogeneous group in which it is also necessary to take account of the situation of landless peasants working for wages on a permanent or temporary basis. These workers seem to have been hard hit by the effects of the crisis on the labour market, not so much in terms of the level of employment but in terms of their income. Thus, during the decade real wages in agriculture went down on average by around 20% for the region as a whole (table 6).

Although the trend towards more precarious forms of employment is not exclusively a product of the crisis, the latter does add a qualitative element which intensifies this trend in agriculture: namely, the increase in the number of temporary day workers in export agro-industry. In this type of activity, the seasonal nature of labour use is greater than in traditional agriculture, particularly during harvesting periods, so that in many countries of the region permanent agricultural employment has been going down as a proportion of total agricultural employment.

¹⁶See note in table 2.

Table 6
**LATIN AMERICA: EVOLUTION OF AVERAGE REAL WAGES AND INCOMES,
 BY BRANCHES OF ECONOMIC ACTIVITY AND SEGMENTS
 OF LABOUR MARKET, 1980-1989^a**
 (Percentages)

	Annual growth rates				1989 index (1980=100)
	1980-1983	1983-1986	1986-1989	1980-1989	
Branch of economic activity					
Agriculture ^b	-4.3	0.4	-3.3	-2.4	80.0
Manufacturing	-1.8	0.6	-0.6	-0.6	95.0
Construction	-2.1	-2.7	2.5	-0.8	93.0
Segment of labour market					
Private formal sector					
Large and medium-sized enterprises	-4.5	4.8	-2.4	-0.8	93.0
Small enterprises	-3.1	-3.4	-5.1	-3.9	70.0
Public sector	-6.4	-1.9	-3.5	-3.1	70.0
Informal sector	-10.3	-0.3	-6.5	-5.9	58.0
Minimum wages					
Urban minimum wages	-3.4	-2.0	-3.7	-3.0	76.0

Source: PREALC (1987 and 1988b) and official information supplied by the countries. Provisional figures. The data correspond to Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Venezuela, which account for 80% of the total EAP of the region.

^a Average incomes correspond to the informal sector.

^b Corresponds to the evolution of minimum agricultural wages for the majority of the countries.

In short, on the basis of the partial information available it may be posited that, within the economic context of a sector which was not so seriously affected by the crisis, neither agricultural entrepreneurs engaged in producing for the domestic or export markets nor peasant food producers were adversely affected, and in some countries conditions of employment and income even improved for them. This was not the case, however, with wage-earners, who received lower wages and also suffered from the trend towards more precarious employment. This would appear to explain the slight increase in poverty in rural areas observed during the 1980s (ECLAC, 1990b).

2. Reduction of workers' income

The external crisis and the internal adjustment policies applied to a labour market which is highly segmented in the region had negative but differentiated effects on workers' income. This was reflected in a decline in real wages in the modern sector, accompanied by a still greater fall in the

average income of those working in small enterprises and the urban informal sector. These features of the wage adjustment were repeated in almost all the countries of the region.

a) Wage adjustment

In evaluating the behaviour of real wages it is worth distinguishing between the types of adjustment they underwent in the modern private sector and in the public sector.

In the modern private sector –made up of medium-sized and large enterprises– the wage adjustment was reflected in a reduction in average wages and an increase in their intersectoral dispersion, together with an appreciable drop in the minimum wage compared with the rest of economic activities.

Firstly, during the crisis the impact of inflation on average wages in the modern sector had a serious recessionary effect on effective demand which exceeded any other microeconomic effect on production costs or the effect of reallocating labour and other resources to the tradeable goods

sectors. Thus, between 1980 and 1983 the drop in levels of activity led to a 6% drop in modern employment and a simultaneous 13% drop in real wages. As from 1983, the increase in the amount of idle capacity during the crisis, together with the slackening of external constraints, permitted a slow recovery of levels of activity, employment and real wages. The final result was that towards the end of the decade the real wages paid by medium-sized and large enterprises were still 7% below those of 1980. It should be noted that this situation corresponds to the modern private sector, which employs the most highly organized workers and was most favoured by the policy aimed at promoting the production of exportable goods.

Secondly, there was an increase in the wage dispersion between the different sectors of economic activity. Those employed in industry almost managed to recover the level of real wages they had had in 1980, but workers in other sectors suffered a significantly greater and non-uniform fall in their remunerations (table 6). Measurements of the disparity in variations in real wages indicate that during the crisis period (1980-1983) the sectoral dispersion of wages diminished, but it subsequently increased significantly in the phases of expansion (1984-1986) and stagnation (1986-1989). In the final analysis, during the decade the dispersion of wages was accentuated in favour of those employed in industry. Although real wages in that sector nevertheless went down by 5%, the losses registered by real wages in construction (-7%), agriculture (-20%), minimum wages (-24%) and public sector wages (-30%) led to considerable widening of the wage range between 1980 and 1989.

The greater dispersion of wages indicates that in the 1980s there was a substantial change in the structure of sectoral remunerations which had characterized the labour market in previous decades. At the same time, this widening of the wage range suggests that the remunerations in those sectors where the workers are organized (industry) tend to leave behind those of the other sectors, thus generating growing differentiation of income among workers. A similar phenomenon is not observed in agriculture because the workers are not organized and there is no institutional machinery governing participation in increases in productivity; as already noted, there were significant

increases in productivity in this sector during the decade, but agricultural wages nevertheless fell.

The third feature of the wage adjustment in the labour market during the years in question is reflected in the behaviour of minimum wages. The 24% reduction in real minimum wages during the decade reflects a significant loss of their importance as a regulatory mechanism for the incomes of less skilled workers without negotiating capacity. Likewise, the divergence between the variations in the minimum wage and the average industrial wage suggests that the evolution of the remunerations of less skilled workers differs significantly from that of the higher strata of wage-earners (managers, professionals, technicians and supervisors) and it also helps to further the process of differentiation of income among those employed in the modern sector (that is to say, there is greater intra-sectoral dispersion of wages).

In the public sector, unlike the modern private sector, wage adjustments were due rather to the anticyclical role of government employment policy: the increase in employment had to be financed by reducing wages, in order to contribute to the progressive reduction of the public deficit. Thus, in the period 1980-1989 the annual increase of 3.7% in public employment was accompanied by a drop of 3.9% per year in real remunerations (tables 5 and 6).

b) The contraction of income in the informal sector

Studies made by PREALC (1990b) for various countries of the region show that incomes for non-wage labour, which predominates in the urban informal sector, are closely linked with the evolution of the wage bill for the modern sector. Furthermore, the competitive nature of the markets in which the informal sector operates mean that the average income of those working in it adjusts in an extremely flexible manner to increases in the incomes of workers in other activities.

It is estimated that the wage bill of the modern sector, that is to say, the potential demand for informal sector products and services, did not vary between 1980 and 1989 (tables 5 and 6). Consequently, over this whole period the total income of the informal sector is estimated to have remained constant, whereas employment in it expanded by 72%. This means that the average income of informal sector workers went down by 42% in real terms: i.e., by 5.9% per year over the period.

In short, the policies of adjustment to the external crisis led to a deterioration in the labour market which was reflected in lower quality of the jobs generated, an initial increase in unemployment, and a generalized fall in remunerations. Thus, over the period 1980-1989 total employment expanded at an annual rate of 3.3%, while average labour income went down in real terms by 3.8% per year. This meant that total labour income¹⁷ went down by 0.6% per year, while the GDP rose by 1.2% per year.

4. Conclusion

The crisis of the early 1980s and the subsequent adjustment processes carried out in various countries of the region gave rise to some significant changes in the structural tendencies which had been observed in the labour market since mid century. With regard to employment, the first important change was that the private sector made up of medium-sized and large enterprises reduced its capacity to absorb urban labour, so that small enterprises and the urban informal sector came to be the

¹⁷This corresponds to the total income of all wage-earning, and non-wage earning workers as a whole.

most dynamic elements in the generation of new jobs. The second change was connected with the capacity of the public sector to absorb labour. This had been an important factor for 30 years and had made a big contribution to the creation of the Latin American middle class. During the 1980s, however, the process of generation of public employment stopped, and in a number of countries the number of persons employed in the public sector actually went down in absolute terms.

The urbanization and tertiarization of employment had as their counterpart a relative decline in agricultural employment, but in contrast with what happened in the urban sector, there was extraordinary stability of the modern and peasant segments through the period under consideration. The most significant change in this sector was the increase in temporary jobs, which was a direct result of the features of agricultural modernization.

All in all, the labour market reacted more flexibly with regard to wages. Thus, at the end of the decade the prevailing levels were generally lower than in 1980, which suggests that the adjustments in this respect were bigger and faster than those in employment.

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