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CREATION OF EMPLOYMENT OPPORTUNITIES
IN RELATION TO LABOUR SUPPLY

by the secretariat of the
Economic Commission for
Latin America

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I. INTRODUCTION

On the occasion of the First World Population Conference, held at Rome in 1954, the Executive Secretary of the Economic Commission for Latin America presented a paper which discussed in general terms the relationship between population growth, capital formation and employment opportunities in under-developed countries, with special reference to Latin America.^{1/}

It was pointed out on that occasion that Latin America has a higher rate of population growth than any other region in the world. Thus the absorption by the economy of a rapidly growing labour supply, and the steady and concurrent rise in labour productivity, should be considered as the central problems of economic development in the region.

The rapid shift of labour from agricultural to non-agricultural sectors of the economy, where the average product per person is usually much higher than in rural pursuits, naturally leads to a rise in the gross domestic product. Nevertheless, industrialization, which is the main expression of the assimilation and adaptation of techniques which have already been applied in other parts of the world is, in under-developed countries, the principal factor leading to the wholesale increase of labour productivity and to the consequent rise of the gross product.^{2/}

In under-developed countries, however, the lack of resources, of skilled labour and of industrial traditions militates against a sufficiently rapid industrial growth, while at the same time the processes described above continue unhampered.

Urban growth, by contrast, is accelerated by the phenomenon of rapid demographic growth, and by the shift towards non-agricultural pursuits combined with the increasing mobility of the formerly rather static rural communities.

^{1/} "The relationship between population growth, capital formation and employment opportunities in under-developed countries". Proceedings of the World Population Conference, 1954, Rome, 31 August-10 September United Nations publication, Sales N° 1955.XIII.8, Vol. V, pp. 695-711.

^{2/} In the more advanced countries a rise in the gross product is principally the result of successive innovations in productive techniques. See op.cit. above.

The rapidity of urban growth is, however, out of proportion to the growth of resources which would permit a well-balanced development of urban communities. Hence, there is an imbalance in the composition of urban employment, with inadequate opportunities for urban dwellers linked with widespread under-employment and low productivity of a high proportion of the economically active urban population. This creates the familiar but still inadequately studied phenomenon of marginal population.

The pattern of urban employment and its prospective changes are, together with productivity, closely connected with the problems of capital formation, particularly in the form of urban savings and urban investments.

The study of all these problems should be a pre-requisite for the shaping of any sound policy designed to solve those urban problems of an economic as well as a social nature which are steadily building up throughout the cities and towns of Latin America.

II. THE COMPOSITION OF URBAN EMPLOYMENT AND THE CREATION OF EMPLOYMENT OPPORTUNITIES IN RELATION TO LABOUR SUPPLY IN URBAN AREAS

1. Composition of urban employment

Throughout Latin America, the composition of urban employment shows the two main deficiencies of imbalance and of high proportions of sub-marginal and marginal labour.

(a) The imbalance in the composition of urban employment

Statistics show that the main characteristic of the imbalance in the principal Latin American cities and towns is the predominance of employment in services over that in the production of goods which, in urban areas, consists almost entirely of employment in manufacturing industry and in construction. This characteristic is a reflection of the general predominance of services over industrial activities in the aggregate composition of employment in Latin American countries. (See table 1.)

Within the services themselves, there is also imbalance, since some of them, such as transport, public utilities, public administration and private services, are overstaffed whereas employment in other categories, such as education and health services, is relatively low.

Furthermore, there is no balance in the composition of industrial employment, since a relatively small number of people find jobs in up-to-date, highly efficient plants while the majority of industrial labour works in medium and small-sized establishments, many of which are antiquated. In the manufacturing sector, a much higher proportion consists of artisans and homecraft works than in industrially advanced countries. Hence, employment in factories represents a small proportion of all city dwellers, while an even smaller percentage finds employment in the more highly productive types of manufacturing. Moreover, factory employment is very unevenly distributed between towns of various sizes, with lower percentages in the smaller towns, where artisans and homecraft workers usually predominate over those employed in factories.

Table 1

PERCENTAGE DISTRIBUTION OF ECONOMICALLY ACTIVE POPULATION IN SELECTED CITIES OF LATIN AMERICA

City and census year	Primary production (agriculture and mining)	Industry			Services				Activity not specified	Note
		Sub-total	Manufacturing	Construction	Sub-total	Transport, storage and commerce	Commerce, banking and insurance	Other		
Buenos Aires, 1947 b/	1	40	...	...	56	9	23	24	3	Males only
Federal district (Brazil), 1950	2	30	...	...	67	12	18	37	1	"
Greater Santiago b/	4	39	32	7	53	5	16	32	4a/	Both sexes
	2	36	30	6	61	5	16	40	1	
Liberador department d/	3	36	20	16	46	5	18	23	15a/	"
Federal district (Venezuela), 1950	2	36	...	...	47	6	17	24	15a/	Males only
Lima, 1940	6	35	...	...	56	9	17	30	3	"
Asunción, 1950	5	40	...	...	55	9	14	32	...	"
C. Trujillo, 1950	3	30	...	...	50	8	18	24	17a/	"
Medellín, 1950 c/	4	43	...	...	41	10	13	18	12a/	"
Sao Paulo, 1950 c/	2	47	...	...	51	8	19	24	0	"

Source: (except for d/) Demographic aspects of urbanization in Latin America.

a/ Probably including marginal services.

b/ Highly industrialized cities.

c/ Industrial cities.

Even in selected large cities, there is a shortage of published statistics giving a complete break-down of urban employment; hence the ratio of labour employed in manufacturing industry to urban population is particularly significant, since it may be safely assumed that the bulk of factory labour will be concentrated in localities of over 1,000 inhabitants. In 1950, factory workers represented 5.7 per cent of urban population in Latin America as a whole. According to demographic censuses made about that time, the ratio for the more industrialized Latin American countries ranged between 5 and 8 per cent, whereas in the others it was between 3 and 5 per cent (see table 2).

Perhaps the most important reason for the imbalance in the composition of urban employment is the fact that urbanization has proceeded at a faster pace than industrialization. As a rule, the only way to ensure a correct balance between the production of goods and of services is through the growth of manufacturing industry, since this will give rise to a need for those services essential to the production of goods, i.e. transport, warehousing and distribution. At the same time, to ensure equilibrium, the demand for direct consumer services must be met without exaggeration. However, industrialization is the only means of providing the urban population with more productive employment, either directly or indirectly through an increase in the volume of goods handled by existing commercial services and transport with their present complement of personnel, and through a better utilization of other services.

Within the sector of production of goods, the construction industry plays a big role in terms of urban employment. Because of the marked trend in Latin America towards centralization of investments, this activity is concentrated in the cities and particularly in the larger ones. This uneven distribution of employment in construction leads to an occupational imbalance, to which must be added the small degree of stability enjoyed by construction workers. Under present conditions, with wide price fluctuations in Latin American export commodities, broad variations in the private and public service sectors, financial instabilities and

Table 2
PERCENTAGE RELATIONSHIP BETWEEN EMPLOYMENT IN MANUFACTURING AND
URBAN POPULATION, 1950

Country	Urban popul- ation as per- centage of total popul- ation	Persons employed in indus- try as percentage of urban population	Country	Urban popul- ation as per- centage of to- tal po- pulation	Persons em- ployed in industry as percentage of urban po- pulation
Venezuela	54	4.1	Guatemala	28	3.8
Argentina	66	8.1	Dominican Republic	23	4.3
Uruguay <u>b/</u>	75	6.7	Honduras	23	2.5
Cuba	55	4.8	El Salvador	32	5.2
Chile	59	5.5	Nicaragua	32	2.1
Costa Rica	31	5.4	Peru <u>b/</u>	34	4.0
Panama	43	2.7	Ecuador	28	4.9
Mexico	43	4.9	Paraguay	30	3.5
Colombia	38	4.0	Bolivia	32	3.0
Brazil	33	6.6	Heiti	12	4.2

Source: Changes in employment structure in Latin America, 1945-55. Economic Bulletin for Latin America, Vol. II, N° 1, Santiago, Chile February 1957, p. 40.

a/ Excluding the sylvan population. Countries are listed according to size of per capita gross product. Populations living in localities with over 1 000 (in case of Mexico, over 2 500) inhabitants are classified as "urban".

b/ Approximate estimate.

/policy changes,

policy changes, it is natural that construction activity in towns should be a typically fluctuating branch of employment, which contributes heavily to the instability and hence to the imbalance of the urban labour market.

It is not only the arithmetical proportions of those employed in different branches of activity which are important; these figures must also be weighted by the contribution of active persons to the gross domestic product originated in urban areas, which leads to the concept of productivity balance.

For instance, in those cases where manufacturing employment is on the whole highly productive, and construction keeps pace with it, the fact that employment in services may be numerically much greater does not necessarily imply that there is an unbalanced distribution of labour.^{3/} High productivity achieved in the sectors devoted to the production of goods enables the services sector to support a much higher proportion of urban active population. This, however, is not the case in Latin America where productivity in manufacturing industry is still too low and where construction is an unstable activity.

(b) Marginal and sub-marginal urban population

The characteristics of urban employment structure that have just been described imply wide-spread under-employment, particularly in the services sector. In some branches of activity there is a labour surplus while in others there is pronounced irregularity of work; the latter is particularly true of the construction industry although it also applies to various forms

^{3/} Compare the figures for employment in manufacturing industry and construction in New York (32.5 per cent in 1950), London (36.8 per cent in 1951) and Paris (43.8 per cent in 1954) with those for some Latin American cities: 30 per cent in the Federal District of Brazil in 1950; 35 per cent in Lima in 1940; 36 per cent in the Federal District of Venezuela in 1950, and 36 per cent in Greater Santiago, Chile, in 1952. (The Latin American figures take into account only the male population, except in Chile). Although the Latin American figures are quite comparable with those for the other cities, it should be remembered that in Latin America industrial productivity is much lower, so that there is a fundamental imbalance in the composition of employment.

of casual services. Irregularity of work is really another form of under-employment, since the working capacity of the persons concerned is not fully occupied throughout the year.

Low levels of productivity result from under-employment and are also due to inadequate equipment, bad organization and lack of skill. Homecraft workers and petty traders may not be under-employed but even so, their productivity is usually rather low. Low productivity means low incomes, and the lowest incomes are encountered in those occupations where naturally low productivity is allied to under-employment and irregularity of work. This is why petty traders and casual labourers belong to the lowest urban income group.

Marginal labour may be defined as all those who live at the lowest income level - approaching subsistence levels - either because of the unproductive and non-essential nature of their occupations, or because work is irregular or unobtainable. Marginal labour, plus dependents, forms the marginal population.

Between genuine marginal labour and fully productive employment there is an intermediary zone of low or sub-standard productivity with consequent low incomes only slightly above subsistence level. Labour in this category may be termed sub-marginal.

The excessive supply of marginal^{4/} and in particular of sub-marginal

^{4/} There are no statistics referring directly to marginal labour or population. However, it is quite likely that the bulk of those included in demographic statistics under the heading of unspecified activities may well belong to the category of marginal labour, although some of those included under "manufacturing" also fall into this category, particularly the poorer classes of homecraft workers and those engaged in some services. Moreover, the greatest omissions in demographic censuses occur with regard to marginal labour, since it is not recorded anywhere. This is why only broad estimates can be made as to the size and trends of the marginal labour force. One method would be to estimate the absolute or relative size of the total marginal population on the basis of such indications as the number of people living in shacks and information obtained from the local police, municipal and health authorities. The marginal labour force might then be computed on the basis of the known sex and age composition of marginal population and its characteristic rates of participation in the economically active population. Another method would be to compare the hypothetical total labour force in towns for the year of the demographic census, computed as indicated above, with the statistical figure given for the economically active population in towns. The difference between the computed and the statistical figures would give a limited indication of the size of the marginal

labour, as compared with the proportions found in more developed countries, is a typical feature of the composition of employment in Latin American towns, and creates a number of serious social problems.

2. Analysis of factors determining labour-absorption capacity
in various branches of activity in urban areas

The present composition of urban employment should be considered as the cumulative result of an historical process of absorption by the various branches of urban economic activity of the available labour supply, not only obtainable on strictly local urban markets but also drawn from the surrounding areas and the more distant regions of the country.

(a) The three main groups of factors

The actual absorption of the labour force by individual branches of activity in urban areas has been the combined result of several sets of forces which, in different periods, have acted with varying strength in urban areas on the demand side and have also determined the flow of labour into the towns through their influence upon the absorption of local labour in rural areas.

In order to analyse the great variety of mixed factors which influence the creation of urban employment opportunities, and thus the relative intensity of labour absorption by various branches of activity, it is useful to classify all such factors into three main groups, i.e. (i) technological factors; (ii) institutional factors; (iii) price-and-income elasticities of demand for goods and services and price-wage elasticity of labour supply (supply and demand); at the same time this facilitates a simple classification of all economic activities according to the predominant type of factor.

(i) Technological factors. Among the activities in which the number of people employed is mainly determined by technological factors - type of process, methods of production and tools used - may be included most medium and large-scale manufacturing industries and mining enterprises, and a large proportion of basic services (energy, water supply, transport, warehousing, communications) as

/well as

well as rationally organized large-scale commercial services and some types of entertainment such as cinemas. Hence, this group comprises those branches of the economy which for technical reasons are moderately or highly capital intensive. Within a given technical framework the number of persons employed varies within relatively narrow limits.

The continuing labour absorption of these branches depends predominantly on the supply of capital for expansion, that is, on increases in productive capacity. Thus the basic characteristic of this group is the close ratio of employed manpower to capital outlay.

Moreover, there is in the long run a general tendency for a gradual reduction of labour intake for a given quantum of invested capital, arising out of the desire to increase labour productivity. Hence these activities tend to be highly productive and are usually productivity-conscious.

Creation of employment opportunities in these branches of activity is determined directly by the volume and pattern of investment in urban areas, although other factors influencing productivity should also be taken into account. Apart from capital equipment, such factors as organization of enterprises and training of manpower determine whether, for a given output, more or less labour should be employed, as well as its quality in terms of skills. In the short run, better organization and better training reduce employment opportunities, but they also lead to greater requirements for more highly skilled personnel, thus increasing the earnings of those employed. In the long run, through more rapid economic growth, they tend to open up new employment opportunities in the same or new branches of production.

The study of the short or long-term creation of new employment, and the problem of skilled labour, must be closely linked with the analysis of capital formation. (See Section III).

(ii) Institutional factors. Institutional factors, that is, the administrative framework, fiscal considerations, and institutional development are the prime determinants of the employment level in public administration and security services, education health services and various social institutions.

The impact of basic institutional factors on employment is complemented by the negative or positive influence of secondary factors, such as administrative restrictions and trade agreements limiting free entry into employment, political business and other pressures, bargaining power of trade unions and so forth. Some categories of traders (such as chemists), service enterprises and liberal professions, which are subject to various arrangements and restrictions, also fall within this category to some extent. Political and organized labour pressures usually tend towards the overstaffing of public offices and institutions, though in some cases organized labour deliberately tends to restrict the intake of new personnel. These pressures also extend to public utilities of the more labour-intensive type such as railways, postal services, city transport, warehousing and other public enterprises, inflating their employment figures, despite the fact that in these branches the scale of employment is primarily linked to applied techniques.

Expansion of employment in these activities and hence of their labour absorption capacity depends on the character and strength of internal or external pressures tending towards an increase or reduction in the number of persons employed. Since such pressures, especially the external ones, are usually sporadic and are built up slowly, the labour absorption capacity of these activities often lacks continuity and is susceptible to sudden changes. In most cases there is usually a small annual intake of labour which may suddenly double or more than double, only to contract again once a high saturation with non-essential manpower has been reached. In some cases, the process is reversed - after a long period of regular

/intake of

intake of new personnel into a given activity, hiring ceases, and a number of persons may even be dismissed if it is realised that redundant personnel has accumulated. This has nothing to do with trade fluctuations causing employment contractions although it may frequently occur during periods of recession, thereby reinforcing the latter's adverse impact upon the volume of employment.

(iii) Supply and demand. There are some activities wherein labour-absorption capacity is limited neither by technological nor institutional considerations, and is therefore highly flexible. This group includes branches that are not even moderately capital-intensive, and entry is not restricted by legal or business arrangements.

Employment in branches belonging to this group has a very wide range, depending on the supply of more or less unskilled labour offering its services or products of its works, and on demand for such services or products. Payment may take the form of wages, sporadic payments for services rendered or a profit margin for the petty producer or trader. The lower the wages or profits required, the more labour can be absorbed by the market. Hence the flexibility of this group's labour-absorption capacity is derived from the price-elasticity of demand for the corresponding goods or services.

All labour-intensive branches of private secondary or tertiary activities belong in this group, except for a few branches where institutional arrangements have become strong enough to bar or limit new entries. Included in the group, then, are small-scale unmechanized industries, artisan workshops, homecrafts, building and installation activities - except those which are highly specialized - local transport of the type using cheap obsolete equipment, petty trade and street peddling, popular entertainment, small restaurants and cafes, open-air food stalls, the selling of refreshments and beverages, laundries and barber-shops, window cleaners, bootblacks and other personal services, domestic services, and all kinds of unspecialized city workers and casual labourers. All these innumerable activities are

/governed by

governed by prevailing rules on the urban labour market, which has many of the characteristics of a buyers' market. Numerical expansion in this group is largely determined by public willingness to pay the requested price for services rendered, which is rather low. In its lowest sphere there is a close approach to the classic labour market concept, with wages that are scarcely above subsistence level.

In view of the above, labour-absorption capacity in this group of activities is closely related to factors determining the level of subsistence in urban areas. Of prime importance among such factors are staple food prices, the amount of savings that can be set aside to solve the housing problem, and minimum outlays required on clothing, transport and recreation. In this connexion, natural conditions for maintaining urban family life at standards close to the subsistence level appear to be much more favourable in tropical areas than in the temperate or cool ones, where, housing has to be more solid, food more calorific, and even children's clothing necessarily more complete and therefore expensive.

An additional refinement may be introduced into the analysis of labour-absorption capacity in this group of activities. Despite the fact that the numerical expansion of employment in it is least dependent on technological and institutional factors, the problem of financial and technical resources - except in a few cases such as domestic and other minor services - cannot be altogether forgotten. Even within this group there are certain legal considerations that can never be completely eliminated. Moreover there is also the problem of skills, which will be discussed later. Although the relative weight of all such factors is much less than in groups (i) and (ii), the net result is still a reduction in the flexibility of the labour-absorption capacity.

(b) The influence of the main factors determining employment on demand and supply in the labour market

The capacity to absorb the inflow of new labour appearing on the market - which may be called the current absorption capacity - depends not only on the over all employment capacity which may be considered as normal in each branch, but also on the elasticity with which additional labour can be absorbed without major capital outlay, under the influence of the pressure exerted on the labour market by the actual labour-supply, that is, on the degree of flexibility in the labour-absorption capacity. Finally there is also the effect of the degree of employment saturation already reached.

The flexibility of the labour-absorption capacity differs in each of the three main groups of activities already discussed, even though the basic setting of the institutional framework and capital inventory may be the same. The volume of employment varies least when applied production techniques are the dominant factor, since there is a relatively high capital intensity; the variations are somewhat greater when institutional factors permit a more liberal employment policy; and are greatest, when the labour intake is limited by neither capital nor institutional arrangements.

Although the actual absorption of the labour force by individual branches of activity has always been the combined result of forces which, at different periods, exert varying degrees of influence on labour demand and supply, it should be noted that, in the two groups of activity affected by technological and institutional factors, the primary influence upon the size and composition of urban employment has always been on the side of labour demand generated by the development of economic functions performed in urban centres for their own needs and those of their periphery. The development of employment in these categories is therefore more closely linked with the normal economic growth of the country and development of its institutions than with variations in the labour supply.

/On the

On the other hand, in the third group of activities, the prime force causing significant changes in the volume and composition of urban employment, has been more on the supply side. The increasing rate of population growth in Latin America during the last decade, together with the familiar forces in all areas which drive the rural population into the towns, before they have acquired proper training or can be sure of finding jobs, have swollen the branches of activity which show the highest degree of flexibility with respect to their capacity to absorb the current labour supply.

(c) The influence of the type of locality and socio-economic environment

Apart from the limitations described above, the socio-economic milieu also affects the absorption capacity of those branches of activity which directly serve consumers.

The over-all employment capacity of economic activities serving higher-income social groups, particularly those concentrated in more fashionable residential districts, may be much greater, in relation to the number of consumers, than in poorer areas, but at the same time have much less flexibility. The installation of new commercial and service enterprises in such districts involves far more capital and skill because of the higher standard of services required by wealthier people. This in turn determines the number and type of personnel to be employed. A greatly increased supply of labour, accompanied by less pretensions as to wages and profits, would not substantially influence the number of persons permanently employed in these branches. The greatest flexibility will still be found in construction activities and such sporadic services as cleaning, washing, gardening, etc. In other words, because the higher spending power and more firmly established tastes of the wealthier class do not permit standards of service to be lowered, competition in these districts is mostly aimed at providing better service.

By contrast, the labour-absorption capacity of similar economic activities in poorer districts, serving the needs of the lower middle class and working class, usually shows a much higher degree of flexibility.

/Various types

Various types of artisan activities and services multiply rapidly in such localities and the prices of services are lowered when the labour market becomes glutted. There are many reasons for this. One of them is the small amount of capital needed to put into operation new "units" providing the lowest type of services. Another is the lower-price type of competition among small traders, which facilitates the entry into business of anyone prepared to work for smaller profits.

The difference between richer and poorer socio-economic milieux with regard to flexibility in absorbing the over-abundant labour on the market into low class services is related to the price-elasticity of demand for such services. At low income levels, the price-elasticity of demand is much greater than in the higher income-ranges.

(d) The problem of education and professional skills

The basic deficiencies of the urban employment structure are partly caused and generally aggravated by the inadequate educational level of large sections of the urban population and by the great shortage of working people who follow a skilled trade. This makes it difficult to utilize fully the opportunities, which still exist in most urban areas in the region, for developing new branches of production or for increasing productivity and the level of earnings in existing branches of activity.

This lack of skill is a limiting factor in most branches of economic activity, including those grouped under section (a) (iii). Skill is of course an inherent factor of labour itself, determining whether, in fact, a given person can or cannot attempt to exercise a chosen activity - in many cases hardly to be defined as a trade. Skill, when considered only in that sense, is not a factor determining the numerical absorption capacity of these activities and ultimately the employment opportunities offered to free labour seeking work in towns, but a factor that permits the use of such opportunities by those seeking jobs. In many cases - when complex technology enters into the picture - skill must also be regarded as an essential factor of production strictly complementary to capital equipment. In all such cases the influence of skilled labour supply to

/employment opportunities

employment opportunities must be analysed along with that of the volume and pattern of productive investments. Consequently the availability of skilled labour is a co-determinant of the labour-absorption capacity in those activities where the number of people employed is determined by technological factors.

As mentioned earlier, it is partly because of lack of skill that marginal types of employment are the only ones open to so many people willing to earn their own living. The prevailing lack of skill and, more generally, a very low level of education among the marginal population, quite apart from the lack of sufficient employment opportunities in better remunerated or more profitable activities are the basic factors contributing to maintain the phenomenon of marginal urban population.

These deficiencies are largely the result of the more rapid growth of towns than of educational and training facilities - whose development suffers from shortage of funds and teaching personnel - and are also due to the fact that a large proportion of the urban population came only fairly recently from rural areas, where the educational possibilities are extremely limited. Obviously, then rural migrants to the towns are in the worst position, and their employment and social advance in the urban milieu can only be slow and painful.

New labour emerging from the professionally more established groups in the community is, on the average, better educated and has better connexions. Hence it mainly tends direct ways to find employment by direct means in groups (i) or (ii), or is capable of establishing itself on an entrepreneurial basis or in more profitable pursuits within group (iii). There remains the ever-present large pool of non-skilled labour, which exercises a constant pressure upon urban labour markets. This labour is forced into the lowest paid and least profitable occupations in group (iii), which, because of its nature, provides the greatest numerical opportunities for employing manpower unsuitable for other activities.

3. Urban under-employment and unemployment

The preceding analysis has provided some explanation for the almost paradoxical phenomenon to be observed in Latin America, that is, the absorption of almost all the immense increase in urban population by the generally poorly balanced urban economies. Under these conditions, it is almost surprising to find that unemployment is kept within restricted limits in the cities, and does not grow proportionately.

In fact, from a simple observation of the pattern of urban life in Latin America, genuine unemployment does not appear to be a characteristic feature. This is confirmed by some fragmentary statistics.^{5/} Almost everybody of working age - with some few exceptions - is doing and earning something, no matter how little. This obviously means that urban economy has somehow managed to absorb virtually all the surplus labour into the various activities operative in urban areas. As indicated above, this has been achieved through institutional arrangements whereby a variety of public and private services are staffed far beyond their needs, or through a deliberate investment policy aimed primarily at employing surplus manual urban labour in simple types of construction and maintenance work or through the highly flexible labour-absorption capacity of various branches of small, poorly productive industries, trade, petty services, domestic service and casual work.

The important fact here is that, around the nuclei provided by concentrations of entrepreneurs, rentiers, professionals, better paid salaried employees and wage-earners, and building workers with fairly

^{5/} The percentage of unemployed in the total labour force in Greater Santiago, during a period of marked recession, was only 5.9 per cent in October 1956 and 4.9 per cent in June 1957. The highest unemployment figures were registered in construction - 16.7 and 18.8 per cent respectively - while in manufacturing they were 6.4 and 5.3 per cent respectively, and in the services sector much lower. See Ocupación y Desocupación Gran Santiago, Preliminary report, Instituto de Economía de la Universidad de Chile, June 1957, p. 12.

regular employment, a very large population depending on various small industries and services has managed to make a modest living and has even continued to expand. In some countries seasonal agricultural labourers who live in the towns represent an auxiliary source of money that seeps down into the poorest urban districts, to the people providing the original earners with cheap goods and services.

Another important factor contributing to the excess unproductive population in urban areas is the wide-spread habit - common to less developed communities in the world - of living off relatives who earn regular incomes. For landless people it is easier to do this in urban than in rural areas because such relatives have a higher earning capacity in the former.

All these factors affect big cities to a much greater extent than small towns, while medium-size towns occupy an intermediate position. The economic and social "pulls" operate much more towards the cities, so that migrants tend to move towards large towns and by-pass the smaller ones, where the population size usually maintains a closer relationship to the actual extension of the economic functions performed on a modest scale than is the case with the "swollen" cities, swarming with excess population.

Consequently, the characteristic imbalance in the composition of urban employment is much more pronounced in the cities than in the smaller towns. It is therefore essentially the rapid "big-city urbanization" which has produced the grave problems related to urban under-employment.

Despite the process of adaptation and absorption of surplus labour by the urban environment, as a final result of all the operative forces described here, the quantitative and qualitative imbalances between the demand for labour of various types and the labour supply in urban areas gradually become more and more pronounced. The great labour surplus as compared with the economic functions performed in towns, has to date been mostly concealed within activities which are chronically under-employed and under-productive but it may ultimately overflow the border between disguised and open unemployment and become a net burden to the country.

III. URBANIZATION AND CAPITAL FORMATION

This section will discuss the influence of rapid urbanization upon both aspects of the process of capital-formation, namely the volume of savings and pattern of investments, upon which the creation of employment opportunities in the more capital-intensive activities - and indirectly in many other activities - ultimately depends.

1. Volume of savings

In under-developed countries, rapid urbanization would appear to provide proper conditions for over-all increases in the volume of savings by developing the monetary economy, stimulating the circulation of goods and services and expanding public institutions concerned with savings and investment.

However, a closer examination of changes in patterns of living and consumption following urbanization shows that, especially during the early stages of socio-economic changes connected with it, very rapid urban growth may tend to reduce the rate of savings.

The saving capacity of the low-income groups of urban population, in almost all countries of the region, is so small that it carries scarcely any weight for economic development. As a rule, the incomes of the urban working class - despite the fact that they may, in monetary terms, be much above those in rural areas - do not leave an adequate margin for saving purposes in view of the relatively high cost of housing and elementary consumer goods and services. In fact, it may be said that the only direct contribution to national savings by the urban working class is made through social security funds.

Within the urban higher income groups the rate of savings is reduced by the high propensity to spend. This tendency is widespread even among people with very modest incomes who tend to live at a higher standard than they can afford. This may be seen in the tendency of Latin American countries to assimilate more and more the pattern of consumption of the United States despite the considerable disparity between the respective

/levels of

levels of the per capita gross product.^{6/}

(a) Typical development of consumers' preferences in urban areas

The development of effective demand of urban consumers - and with it the propensity to save - follows a scale of preference which is subject to changes depending on variations in incomes and cultural levels. Changes in the demand pattern will also depend on the stage reached in the process of incorporating urban settlers into established urban life. Where urban growth is very rapid, a rather large proportion of the population only partially settled lacks strong roots, and this is naturally inter-related with its low cultural and income levels.

On the basis of the above, preferences for definite groups of goods and services held by people at different economical and social levels may be presented according to the following simplified scheme.^{7/}

(i) Concentration. Concentration of population in urban areas involves fundamental changes in the tastes and necessities of former rural dwellers, consisting mostly in changes in their nutrition and clothing patterns, and in the opening up of altogether new needs on the service side. The major part of income at this level is still used to buy food, with clothing expenditures lagging far behind. There is also a small, but rapidly rising share of spending on popular, typically urban services, with transport becoming increasingly important.

(ii) Stabilization. Stabilization of employment coincides with general improvements in the skills and earnings of the respective urban population group, also implying habitational stabilization. At this stage the proportion of income spent on food begins to diminish in favour of greatly increasing expenditure on clothing and services. Moreover, at this level an effective demand for

^{6/} "The relationship between population growth, capital formation and employment opportunities in under-developed countries", Op.cit., p.705.

^{7/} See ECLA "Stages in the development of demand," Economic Review of Latin America. Special issue, Bogota, August 1955, p. 61.

durable goods begins to develop, though on a very modest scale, and the purchase of such goods on the instalment plan represents a preliminary form of an alternative for genuine private savings.

(iii) Domiciliation. The demand for improved housing has high priority among the needs of those population groups which have previously been incorporated into stable occupations, and have advanced in their chosen activities with corresponding increases in income. Urban housing of an adequate standard, however modest, is increasingly expensive, so that the satisfaction of such demand absorbs, almost universally, a substantial proportion of average income.^{8/}

It is at this level that the propensity to save begins to be an operative force among small entrepreneurs, craftsmen and better remunerated members of the working class, since those anxious to own their homes are prepared to sacrifice some of their consumer expenditure for this purpose.

(iv) Extension of comforts. Once basic housing needs have been met - either by rent or purchase of the desired dwelling - the next step is normally an expansion in demand for a wide range of durable consumer goods which raise the standard of comfort. It is also usually at this level that the problem of seeking security for the

^{8/} "Rents for new housing in Italy after the Second World War absorbed as much as 40 to 50 per cent of workers' incomes. In Switzerland, where 20 to 25 per cent of income was paid for rent before the war, the post-war increase in building cost raised the percentage to as much as 40 per cent. In Venezuela, even higher income groups must often pay from one-third to one-half of their salaries for housing". See Housing and town and country planning, Bulletin 7, United Nations, document ST/SOA/SER.C/7, New York, 1953, pp. 14 - 15. "In Sao Paulo and the other cities of southern Brazil ... the majority of workers live in overcrowded tenements and devote a rather high share of their incomes to rent" ... "A two-room apartment in a blighted barrio may be rented ... for ... a relatively low figure for crowded Sao Paulo, but representing upwards of half the going monthly wage of an unskilled worker". See United Nations, Report on the world social situation, 1957, p. 185.

future begins to play an important role, with a consequent influence on the volume and pattern of spendings. Purchase of durables, and perhaps outlay on children's education, compete with the propensity to save.

(v) Private transport. The fifth level in the development of consumption is reached when rising incomes permit a substantial proportion of consumers to purchase an automobile for daily use. From the stand points of both individual consumers and the whole community, this extension in demand has a very different significance from the purchase of another durable commodity and therefore is not simply a further extension of comforts. It involves substantial additional current expenditure, creates a demand for a wide range of services, some of them of an altogether new type, and strongly influences the settlement pattern; moreover it imposes the necessity of new investments, especially on streets and roads.

At this level, security consciousness among consumers is also developing rapidly as people become exceedingly anxious to preserve in the future the living standard they have achieved in. Consequently, at this level competition between the propensity to save and rapidly rising expenditure becomes keener than ever. After this stage has been reached, it is also relatively easy to shift the balance between spending and saving by constant advertisement and propaganda campaigns and attractive selling or savings schemes.

(b) Actual level and type of savings

In the light of this typical evolution, it may be seen that in Latin America a substantial proportion of the urban population has not yet reached even the stage of stabilization of occupation; of those who have reached this level, a high proportion has failed to find a satisfactory solution to the housing problem, mainly because of inadequate incomes and excessive cost of housing, resulting either from the high cost of

sites^{9/} and of construction or from high housing rents.

Under these conditions it will probably be some time before the propensity to save in urban areas begins to show a rapid increase. Moreover the pattern of living imposed in the big cities may well tend to delay such an expansion even further.

Apart from the volume of private savings, the degree to which they are committed in advance is important for the subsequent analysis of the pattern of urban investment.

The above-mentioned high costs of housing, especially in big cities, make it very difficult for a large mass of urban population to pass through the "domiciliation" stage. At this stage, probably the bulk of private savings are "committed savings", which means that such resources are committed in advance to definite types of investment - in this case to housing. The use of such savings for economic development purposes is not flexible.

When the pattern of consumption has reached more advanced stages of development, following higher incomes with a higher propensity to save, as discussed under (iii) and (iv), private savings increasingly acquire

9/ Site acquisition for development of housing in most regions of the world represents a very small proportion of total project cost. For example "... in areas of the United States opened to urban or suburban settlement raw land cost will range from 3 to 11 per cent of total cost. In the new subdivision, its cost per house is apt to be no higher than the cost of the refrigerator and gas range"... "In Cologne, Germany, raw land costs are between 4 and 10 per cent"... "In Rotterdam, the Netherlands, raw land costs amount only about 2 to 4 per cent of total costs". In New York "in well located but not central areas of the city ... the percentage of land costs to total costs amounts to no more than 3 to 6.5 per cent"... "In India, raw land costs are about 10 per cent of the total ...". Only "some Central and South American countries provide an exception. There large tracts of once rural land in concentrated ownership serve as the sites of expanding cities or suburbs. Small homes put on such land show a proportion of land cost that may be 30 per cent of the total cost or more. In Caracas, Venezuela, a lot in the central area is said to cost a third to half of what the house itself costs ...". See United Nations, Housing and town and country planning, op.cit. pp. 22-24.

the characteristics of economically "uncommitted savings" i.e. funds free to be invested in any sector of the economy, taking the form of public bonds, business shares, purchase of life-insurance policies etc. There still remains, however, the preference for reduced risk instead of high rates of interest. This is one of many reasons why there is a marked preference for investing in real estate in Latin America, which correspondingly reduces the proportion of uncommitted private savings.

Rapid urban development does not only have an effect on private savings; it also influences to some extent the saving capacity of institutions with a development more or less parallel to that of urban growth. In this connexion, social security institutions and local government bodies are of major importance. It is their specific task to save as much public money as possible for investment purposes. Nevertheless, there are several indications that the over-all volume of such saving in Latin American countries is greatly reduced by unnecessary expenditure in current administration, where over-staffing is chronic. The roots of this situation may be found in the existing structure of urban employment and occupational composition. Excessive expansion of the number of poorly qualified or unskilled persons in the services sector has created a situation which is very difficult to remedy even when the authorities are willing to reduce non-productive clerical or manual personnel belonging to general services. An essential condition of any administrative reform is the re-training of such redundant personnel and re-direction to other branches, which is only possible with a given degree of industrial and commercial development.

This is part of the current situation in Latin American urban communities, and forms a vicious circle in which the lack of resources, together with other factors, has produced an employment pattern which reduces the possibility of accumulating capital to accelerate the opening up of new opportunities for reasonably productive employment.

2. Pattern of investment

The high rate of urbanization has had a far greater impact on the pattern of investment than on the volume of savings.

In under-developed countries at a certain stage of growth, urban investment represents a very high and probably excessive proportion of the whole outlay of capital.^{10/} Hence its pattern has a very strong bearing upon the over-all investment pattern, largely determining the magnitude and direction of changes in urban labour markets and, in the long run, the composition of urban employment.

Another closely related problem is the influence of such investment upon the productivity of urban labour, the increase in productivity of manpower already employed and the fixing of reasonable productivity levels in newly-created occupations.

In this connexion the most relevant problems are:

- (1) the distribution of investment funds by sectors ; and
- (2) the use of productive capital in relation to methods of production and employment opportunities.

Both these aspects will be examined, with a view to reaching conclusions as to their direct and indirect consequences upon the employment and income of the urban population.

(a) Distribution of investment by sectors

(i) Classification. Investment in urban areas may be classified under four main headings, according to its relationship with directly productive investment. These headings are:

- (i) directly productive investment;
- (ii) complementary investment;
- (iii) non-complementary investment;
- (iv) housing investment;

^{10/} In Mexico, between 1939 and 1950, the Federal District, with 12 per cent of the national population, absorbed 55.5 per cent of national investment in construction ... Banco Nacional Hipotecario Urbano y de Obras Públicas, El Problema de la Habitación en la Ciudad de México quoted by the Report on the world social situation, op. cit., p. 187.

of which (ii) and (iii) may be termed social overhead capital, to which some authors add housing investment.

Directly productive investment. This is primarily investment in the production of goods, i.e., industrial investment but it also covers building and construction work and energy production. Investment in educational and research establishments directly influencing the development of the country's productive capacity may also be put under the same heading.

Manufacturing industry in Latin America is concentrated almost exclusively in towns, and particularly in big cities; hence industrial investment is essentially urban in character.

It should be noted that the problem of industrial location ought to be an integral part of urban investment policy; however, the concentration of industries around large cities easily becomes an automatic process which gathers momentum with the growing size of the cities.

This process is naturally to the disadvantage of smaller towns and other areas which may still be under-developed but have a favourable geographical position. In fact, the concentration tendency of the majority of industries is determined not only by inter-industrial economies of scale and economies of integration and by the relative size of the local markets, but also by the ample supply of skilled labour that is usually available only in larger urban centres, and of unskilled labour already present in the form of vast concentrations of marginal population.

In addition to these positive factors tending towards industrial concentration, there are aspects working actively against dispersed industrialization. These include the inadequacy or lack of complementary facilities outside the few focal urbanized areas of economic development, poor transport, inadequate communications and defective distributive systems and the difficulty of working far away from the central administrative authorities.

/Complementary investment.

Complementary investment. This consists of social overhead capital which supplies productive activities and facilitates the movement and distribution of goods, or provides services for persons directly or indirectly connected with productive functions.

Included under this grouping are, first of all, basic services such as transport and communications, public storage and warehousing and public utilities (except power stations and gasworks as such, which are more in the nature of manufacturing activities); streets and sewage also fall within this category, as do essential commercial, cultural, recreative and administrative establishments, together with school and hospital buildings and equipment.

The development of complementary investment is essential for a proper distribution of industries between urban centres of varying size, with a reasonable degree of dispersal, which is vital for balanced economic growth and for improving the employment and income composition of urban population. Transport facilities and energy and water supplies pave the way for the industrialization of new areas; conversely the lack of these forms a serious obstacle to industrial expansion. Hence investment of this type should, as a rule, precede outlays on industrial establishments.

Capital outlay for these facilities is usually heavy and moreover a high proportion of capital has to be spent on equipment, which must usually be imported. Hence, instead of preceding industrialization, the installation of basic facilities frequently lags far behind it. This, then, is another reason for the over-congestion of big cities, to the detriment of smaller towns and the neglect of rural and semi-rural localities.

Non-complementary investment. This does not contribute to productive industrial activities, to essential administrative and cultural institutions concentrated in the city, or to the welfare of the people who depend directly on such activities.

/Nevertheless, such

Nevertheless, such investment may be indispensable, in which case it may be termed non-complementary investment of the utility type. This is the case with social overhead capital serving the elementary needs of that part of the urban population that depends on non-essential industrial activities and services, including the marginal population. Street paving, electricity and water supplies and primary schools in shanty districts in the cities are the typical investments in this category.

At the other end of the scale is non-complementary investment of the luxury type. This may represent either social overhead capital which is not essential for productive purposes, or luxury features of otherwise essential investments, as in the case of some public buildings, the decoration of public squares and streets, etc.

The line of demarcation between complementary and non-complementary social overhead capital is naturally somewhat vague, and proper criteria have to be adopted to define it more clearly. A different set of criteria is required to distinguish between luxury and utility investments. It is all the more complex to determine these standards because they should not only take into account the present situation but should also look towards future needs.

Among other factors, the size of towns should be taken into consideration, since big cities - especially the metropolis - create their own standards. These are much above the average urban level, either because the cities' very size raises their technical requirements - owing to the dense traffic for instance - or simply because they follow the example set by other countries to a much greater extent than the smaller urban centres.

Housing investment. Although this cannot really be termed social overhead capital, since it is much more directly related to the welfare of individuals and is usually paid out directly by them, it may nevertheless be analysed in much the same ways as the overhead capital discussed under (ii) and (iii).

/A part

A part of housing investment definitely complements the industrial as well as the fully productive non-industrial activities, since it provides the necessary shelter for their labour force. Non-complementary housing investment is found at the two extremes of the social scale - in what may be considered luxury dwellings and in the shacks occupied by the low-income marginal population engaged in the least productive activities.

(ii) Distortions of the most productive pattern of investment by sectors. The distribution of investment by sectors in urban areas influences the creation of employment opportunities primarily through the fact that investment in non-complementary social overhead capital and housing distorts the pattern of investment by sectors that might be conceived as the most efficient from the general economic development and employment points of view. It diverts part of the scanty capital resources available away from investment in productive activities or strictly complementary basic services, which are indispensable for the progressive expansion of the labour market in width and depth, i.e. to increase the number of employed and the variety of employment and to raise earnings.

There are two main sources of such distortion, each one connected with a different set of socio-economic problems. On the one hand, municipal and state authorities have to provide certain basic needs for those people who are making their living by economically unproductive occupations or who have just "squatted" around a more productive and wealthy urban nucleus. These needs are a heavy drain upon public finances which could otherwise be kept for a productive investment policy.

In the long run, however, when marginal population is being gradually absorbed by the different branches of productive activity, investments which are at present of a non-complementary nature will assume the characteristics of complementary ones.

/At the

At the other end of the scale, the high propensity to invest in urban real estate of the luxury type is partly the consequence of the great inequality in income distribution, resulting in excessive standards being applied to business and dwelling units serving the needs of wealthier sections of the population which are willing and able to pay the high rents. Primarily, however, it is the result of specific features of capital markets and of the lack of alternative giltedged investment opportunities in the under-developed countries of Latin America, especially those affected by inflation. In countries where the cost of bank credit approaches, and sometimes even falls below, the rate of profit on borrowed funds through currency devaluation anyone with access to long-term credit can make high profits by investing in urban real estate which offers relatively low returns but the greatest possible security for the funds invested. One of the consequences of this is the speculation in urban land and the socially unjustified rise in prices of building sites, with obvious repercussions upon housing costs.

There is yet another case of deviation from a well-balanced pattern of urban investment which is very common in under-developed countries and has great economic significance.

When industrialization in such countries progresses more rapidly than the development of housing facilities for those employed in industry, the imbalance thus created forces industrial workers to live - often for a long time - in sub-standard and definitely inadequate dwellings. Were industrial investors compelled, directly or indirectly, to invest in workers' housing, with the corresponding overheads, the capital required for industrial development would be much greater. The possibility of postponing for a number of years, but not indefinitely, the investment of entrepreneurial or public funds, following industrialization, in fully adequate housing actually represents a big saving in immediate requirements of investment capital that should be left free for directly productive

/uses. This

uses. This phenomenon therefore assumes the economic significance of a credit extended for productive purposes. Here, among other factors, lies the explanation of the well-known tendency to concentrate new industrial enterprises in the existing, already overcrowded urban centres.

(iii) Influence of the pattern of urban investment by sectors on the creation of employment opportunities. The pattern of urban investment by sectors influences the creation of employment opportunities in several ways. It has already been seen in part I, that rapid urbanization has a negative influence upon the over-all propensity to save, and distorts the most productive investment pattern, thereby tending to limit resources that could otherwise have been used for industrialization.

The imbalance in the composition of urban employment resulting from too slow a rate of industrialization in relation to the rate of growth of total urban population was discussed in section II. The concentration of industrialization efforts in a few big centres does not remedy the situation even in these cities, unless it is accompanied by the balanced growth of the whole economy. The over-centralization of industrial location, while there are large pools of under-employment still in other areas, simply provokes an accelerated influx of manpower into the big cities; hence the ratio of the sub-marginal and marginal to the fully productive population in these cities may remain unchanged or may even deteriorate.

There are two other important points still to be examined: the pattern of industrial investment, and the relationship between the scale and type of urban investment and employment in construction and installation activities.

The pattern of industrial investment which is closely related to the pattern of industrialization, also has a substantial influence on the composition of urban employment and the dynamics of the labour market. It is important to note that the process of industrialization

/in a

in a developing economy is not continuous since long period of uninterrupted growth may be succeeded by briefer stages of structural change generally related to the creation of new types of key industries which have profound repercussions upon the whole economy.

This discontinuity of industrial development has a strong impact upon the composition of industrial employment in urban areas and, in many cases, the establishment of new industries involves the radical transformation of some of the existing urban centres (Córdoba-Argentina, Cali-Colombia, Monterrey-Mexico) or even the creation of new industrial towns, of a very different character to be found at present (Volta Redonda-Brazil, Huachipato-Chile, Chimbote-Peru).

Construction workers are in great demand in the Latin American labour markets, and a large proportion of construction projects are very simple, the proportion of unskilled and semi-skilled labour required is high. This makes it easy for cheap labour newly arrived in the towns or belonging to marginal urban groups to be utilized in construction work. As such labour is cheap and easy to employ or dismiss, it is widely used in construction activities with relatively little regard to its productivity. Modern building equipment is used very little because of these facts and also because it is expensive and most of it has to be imported. Owing to institutional factors, inefficient management or the influence of trade unions, more workers are employed on municipal building projects than are actually needed. In the case of private contractors, the price-elasticity of demand is the only factor that counts.

Fluctuations in construction activities of a seasonal or speculative origin are a universal phenomenon. However, such fluctuations tend to be intensified in those countries suffering from inflation, or various instabilities, as, for example, where the rate of capital formation is subject to sharp alterations as a result of variations in the terms of trade and in external demand

/for staple

for staple export commodities. These fluctuations usually stimulate the influx of unskilled labour into urban areas during boom periods. When there is a recession, a substantial number of these construction workers remain in the towns, and descend from the sub-marginal level to form part of the typically marginal population.

In other activities, such as handicrafts and various types of commercial, personal and professional services with a few exceptions - as for example in the cases where the expansion of the respective personnel is determined by the number of installed schoolrooms and hospital beds - the influence of the intensity and distribution of urban investment is mostly indirect. This is because of the greater or lesser degree of their complementarity to industrial types of employment, and through the institutional development which often follows industrial growth.

(b) Use of productive capital in relation to methods of production and employment opportunities

(i) Plant structure and methods of production. The simultaneous use of a great variety of industrial methods is rather typical in Latin American economies in process of transition, where a great amount of labour-intensive primitivism may be observed side by side with up-to-date, highly productive, usually capital-intensive methods. The survival, in some branches of industrial production, in Latin America in towns and even in some capital cities, of a large number of artisan and homecraft establishments - mainly dress-making, and the production of leather goods and miscellaneous and fancy goods, but also of foodstuffs and beverages, chemical preparations and small wood and metal objects - side by side with small and large factories, is a clear illustration of the phenomenon, which, as indicated above, inflates over-all figures of industrial employment. The wide-spread retention of obsolete labour-intensive methods in factory industry is also noted. Apart from purely economic reasons, connected with labour abundance and scarcity of capital, this tends to be favoured by institutional factors, such as high

/tariff barriers

tariff barriers and monopolistic practices which reduce the incentives to increased productivity.

Since the introduction of advanced production methods is unavoidable, the result, in rapidly growing urban areas where there is an insufficient rate of industrialization, is the well-known phenomenon of technological unemployment, which, in labour markets already saturated with unskilled labour, should be considered a serious problem. This problem, however, is barely visible to the casual observer since it mostly affects people with the lowest skills whose unemployment, as stated earlier, is concealed within the great mass of marginal labour. Owing to the general shortage of qualified labour the more highly skilled persons who lose their jobs through technological progress do not usually have difficulty in finding new employment in Latin American towns, either in the same or in other industries.

(ii) Social marginal productivity of capital. As regards the inter-relationship between the urban investment pattern - especially where the choice of production methods is concerned - and the opening up of new employment opportunities, there is an unavoidable clash between the benefits to be obtained from the immediate and long-term investment measures which might be taken.

With regard to the immediate effects upon employment opportunities, the investment of the highest possible proportion of the resources available for productive purposes in labour-intensive types of processes would appear to be fully justified in all cases where there is a large local reserve of marginal labour from which manpower can be drawn for newly-created productive occupations. The fact that the social marginal product of marginal labour is approaching zero also implies that even assuming a low productivity in new employment fields, the productivity of capital will be high.

Investment in labour-intensive types of production is obviously limited, in the first place, by the characteristics of the distribution

/of productive

of productive investments by sectors, for some industries - whose development is essential for economic growth - are by their very nature capital-intensive. Secondly, it must be remembered that marginal population is, in effect, a large pool of unskilled labour, while qualified manpower is generally very scarce. The efficient use of scarce resources of skilled labour, calls for the employment of more capital-intensive methods in many industries.

From this analysis it follows that in the short run the best possible use of the investment capital available for productive purposes consists not only in the careful planning of a balanced industrial growth, but also in the planning of great emphasis upon the development of small-scale industries, especially those concerned with the transformation of local products. Institutional difficulties in providing effective help for the rational development of a large number of smallish enterprises are usually very great, mainly in relation to the supply of entrepreneurship and managerial skill, co-operation and marketing, distribution, and the use and control of credits. All these problems are related rather to the human factor than to the volume of capital resources, and this opens at a wide field of new opportunities for socio-economic improvements in urban areas within the limits of existing capital resources.

Among the long-term effects of investments in the solution of the whole complex of urban problems referred to, the most important is the social marginal productivity of capital - i.e. the long-term aggregate increment of gross domestic production per unit of newly invested capital. From the point of view of the creation of employment opportunities, the high marginal productivity of capital is much more important as a long-term than as an immediate influence. This is because it offers the possibility of a higher rate of capital-formation, which will have obvious consequences, not so much for the solution of the present problems of the urban labour market, but for those of the more distant future. In the first

/place it

place it is an important factor in determining the pattern of present investments. Secondly, since it is often connected with the rise in labour productivity, it influences the structure of earnings connected with related activities, and thus the income structure of the urban population, with further repercussions upon the submarginal and marginal occupations.

It should be observed that within the basic concept of the marginal productivity of capital, economists tend now to shift the emphasis from the private investor's point of view, i.e., from private marginal productivity, towards the social marginal productivity of capital. In the latter, the shorter and longer-term repercussions on the gross domestic product, employment composition and income structure, are noted in addition to the immediate economic effects of investments. This approach is slowly gaining ground in governmental circles also, and is beginning to influence the labour absorption of new branches of industry. In this way they are helping to shape the future, more functional type of working community, which will be better equipped to eliminate the urban disequilibria in the economic and social fields referred to earlier. Present difficulties are the result of the shortcomings and errors of past policies, added to the insufficient capital supply.

While the private marginal productivity of capital can be measured in monetary terms on the basis of the existing price-structure, the social marginal productivity of capital is a much more complex matter. It should be measured in real terms, eliminating so far as possible, the arbitrary changes in price structure brought about by temporary and accidental factors, not rooted in technological changes. It often happens, especially in under-developed countries, that during a certain stage in the economic growth of cities, the value added by commercial services may well increase much more rapidly than the industrial product; at the same time, there may be a rapid growth of apparent productivity and incomes in commercial activities, despite continuing under-

/employment in

employment in this sector. Such development, when not accompanied by a parallel expansion in the volume of industrial and agricultural goods produced and distributed by the urban commercial system, merely means the redistribution of incomes, either within the urban population itself or between the urban and rural milieux. The latter involves a change in the balance of payments of urban communities with rural areas, since agricultural producers are offered less industrial goods for a given volume of primary commodities, but are at the same time charged more for services. This type of squeezing process in rural areas provides yet another stimulus for the exodus to the cities, with all the negative consequences described in the preceding chapter. Such income-redistribution seldom has much to do with the high marginal productivity of the resources invested in commerce, despite the fact that individual entrepreneurs reap high returns from newly invested capital in commercial enterprises.

/IV. CONCLUSIONS

IV. CONCLUSIONS

The foregoing sections have attempted to bring to light and to analyse the causes of typical distortions in the composition of employment and in the process of capital accumulation and investment which are found to accompany rapid urbanization in Latin America. The correction of such deviations from the desirable socio-economic and technical standards should be one of the main aims of policies intended to solve urban problems.

The magnitude of these distortions can be measured only after the preparation of comprehensive standards covering both socio-economic and technical urban problems. However, even without such standards, some lines of policy can tentatively be indicated, under the following four headings: urbanization and general economic policy; industrial development policy and industrial location; urban overhead investments, housing and urban planning, and social problems connected with urban development.

1. Urbanization cannot be isolated from general economic development policy, since balanced urban growth must be based on a well-balanced growth of the whole economy and of all the different regions within a country. This implies a reasonable amount of industrialization together with the agricultural development of individual areas, through the application of measures to ensure a distribution of urban centres of various sizes best suited to the proposed development of productive activities in each area. This means that care should be taken to develop small and medium towns, particularly through the careful planning of transport facilities and power networks, the proper decentralization of public installations and a sound credit policy.

2. Apart from general measures designed to promote the industrialization of the country as a whole, specific measure should be adopted to ensure the best location of industry and the most rational use of the means of production, not only so as to provide productive employment for a high proportion of the available labour but also so as to make the most efficient use of the available capital resources.

/(a) The industrial

- (a) The industrial location policy should encourage the employment of local labour, the use of local raw materials and the development of local markets rather than the growth of great cities. In those cases where there is already a great concentration of urban labour, either men or women encountering greater difficulty in finding jobs, then the object of the industrial location policy should be to find specific branches of production falling within the country's development needs which would be established in given localities in order to absorb the excess men or women.
 - (b) A policy for the most rational use of the means of production should include, first of all, a credit policy specially designed to assist the setting up and development of small and medium enterprises with a low ratio of capital to personnel employed. This should be complemented by the adoption of measures to facilitate the co-existence of this type of establishment with larger units, particularly as regards the supply of production materials and the distribution of products.
3. The policy of making non-industrial investments in urban areas should not only be closely co-ordinated with industrial investment policies but should also ensure the greatest possible stability of construction activities in towns and cities. This would tend both to stabilize the employment conditions for building workers and to create the necessary conditions for steadily improving the productivity of construction and installation activities.

Another aspect of urban investment policies is that of creating the conditions for securing the best possible use of available resources and the highest efficiency of building activities, with a view to lowering the cost of urban services and housing. The object of the specific measures for attaining these objectives should be:

- (a) To develop urban and regional planning including the planning of suburban areas;

/ (b) To prepare

- (b) to prepare proper inventories of land ownership in urban and sub-urban areas, including, wherever possible, assessments of land values and the registration of prices paid in land transactions;
- (c) to ensure that state and municipal authorities pay attention to the building materials industries and to the organization and equipment of the construction industry, with special reference to meeting the needs of individual urban centres;
- (d) to plan projects flexibly, using a number of prepared urban projects based on a list of priorities, with a view to facilitating the correct choice and the rapid, economic execution of particular urban projects at times when financial resources are plentiful, or when unemployment makes it necessary for the State to support public works projects;
- (e) to develop research into and planning of housing schemes, paying close attention to functional long-term urban development, urban planning, present ownership and prices of land, local and regional supplies of building materials and conditions in the local construction and installation industries;
- (f) to co-ordinate house-building schemes within detailed district planning with (i) basic urban investments in given districts; (ii) financial, fiscal and legal measures aimed at eliminating excessive land speculation; and (iii) measures aimed at making the best possible use of existing building materials and construction industries and at facilitating their future development in relation to anticipated long-term demand for materials and new buildings;
- (g) to draw up financial arrangements which will make the most efficient use of available public and social insurance funds for housing and urban development schemes on a profit basis and which will attract private funds - particularly small funds - to participate in such schemes.

4. An integral part of the measures directed towards balanced urban growth and the increased productivity of the population should be education

/and training

and training policies. These policies should be considered as another aspect of investment policies in given areas which are strictly complementary to industrialization and other forms of creating urban capital. Special attention should be paid to sub-marginal and marginal labour, since this is one of the most important aspects of social policies connected with the creation of employment opportunities in urban areas.

Educational planning should be considered as an important part of planning urban development. A special concern of the municipal authorities should be professional orientation and vocational training, including the training and re-education of adults, from the standpoint of various development schemes envisaged for a given area.